SONY

Annual Report 2004

“Continuing to be One of the World’s Leading Consumer Brands”

- Nobuyuki Idei

“Operational Restructuring Aimed at Realizing Outstanding Efficiency and High Added Value”

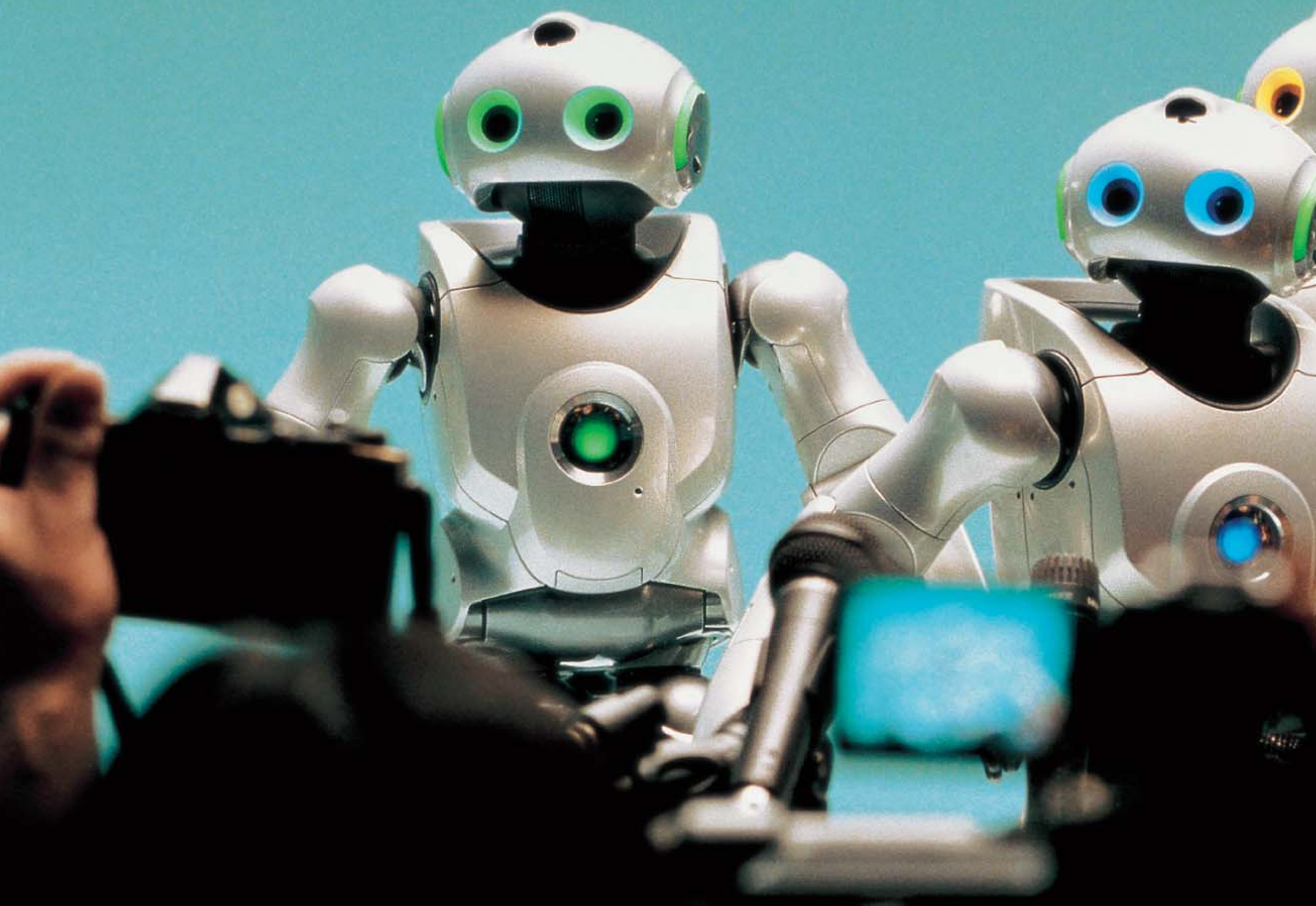
- Kunitake Ando

Convergence - A Key to Sony’s Constant Transformation

Sony Products File 01-06

The Inside Story from Sony’s Nagasaki Fab

SONY



Throughout history, curiosity has been a source of inspiration,
expanding the possibilities for the future.
The fun of discovery; the joy of creation; technology that goes beyond "convenience" to touch the hearts –
these concepts have driven Sony since its founding.

Quest for Curiosity: QRIO.

QRIO embodies Sony's dreams and most advanced technologies in recognition,
motion control, communications, IT and AI.

Through QRIO's continued growth and development,
Sony will pursue the infinite possibilities of curiosity.
The resulting technologies will be applied to a wide range of products and services,
beyond robots, to enhance the joy of life.

Let's discover the future together!

Sony Dream Robot

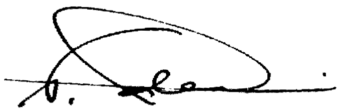
QRIO

To Our Shareholders

Sony continued to face a challenging business environment during the fiscal year ended March 31, 2004. Nevertheless, our sales increased as a result of higher sales to outside customers in the Electronics segment and higher revenue in the Financial Services segment. Measures taken to bolster our lineup of electronics products proved to be particularly beneficial. Our aggressive launch of new products in such categories as digital still cameras, flat panel televisions and DVD recorders led to significant sales growth during the 2003 year-end holiday season. Operating income, in contrast, fell sharply, primarily due to an increase in restructuring expenses and research and development expenses in new businesses that will foster growth in the years ahead.

In the fiscal year ending March 31, 2005, we will concentrate management resources in businesses with significant growth potential, making substantial investments in such areas as next generation, multi-purpose processors and other key components and increasing the number of internally produced key components. By producing these components internally, we will be able to build in added value — thereby differentiating them from the rest of the market. We are planning to introduce more products that will be recognized as distinctly “Sony” in both the home and mobile electronics categories, as well as innovative services, including an online music distribution service. At the same time, we will continue to strengthen our operations through restructuring initiatives and take steps to improve the efficiency of our product development and design. Through these and other initiatives, the Sony Group will lay a firm foundation for growth and higher profitability in the mid- to long-term.

April 27, 2004



Nobuyuki Idei

Chairman and Group Chief Executive Officer

Kunitake Ando

President and Group Chief Operating Officer

Annual Report 2004

Management Message

Strategy

Products

Topics

Report

People

Financial Section

Cautionary Statement

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

Continuing to be one of the world's leading consumer brands

– Nobuyuki Idei, Chairman

By successfully executing "Transformation 60," Sony is enacting bold reforms that will create new value and generate growth

What is your assessment of the current operating environment, and what are Sony's primary goals in this environment?

The markets Sony is involved in are undergoing dramatic changes. In the consumer electronics industry, we are witnessing rapid advances in cutting-edge technologies in such areas as networks and semiconductors. The industry has been further thrust into an age of mega-competition by the entry of new participants from other industries and strong economic growth in countries such as China, India and Russia. The needs of customers are becoming more diverse than ever, and advances in network technologies are creating new ways to enjoy music, movies and other content. The pace of change will only continue to accelerate.

Sony has been a fountain of groundbreaking ideas since its inception in 1946. The transistor radio, the Trinitron color television and Walkman are just a few of our many innovations that have altered people's lifestyles. Sony's hallmark has always been its ability to identify trends sparked by changes in the times and in customer needs, and to use that insight to create innovative products and services. Some people believe that today's remarkable pace of change makes this a time of chaos. At Sony, however, we believe this is a time of unlimited possibilities and opportunities.

In this environment, it is vital that we initiate reforms in order to remain a youthful, energetic company for the 21st century. This is why we formulated a group-wide mid-term corporate strategy called "Transformation 60" (TR60), scheduled for completion in 2006, Sony's 60th anniversary. Our objective is to position Sony as a truly global company with an operating framework capable of withstanding dramatic shifts in business conditions. This will allow us to remain one of the world's leading consumer brands.

Sony's aim is to continue to be a leading consumer brand and evolve as a 21st-century global company
To this end, Sony is implementing dramatic structural reforms and a growth strategy based on the convergence of management resources

Can you explain TR60 in more detail?

TR60 can be thought of as having two central pillars. One is a structural reform to enhance our operational profitability. The other is a growth strategy.

The first pillar is designed to enhance the profit structure of our businesses. We are doing this by cutting fixed costs through the downsizing of our workforce and the consolidation of our manufacturing, distribution and customer service facilities. We are also endeavoring to reduce variable costs by reassessing our strategy for the procurement of production materials.

The second pillar, our growth strategy, positions home electronics, mobile electronics and entertainment content as core businesses and focuses on the convergence and centralization of management resources within the Sony Group.

In the home electronics category, we believe that the role of the television as the centerpiece of the living room will be enhanced by its increasing ability to be linked up with other electronics devices and access a wide range of content. In the mobile electronics category, we plan to accelerate the convergence of mobile handset communication functions and audio-visual functions, such as those found in video cameras and digital still cameras, in a manner similar to that in which functions have already been added to cellular phones.

Concurrently, Sony is making substantial investments in key components such as semiconductors that we believe are strategically important. By increasing the proportion of key components produced internally, we plan to increase the proportion of added value captured by our finished products. We believe that this will further enhance the differentiation of our products from those of our competitors. An additional goal is to maximize operating efficiency by leveraging information systems to strengthen both our demand and supply chain management operations.

Our convergence strategy for the entertainment business is equally important. We plan to capitalize on our entertainment assets in music, pictures and games to increase the value of our content. At the same time, we will accelerate the convergence of entertainment content and electronics products, building a new business model that is suited to the network era. Through these activities, we intend to generate further growth in our entertainment business, positioning us even more firmly as a global media and content company.

"Transformation 60" is a road map for transforming Sony into a global company of the 21st century for the year 2006, Sony's 60th anniversary

Transformation 60

"Transformation 60" — a group-wide mid-term corporate strategy
"Transformation 60" has set in motion sweeping reforms for the entire Sony Group. The objective is to ensure that Sony remains as one of the world's leading consumer brands in the 21st century by developing attractive products, content and services.

- Initiate reforms to improve Sony's profitability
- Execute growth strategies by clearly defining Sony's business categories and focusing the allocation of strategic technological and management resources

While continuing to be a company that evokes fascination and excitement, the management team is working together to build a foundation for future growth

How did Sony perform in the fiscal year ended March 31, 2004 vis-à-vis its mid-term corporate strategy TR60?

Sales for the fiscal year ended March 31, 2004 increased 0.3% to ¥7,496.4 billion. Due to restructuring expenses, operating income fell 46.7% to ¥98.9 billion.

In the Electronics segment, we focused on strengthening our product lineup. Sales of flat panel televisions increased significantly. We expanded our LCD and plasma television product lineups, and Grand Wega, our rear-projection television achieved substantially higher sales, especially in the U.S. We introduced several new DVD recorder models, which led to an increase in our market share from late 2003 to the spring of 2004. In the intensively price competitive digital still camera market, the success of our best selling product, contributed to profitability. We also retained our leading market share in the video camera market, which remains the most profitable category in the Electronics segment. In the PC market, another area of fierce competition, we significantly increased profitability in our VAIO business by focusing on value-added models.

In the Game segment, total cumulative production shipments of the PlayStation 2 (PS2) consoles surpassed 70 million units. Software remained strong, too, as the annual number of units shipped increased, proving that the PS2 business is still in its peak years. In the Music segment, past restructuring initiatives have resulted in significant improvements in profitability, allowing us to record an operating profit, compared with an operating loss in the previous year, despite the continued contraction of the global music industry. The Pictures segment achieved record-breaking revenues on a U.S. dollar basis due to higher sales within the television business. In the Financial Services segment, higher insurance revenues, along with an improvement in valuation gains and losses from investments, contributed to an increase in both revenue and profit. In April 2004, we established Sony Financial Holdings Inc. (SFH). This financial holding company will play a pivotal role in our drive to create synergies among our life insurance, non-life insurance and banking businesses, and to increase the total value of our financial services business.

What are Sony's primary objectives for the fiscal year ending March 31, 2005?

I view the current fiscal year as a time for Sony to firmly execute the fundamental strategies that were formulated in the previous fiscal year. In the Electronics and Game segments, we will accelerate our convergence strategy and one of the goals is to introduce highly attractive products in both the home and mobile electronics categories. In the home electronics category, we intend to accomplish this by aggressively pursuing superior display picture quality and increasing the speed and capacity of storage devices. We will introduce a rear-projection television with a high resolution display device and a home server with more than a terabyte of storage capacity. In the mobile electronics category, through close cooperation with Sony Ericsson Mobile Communications AB, we will promote the convergence of our electronics products and wireless technologies in products such as cellular phones and wireless LANs. New mobile products in the pipeline include PlayStation Portable (PSP), a handheld video game system, and a cellular phone equipped with FeliCa, a contactless IC card technology. We will also continue to invest strategically in key components such as semiconductors. Examples of ongoing development projects include the Cell, a next generation multi purpose microprocessor; imaging devices like CCDs and CMOS image sensors; display devices; and storage devices.

As for our entertainment business, our entertainment and electronics businesses joined forces in May 2004 to launch a music download service called Connect in the U.S., and to introduce new Sony products compatible with this service. We will see more convergence between our entertainment and electronics businesses. At the same time, we will continue to strengthen our capabilities in content development and develop new business models for the coming network era.

I firmly believe that Sony will remain a leading consumer brand in the 21st century. Sony will continue to be a company that evokes fascination and excitement among its shareholders and investors, as well as among its customers, employees and other stakeholders. The management team is dedicated to building a new foundation that will support expansive growth in the years ahead.

Operational restructuring aimed at realizing outstanding efficiency and high added value

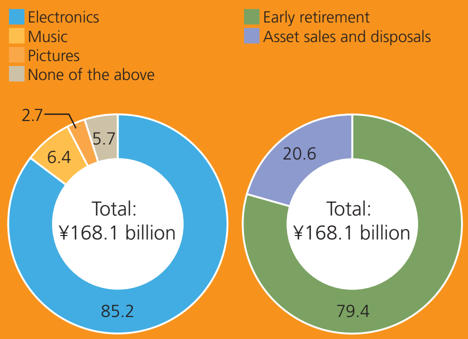
Phase 2 structural reforms are a vital element of "Transformation 60." Here, President Kunitake Ando discusses these reforms and his vision of Sony's future

Structural reforms are an important element of "Transformation 60" (TR60), Sony's mid-term corporate strategy. Would you tell us more about these reforms?

In 1999, Sony embarked on the first phase of structural reforms, which included consolidating operating bases and reducing its workforce. These reforms produced some benefits. However, the pace of change in Sony's operating environment is accelerating, as evidenced by rapid technological progress, particularly with respect to semiconductors, and industrial realignment. To assure Sony's continued growth as one of the leading consumer brands, TR60 sets forth a second phase of structural reforms, focusing primarily on our electronics business. These reforms are designed to create an efficient, value-added operating framework befitting a leading global company. In concrete terms, we intend to strengthen our operating structure through cuts in fixed costs and production material and other variable costs, and the generation of more added value within the Sony Group, thereby creating a foundation for implementing a growth strategy.

For this purpose, we are implementing structural reforms centered on five themes: (1) intensifying our focus on strategic businesses; (2) accelerating reform in global manufacturing activities; (3) streamlining administrative, sales and marketing operations; (4) transforming design processes, quality management and the procurement of production materials; and (5) restructuring the procurement strategy for non-production materials. In the fiscal year ended March 31, 2004, the Sony Group, through the implementation of initiatives to reduce fixed costs, recorded restructuring expenses of ¥168.1 billion.

Breakdown of Restructuring Expenses Recorded in the Fiscal Year Ended March 31, 2004
(%)



Accelerating the identification of, and focus on, strategic businesses and shifting management resources from mature to strategic product categories

Please outline Sony's plans to tighten its focus on strategic businesses, one of the themes of the structural reform program.

Naturally, improving earnings in the Electronics segment, which accounts for more than 60% of Group sales, is a central element of our profit–structure reform measures. In our consumer electronics business, product life cycles have become much shorter due to the increasing speed of technological progress. To focus on strategic businesses, we are dividing our electronics business into two product categories, strategic and mature. We are concentrating our product design and development resources in strategic product categories where future growth is expected, such as flat panel televisions, home servers and mobile devices. We expect this will lead to higher efficiency and business expansion.

To add more value to products in strategic categories, it is essential to strengthen our lineup of semiconductors and other key components, as well as to produce a larger share of these components internally. With this in mind, we established a new unit to centralize the management of the Sony Group's semiconductor business. The aim is to make our semiconductor business more competitive through unified strategies. In the fiscal year ended March 31, 2004, we designated flat panel televisions, DVD recorders, digital still cameras, video cameras and VAIO PCs as strategic products. We strengthened and expanded our product lineups in these categories and introduced new models in a timely manner. This focus produced enormous benefits during the 2003 year-end holiday season.

In contrast to sales in strategic product categories, sales in mature product categories are expected to fall as a share of total sales. However, we intend to raise efficiency and maximize earnings in mature product categories by upgrading the design and production capabilities of our manufacturing units, as well as by outsourcing work.

Accelerating reform in manufacturing activities

What steps are you taking to accelerate the reforms of global manufacturing activities?

The goal of our manufacturing reforms is to achieve a qualitative shift from assembly-oriented manufacturing to knowledge-intensive methods. To accomplish this goal, we are reinforcing the role of global manufacturing bases in adding value to products. At the same time, we are reviewing our existing manufacturing systems and overhauling design and production systems to better reflect the characteristics of each regional market.

At each of our manufacturing facilities, we are enhancing the technical skills involved in design and production activities, both of which are essential to making competitive products. Concurrently, we are integrating the existing design, production, customer service and logistics functions of factories to establish a more sophisticated supply chain management system. This will enable us to strengthen our Customer Front Center (CFC) activities, which connect us directly to retailers and end users. Based on this concept, we are restructuring design, manufacturing, logistics and customer service functions on a global scale. We will also implement factory realignments and consolidations as part of this restructuring process. Ultimately, we expect to see higher efficiency in all manufacturing activities.

Streamlining administrative, sales and marketing operations

What kind of structural reforms are planned for administrative, sales and marketing operations?

We are streamlining administrative, sales and marketing operations mainly in Japan, the U.S. and Europe. One way we are accomplishing this is by building common platforms that can perform administrative functions for many business units and sites. Another is by raising white collar productivity through reviews of administrative business processes and the greater use of IT systems.

In the U.S. and Europe, we are consolidating our operational bases in each region. In our U.S. electronics business, for example, we are relocating our marketing groups so that they may be closer to our engineering, manufacturing and other headquarter functions. This move will naturally foster greater levels of cooperation and communication, thus strengthening our design, manufacturing, sales and marketing operations as well as increasing the efficiency of our administrative functions.

Along with these measures, we are revising personnel systems in Japan. In line with the principle of matching compensation with contribution, we will rigorously implement a merit-based compensation structure. Our plans also include enhanced diversity in our workforce and our employment structure. Through these and other efforts, we are building new kinds of relationships between Sony and its employees.

Greater cost reduction through group-wide initiatives

How is Sony transforming design processes, quality management and the procurement of production materials?

We are now pushing through far-reaching reforms in design processes, quality management and the procurement of production materials—domains that support the fabrication of products. In the area of product design, we are raising efficiency through the extensive use of standardized design technologies and components, and becoming more competitive by sharply reducing the time required to formulate new designs. For production materials, we are strategically cutting costs through the standardization of components and the concentration of procurement with specific suppliers.

Quality is the highest priority of any manufacturer. During the fiscal year ended March 31, 2004, we initiated an exhaustive and group-wide review of quality-related systems. We will execute initiatives to enhance quality so that we can deliver high-quality products to all customers.

Transforming Sony into a leading global company through TR60 reforms

Please describe what Sony is seeking by carrying out this second phase of structural reforms.

At Sony the most important theme is building a powerful operating framework that can constantly deliver products and services worthy of the Sony name, even when our markets are undergoing dramatic changes.

Reforms are inevitably accompanied by challenges. The Sony Group is fortunate to have employees who have the motivation to embrace these challenges. Our reforms and growth strategy, progressing side by side, will ensure that Sony continues to grow as a leading company on the global stage.

(as of May 2004)

Phase 2 Structural Reforms

(1) Intensifying our focus on strategic businesses
(2) Accelerating reform in global manufacturing activities
(3) Streamlining administrative, sales and marketing operations
(4) Transforming design processes, quality management and the procurement of production materials
(5) Restructuring the procurement strategy for non-production materials

Building a powerful operating framework through structural reforms

Sony with You

Sony is dedicated to creating dreams and experiences that make our lives more enjoyable and enriching. In this section, we introduce four Sony enthusiasts who work closely with Sony products every day.

Claude Nobs

Producer of the Montreux Jazz Festival, held annually on the shore of Lake Geneva in Switzerland, Mr. Claude Nobs is a big fan of Sony products.

A stellar performer at the Montreux Jazz Festival

The late Ray Charles performing at the 1991 Montreux Jazz Festival

Surrounded by Sony at home and in the studio

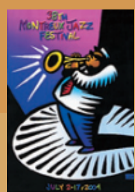
Sony products, especially my P900 Sony Ericsson cellular phone, are an essential part of my life at home and at the Montreux Sounds Video Studio. At the studio, I use an XPRI HD (high-definition) non-linear video production system for editing and transferring material. I also have a D-2, Digital Betacam, Betacam SP (Super Performance) and IMX, which I use to make copies of video clips in various formats. At home, my favorite Sony products are my PX40 projector and 50-inch plasma television. They're perfect for showing my jazz festival HD video recordings to important guests and artists. So hardly a day goes by without Sony.

Outstanding performance and ease of use

I really count on Sony at the Montreux Jazz Festival; all my HD video and audio recordings are made using Sony products. One of the best things about Sony products is their compatibility, even between consumer and professional equipment. And thanks to the compact size of Sony video cameras and digital cameras, I've been able to assemble an extensive library of candid shots of many artists.

A fascination with innovation

When Sony comes out with a new product, I buy it immediately. I recall buying the first Sony Walkman and CD player as soon as they went on sale in Europe. I also bought the first SACD (Super Audio CD) player model and the very first VAIO PC, even though the instruction manual was only available in Japanese. And I've even owned three generations of AIBO entertainment robots.



Claude Nobs CEO, Montreux Jazz Festival

Born in Switzerland in 1936, Claude Nobs gave up a career as a chef to found the Montreux Jazz Festival in 1967. Now a 17-day event held every July and attended by 200,000 people annually, the festival has grown to feature a wide range of music, from jazz to blues and rock.

Montreux Jazz Festival URL: http://www.montreuxjazz.com

Sony Products File 01–06

A look inside Sony's DNA

"To establish an ideal factory that stresses a spirit of freedom and open-mindedness, and where engineers with sincere motivation can exercise their technological skills to the highest level"

This statement of the purpose of incorporation from Sony's Founding Prospectus continues to define "Sony's DNA," guiding the activities of Sony engineers who develop new technologies and products. Today, those tackling the challenge of devising new Sony products are motivated by a single thought—to create unique products that inspire and bring joy to consumers. The following pages take a close look at some of these products through interviews with the developers who helped bring them to life.

File 01: Flat panel television "WEGA"

[KDE-P61-HX2N]

Enjoy a realistic television picture anytime, anywhere

Television powered by Wega Engine technology

With the Wega Engine's high-quality picture image circuit, users can enjoy the same breathtaking picture on any television—LCD Wega, plasma Wega or Grand Wega.

The Wega Engine's high-quality picture image circuit

Studio Application, a function that combines Sony's expertise in many fields

Record television programs onto a Memory Stick and enjoy watching them anywhere on cellular phones or personal digital assistants.

http://www.sony.net/

A stylish remote control that's easy to use

The Wega's aluminum remote control reflects Sony's commitment to style and functionality. Operation is as easy as pressing the Wega Gate button and using the jog dial to navigate the control panel on the television screen. The jog dial enables the smooth execution of desired actions from the control panel menu, which is arranged conveniently by function.

Making the television experience more realistic and user friendly

Powered by Wega Engine
High-definition technologies and high resolution differentiate Sony's televisions

Sony has almost half a century of experience in television development. Throughout its history, Sony has pursued the ideal in picture quality—"realism"—by bringing transparency, depth, sharpness and vibrant color together on the television screen. The Trinitron television, Wega, the culmination of Sony's efforts to create the ideal picture, has inspired and impressed people everywhere.

The arrival of the broadband era has created an environment ripe for enjoying an array of content at home. Moreover, with digital broadcasting becoming mainstream, demand is expanding for televisions with higher resolution. To achieve the same remarkable picture quality made possible by the Trinitron display technology in plasma and LCD televisions, as well as in the Grand Wega rear-projection television, in 2001 Sony embarked on a project to develop Wega Engine, a high-quality, integrated digital picture system, that capitalizes on Sony's image processing expertise.

The most distinguishing feature of Wega Engine is its ability to adapt to the characteristics of various display devices, digitally processing a variety of input signals to generate an exceptionally sharp and realistic picture. Drawing on the expertise of Sony engineers with decades of experience in analog signal processing, the Wega Engine's circuitry can produce a high-quality picture from digital and analog input signals alike. The Wega Engine's picture was created by optimizing the four key elements that determine image quality—brightness, contrast, color compatibility and sharpness—and was evaluated extensively in line with Sony's "realism" ideal.

With Wega Engine, Sony has succeeded in combining imaging technologies it has cultivated over the years to create a new digital technology. This has facilitated the development of a television with a picture so realistic that it can, for example, precisely reproduce the natural color and depth of a red flower, thereby creating an entirely new dimension of viewing excitement.

Wega Gate and Studio Application—Intuitive controls for enhanced enjoyment

Today's televisions often come with complicated remote controls with multiple buttons and thick owner's manuals that confuse many users. After giving considerable thought to this problem, Sony's Product Planning Managers came up with Wega Gate. A push of the Wega Gate button on the television remote control brings up a control panel on the screen that enables the user to perform a variety of tasks intuitively. Sony has also developed Studio Application, which allows users to watch digital images from a video camera Handycam and television programs stored in a VAIO PC on a Wega television. This function was developed in response to user demand for the ability to copy recorded television programs and other content onto a Memory Stick for viewing on cellular phones or personal digital assistants. With its firm commitment to both picture quality and ease of use, Sony achieved the leading share of the global television market* in the fiscal year ended March 31, 2004.

* Indicates share of the total global market (by value) for CRT, rear-projection and flat panel televisions.

Yoshihiro Yamamoto
General Manager
Systems Technology Section
Display Solutions Department
Home Electronics Development Division
Home Electronics Network Company

Noriyasu Yamada
Product Planning Manager
FTV Product Planning Section
Product Planning Department
Television Business Division
Home Electronics Network Company

File 02: DVD recorder "Sugoroku"

[RDR-HX10]

Setting up a program recording has never been easier

Simply choose a program that you want to record from the electronic program guide (EPG). Search for a program recorded on the hard disc drive (HDD) by its title or use the keyword recording function, which takes full advantage of the EPG, to automatically locate and record all programs related to a particular keyword. With the "Manage game extension" function, the recording time of the baseball game or soccer match will be extended automatically so that you don't miss the end of the event.

Sugoroku's EPG

I want to copy something onto a DVD as quickly as possible

Recording from the HDD to a DVD-R can be performed at a maximum speed of 24x, so it only takes about 150 seconds to copy a one-hour program. It's also possible to delete unnecessary scenes when making a copy.

http://www.sony.net/

Compatibility with various disc formats for stress-free recording

Dual RW compatibility means the unit can record and play DVD+RW and DVD-RW discs, both rewritable formats. It also accepts DVD-R discs, providing even more versatility.

I want to record programs without worrying about how much space is left on the HDD

Equipped with a large capacity HDD, the unit can store many hours of programs, even those recorded in the highest picture quality mode. Worrying about the amount of time left on a videotape is a thing of the past. Simply record the programs you want and enjoy them at your leisure.

I want the same picture quality even after watching a recorded program repeatedly

The unit is equipped with both HQ+, a high-quality recording mode, and Dynamic VBR Dubbing, a function that enables high resolution dubbing of programs to a DVD. Both allow you to enjoy high-quality recordings of your favorite programs over and over again.

Automatic recording of your favorite programs and many other amazing features

Introducing a DVD recorder with intelligent recording functionality

Sony has earned a solid reputation for devising new ways to record television programs through the launch of such products as the Clip-On hard disk recorder and the CoCoon channel server. As the market for DVD recorders began to take off in early 2003, particularly in Japan, consumers and retailers began to have high expectations for the Sony DVD recorder. Determined to develop a unique DVD recorder, a team of Sony engineers were at that time involved in the Sugoroku ("amazing recording") Project, the goal of which was to develop a DVD recorder like no other.

Sony's Sugoroku DVD recorder was an immediate hit following its fall 2003 launch in Japan. The unit is packed with intelligent recording functionality. First, in order to appeal to the large number of Japanese customers who record TV programs, the unit features DVD+RW/-RW/-R disc compatibility. It also incorporates an electronic program guide (EPG), along with an automatic recording function based on keywords. For example, if a user enters "football" as a keyword, the unit will search through the EPG and record programs that are associated with "football." In addition, the HQ+ recording mode allows users to make high-quality recordings of programs. To store programs recorded through the automatic recording and HQ+ recording modes, the unit has a 250GB hard disc drive (HDD) with enough space for up to 325 recorded hours. The Sugoroku DVD recorder was made possible by a combination of the engineering team's determination and accumulated know-how within the company.

The HQ+ recording mode for outstanding picture quality and Dynamic VBR Dubbing— The pride of Sony engineers

The Sugoroku DVD recorder has many technologies that cannot be found on conventional models. One technology is the HQ+ recording mode, which records a program onto the hard disk at a rate of approximately 15Mbps. This recording mode is based on a technology that Sony engineers had long been working on for producing recordings with a picture quality indistinguishable from that of a live broadcast.

Dynamic VBR Dubbing, a new technology used for dubbing programs from the hard disk to a DVD has also been successful. Inspired by methods used to create software for DVDs such as movies etc., Sony engineers succeeded in minimizing picture degradation by allocating the optimum amount of data based on the amount of information contained in each scene, when a program is recorded onto the DVD. This makes it possible to make high-quality dubbing, efficiently utilizing the capacity of DVDs. It also allows dubbing onto both DVD+RW and DVD-RW/-R formats.

Yoshihiro Saitoh
Recorder Strategy Manager
Product Planning Section 1
Product Planning Department
Video Group
Home Electronics Network Company

Hitoshi Hiraga
Senior Manager
Section 1
Department 1
DVD Division
Video Group
Home Electronics Network Company

Jun Watanabe
Senior Manager
Section 4
Video Products Software Department
Software Technology Division
Home Electronics Development Group
Home Electronics Network Company

File 03: DVD recorder “PSX”

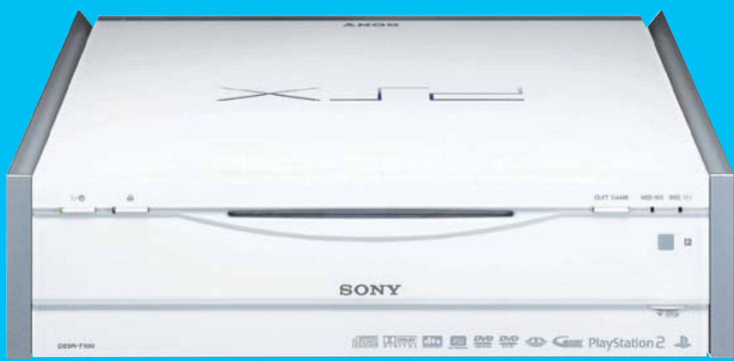
[DESR-7100]

The remote control should be simple and fun to use

The cross-shaped menu, with controls aligned vertically, permits smooth and speedy operations. Press any button and the action on the screen will immediately stop, as the image fades into the background. Never before has the operation of a remote control been so easy.

I want a design that goes with my living room décor

PSX has a stylish design and is only 312mm in width, permitting the unit to be placed vertically if desired. Translucent white was chosen so that the unit would be a handsome addition to any room.



http://www.sony.net/

I want to connect my PSX to lots of other equipment

PSX comes with a game controller port, a network port for online gaming like that on PlayStation 2 (PS2), a USB socket for PS2-compatible keyboards and peripherals, a Memory Stick slot and much more.

I want the freedom to be able to play games even while recording a television program

PSX is compatible with both PlayStation and PS2 software and online games. You can even play games while recording a television program.

PSX—A world of entertainment in one box

An industry first: The convergence of games and electronics in a single unit
Enhanced user control thanks to a GUI that is supported by PlayStation 2 technology

PSX arose from the idea of making a consumer AV product using state-of-the-art semiconductor technology developed for PlayStation 2 (PS2)—the world’s number one home gaming system, from Sony’s game business. PSX drastically alters the image of DVD recorders, with differences extending far beyond its functionality and design. The feeling of direct control that users experience is unlike that of any conventional AV device. How did Sony accomplish this? The answer lies in two semiconductors at the heart of PS2: the EmotionEngine (EE) CPU and the Graphics Synthesizer (GS) image processor. In PSX, both the EE and GS are on a single chip, a feat made possible by Sony’s unprecedented advances in semiconductor engineering and manufacturing. Furthermore, the tremendous amount of time and energy taken by engineers to perfect the graphical user interface (GUI) is reflected in its unparalleled usability. Their efforts were not wasted. The GUI is by far the most popular feature of PSX.

A world of entertainment
Enjoy television, DVDs, music, photos and games on a single unit

Sony had a simple objective: to create a comprehensive entertainment device that can be enjoyed by everyone, not just a particular user group. Priority was thus placed on engineering a product that maximizes usability while providing such basic functions as an electronic program guide (EPG) for television timer recording, a high-capacity hard disc drive (HDD) for recording and a DVD recorder.

As a comprehensive entertainment device, the PSX houses music, photo and game functions, in addition to the DVD recorder. Recording music CDs to the HDD transforms PSX into a jukebox. Inserting a Memory Stick from a digital still camera allows you to view photos on a large screen television. Or you can simply enjoy a PS2 game. PSX is packed with possibilities.

The new PSX model, released in July 2004, has up to 50 DVD menu, making it easy to choose from your favorite titles when recording material onto a DVD, making PSX an increasingly powerful means of enjoying a world of entertainment content from the comfort of your living room.

The achievement of a team of engineers who were willing to tackle unprecedented challenges, PSX is the first product line to result from Sony’s convergence of its electronics and game technologies.

Yuichi Yazawa
Senior Manager
Section 2
Video Products Software Department
Software Technology Division
Home Electronics Development Group
Home Electronics Network Company

Kenji Matsuoka
Senior Manager
Product Planning Section 2
Product Planning Department
Video Group
Home Electronics Network Company

File 04: PC "VAIO"

[VGC-V201]

I want to see LCD television-quality images on my PC

This PC is equipped with Sony's exclusive high-quality picture image circuit Motion Reality. There's also a fast response 20-inch television-grade LCD screen equipped with broad viewing angles. Furthermore, the Clear Black LCD delivers a vivid picture with excellent quality contrast and brightness even when displaying light colors or jet black.

High-quality picture image circuit Motion Reality

I only want to see the keyboard and mouse when they're needed

With a wireless keyboard and mouse, VAIO type V eliminates the need for any kind of wired connection. The keyboard and mouse can be put away until they're needed again.

http://www.sony.net/

Can a PC double as both a video deck and DVD recorder?

The hard disk drive (HDD) in the VAIO type V can record up to approximately 103 hours of television programs. The timer function, used to record programs, can also be set via the Internet.

It would be great if I could do everything with a remote control

The stylish remote control is an integral part of this PC. At the touch of a button you can watch television, enter a timer recording setting, change channels, adjust the volume or perform various other tasks.

The VAIO type V's AV entertainment menu

Chapter two of the VAIO story: Television picture quality on your PC

Picture quality virtually indistinguishable from an LCD television—The VAIO type V's picture quality has broken the conventions for a PC

Since its debut in 1996, VAIO PC has enhanced the AV experience of the user through the convergence of audio and visual contents and Sony took the industry lead through the introduction of a function that allows users to watch television on their PC. However, watching television on a PC used to present problems as, due to the limitations of the PC format, the quality of the television images tended to deteriorate as the screen size increased. In the search for a solution to this problem, the developers of VAIO turned their attention to the television technology of Sony's Wega, which facilitates outstanding picture quality. This technology uses a powerful IC chip that, through Sony's unique high-quality picture image circuit Motion Reality, allows the high-quality display of video images. The engineers thought if this chip could be utilized, they might be able to produce images of television quality on a PC screen. At this point, the developers of VAIO embarked on a project that would confound the conventional logic of the PC.

Until then, problems involved with viewing television on a PC screen had been overcome through the clever utilization of software or the optimization of hardware performance. However, whereas a television screen displays a single, full-screen image, on a PC the user has the ability to alter the size of the window, containing the image as they see fit. Therefore, to produce a television-quality image on a PC, engineers had to overcome the challenges of adapting a chip originally developed for AV devices; optimizing its performance for the PC; and allowing television-quality images to be displayed on the adaptable window sizes of a PC.

VAIO type V is the result of these efforts. Its 20-inch screen generates television images with quality on a par with those of an LCD television. With its dazzling picture quality, this new VAIO is pioneering uncharted territory for PCs.

Never before could a PC have delivered this kind of enjoyment
But even then, Sony's engineers chose not to stop

If VAIO type V can be used like a television, then why can't it also be used, at the user's discretion, to watch television anywhere in the home? To allow this, the new VAIO has a tilting mechanism that can be used to angle the screen downward, a first for a PC. But there's much more: a 360-degree swivel stand; a wireless keyboard and mouse; speakers that deliver high-quality dynamic sound over a larger area; minimal fan noise; and much more. All these features add up to make the VAIO type V everything its creators intended: a revolutionary PC that is as easy to use as a television. The PC is also installed with an MPEG hardware encoder board that can make high-quality recordings of television programs. A single remote control handles everything from television functions to hard disk recordings and DVD operations. The concept of AV and PC convergence, central to the VAIO lineup, is now entering a new phase—one that will open up a new chapter in PC history.

Yoichiro Hachiya
Assistant Manager
Product Planning Dept.
IT Company
IT & Mobile Solutions Network Company

Naoki Kameyama
Senior Engineering Manager
Hardware Design
Section 3, Department 4
IT Company
IT & Mobile Solutions Network Company

File 05: Digital Still Camera “Cybershot”

[DSC-T1]

Cyber-shot

I want a compact camera that’s slender, yet durable

Miniaturizing CCD to create an ultra-compact, high-resolution digital still camera was a challenge. Stainless steel was chosen for the body material of the 17.3mm thick digital still camera because of its strength and resilience. The aluminum alloy sliding cover protects the lens and also serves as the power switch.

This 5.1 megapixel CCD is approximately half the size of a conventional CCD.

I want to share my pictures with friends and family immediately after taking them

DSC-T1’s large 2.5 inch LCD monitor is nearly three times the size of a 1.5 inch LCD monitor. The large monitor makes it simpler to compose photos and easier to playback and share photos with friends and family by using the monitor as a display.

2.5 inch LCD monitor

http://www.sony.net/

I don’t want to miss another great shot

Equipped with Sony’s proprietary Real Imaging Processor, the camera powers up in about 1.3 seconds, takes approximately one second between shots and has a shutter lag of about 0.24 seconds and a release lag of about 0.009 seconds.

I want to enjoy taking photos using a camera equipped with a Carl Zeiss lens

The newly designed folded-optics lens system was jointly developed by Sony and Carl Zeiss. The system was designed specifically to keep the lens within the camera body and features a 3x optical zoom. Another unique feature is the Magnifying Mode, which allows users to shoot objects from as close as a centimeter away.

Newly designed folded-optics lens system

The new Cybershot: Fun to carry around and take photos

Cybershot DSC-T1—The result of Sony’s desire to create an entirely new digital still camera

Featuring a large, easy-to-see LCD monitor and 5.1 megapixel CCD in an ultra-compact, slim body, the Cybershot DSC-T1 has been a best-selling digital still camera in many countries since its initial release in Japan in fall 2003.

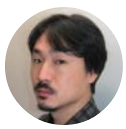
About a year and a half ago, a group of young engineers, determined to create a new digital still camera unlike any before it, got together to develop a next-generation model. The team started from scratch, rethinking every aspect, from product concept and design to components. For example, CCD required a high, 5.1 megapixel resolution, but also needed to be about half the volume of a conventional CCD to achieve an ultra-compact, slim size. A retractable zoom lens would have made the camera too bulky. The solution was a folded-optics lens system, co-developed with Carl Zeiss, which moves within the camera body instead of projecting in and out. The result is a unique, ultra-compact, slim camera with a 3x optical zoom. Further distinguishing DSC-T1 is a 2.5 inch hybrid LCD monitor that uses nearly half of the camera’s surface area. This large display is one more reason this revolutionary digital still camera continually amazes users.

A simple design with capabilities that people appreciate more with use

Unlike a conventional camera, which has the lens in the center and is held with two hands, the innovative design of DSC-T1 was intended to attract people’s attention. On the front is a sliding cover made of aluminum alloy that protects the lens. A specially coated stainless steel was used for the camera’s body to prevent tarnishing and preserve its beautiful appearance over the years. The sliding lens cover also serves as the power switch. Users can take out DSC-T1 from a shirt pocket with one hand, open the lens cover, switch the power on and snap a photo all in one motion. DSC-T1 incorporates Sony’s latest advanced technologies, including a 5.1 megapixel Super HAD CCD, Sony’s proprietary Real Imaging Processor and a thin, high-capacity InfoLITHIUM T-type battery. Incorporating these technologies into such a compact space in DSC-T1 represented yet another plunge into uncharted territory for the project team. This achievement enables users to immediately view and share photos with friends and family on the large 2.5 inch LCD monitor, a capability no conventional digital still camera can match.

Yasushi Noda
Product Manager
Group 2
Product Design 2 Department
DSC Division
Personal Imaging Company
IT & Mobile Solutions Network Company

Koichi Tanigawa
Department No. 2
Imaging Technology Group
IT & Mobile Solutions Network Company



Atsushi Kawase
Senior Art Director
Design Center

[DCR-DVD201]

There is no danger of mistakenly recording over other material

DVD Handycam uses a DVD with a diameter of 8cm. It automatically records new material onto unused disc space, so there is no need to fast forward or rewind, or worry about mistakenly recording over other material.

Rewritable DVD

DVD editing is easy

By using a DVD-RW disc in Video Recording (VR) mode, DVD Handycam functions as a simplified editing tool. Users can easily erase unwanted scenes, split and rearrange scenes, and perform other basic editing functions.

http://www.sony.net/Products/handycam/

It has never been easier to dub content and send it to family and friends

Material stored on DVD Handycam can be dubbed for family and friends by using either a DVD recorder with a hard disk or a PC.

I want to be able to find any scene I want quickly

With DVD Handycam's Visual Index function, the content on the disc can be checked at a glance. To play a specific scene, simply select it from the on-screen display.

Example of a Visual Index

Capture it on DVD and watch it on a DVD player

The first-generation consumer DVD based video camera, DVD Handycam, was a huge hit in the U.S. In developing the next generation of models, further miniaturization is the key

Sony's video camera, DVD Handycam, was a major hit in the U.S. market during the fiscal year ended March 31, 2004. As the name suggests, unlike other conventional video cameras, DVD Handycam uses a DVD as its storage medium. Material recorded on the DVD can be viewed right away on a DVD player at home or can be copied to another DVD for friends and family. Its light weight, in particular, has made it very popular among many users, especially among families who want to capture memories of their children growing up or family vacations.

Sony's next goal was to make an even smaller DVD Handycam so that even more people could enjoy this technology, and a project team was established with this aim in mind. Smaller size naturally requires both smaller components and lower power consumption. While smaller components reduce the overall size, the circuitry would overheat if the same level of power were to be used. Sony engineers solved this problem by adopting the Intermittent Recording Method, a technique that is not possible with a videotape. Normally, when recording to a DVD, the data of the moving image is simultaneously saved in the memory and written onto the disc by laser, and it is this part of the process that consumes the most energy. Using the Intermittent Recording Method, disc recording is twice as fast as normal speed, meaning that recording takes half the time, thereby lowering power consumption. This innovative approach has facilitated a level of energy efficiency that eliminates the risk of overheating and has enabled this second-generation DVD Handycam to be 30% smaller in size than the first-generation model.

Taking advantage of features unique to DVDs

One of the biggest challenges in using a DVD rather than a videotape for this video camera was the problem of vibration. A shock or jolt can interrupt the recording process on a DVD, in the same way that a bump can cause the needle of a record player to jump. To solve this problem, Sony engineers applied their broad knowledge of drive mechanisms, software and electronic circuit technology to create a mechanism that is capable of precisely offsetting the force of an external shock. However, there are many other types of vibrations and jolts that the video camera must be able to cope with. During a testing phase that was nicknamed the "Vibration Project" by those involved, Sony conducted repeated and rigorous testing on nearly 100 types of vibration and impact right up until the start of mass production.

Engineers also focused on achieving an image with the highest possible resolution by utilizing Variable Bit Rate (VBR) Recording. With this technique, a fast-moving scene is recorded at a higher bit rate, while a slower bit rate is used to record scenes with less movement. Because bit rate adjusts according to the volume of visual data, the capacity of the DVD is more efficiently utilized and picture quality is significantly enhanced. Another advantage of this technique is that there is less digital noise compared to Constant Bit Rate (CBR) Recording, thereby making it possible to record a wide range of subjects with the same consistently high-quality picture.

For the next generation of DVD Handycam, Sony engineers are working hard to pull a few more exciting surprises out of the hat for video camera users around the world.

Tadayuki Miyamoto
Project Leader
Design 2 Section 2 Group
Camcorder Business Section
Personal Video Company
IT & Mobile Solutions Network Company

Yukiko Sakota
Planning Group
Personal Video Product Planning Section
Personal Video Company
IT & Mobile Solutions Network Company

Masahiro Shigenobu
Project Manager
Media Technology 3 Group
Camcorder Business Section
Personal Video Company
IT & Mobile Solutions Network Company

The future of key components

To reinforce its competitive strength in its core electronics business, Sony is seeking to differentiate its products by implementing a vertically integrated business model that incorporates internally produced proprietary semiconductors, modules and components. Key components include Cell, a next generation, multi-purpose microprocessor; imaging components, such as CCDs and CMOS image sensors; display components, such as LCDs and organic electroluminescence (OEL) displays; Memory Stick; optical devices; and lithium-ion batteries. These components are essential for producing highly competitive products.

Cell: The next generation, multi-purpose microprocessor

Differentiating products by strategic component

Over the years, Sony's ability to develop such proprietary key components as Trinitron and CCD internally has been instrumental in creating numerous appealing products, and has been the foundation of Sony's evolution. PlayStation 2 (PS2), for example, features the EmotionEngine (EE), a 128-bit CPU incorporating highly advanced technology, and the Graphics Synthesizer (GS), a high performance image processor. Since its debut, PS2 has revolutionized the game console market. As the vital role played by EE and GS in the success of PS2 showed, highly differentiated, advanced semiconductors are essential in order to open up new markets. Currently, Sony is developing a new microprocessor, Cell, which is ideally suited for the upcoming era when the proliferation of broadband networks will enable people everywhere to enjoy high-resolution images.

The heart of next generation digital consumer electronics

The concept behind Cell is to evolve the conventional microprocessor, which is more of a narrowband data processor that computes text and still images mainly for PCs into a broadband data processor for game consoles and high-definition televisions. Connecting several multiple processors using a home network or an IP broadband network will create a processing capability that far exceeds that of a single processor. The name Cell reflects Sony's belief that stand-alone microprocessors will be connected through a broadband network and will evolve to become a single global processor, in the same way as organic cells combine to create a living organism. Accordingly, network-enabled devices, including consumer electronics equipped with Cell, will become a structural element of the broadband network itself.

Strategic alliance with IBM and Toshiba expedites the development process

In March 2001, the Sony Group reached an agreement with IBM Corporation and Toshiba Corporation to collaborate in research and development to create the architecture for a new microprocessor, Cell, which it envisions as the foundation of the next generation broadband network era. Combining their respective strengths and technologies, the three companies expect to invest more than $400 million in this project over five years. By incorporating several of today's most advanced semiconductor manufacturing technologies, such as copper interconnects, a silicon-on-insulator (SOI) process and low-K dielectric material, the project aims to create a microprocessor that is, in effect, a supercomputer on a chip.

Investment to facilitate production of semiconductors for 65 nanometer process technology—the most advanced in the world

Preparations are under way to fabricate Cell and a variety of media processors in three locations: Sony's Nagasaki Fab; an IBM manufacturing facility in East Fishkill, New York; and a Toshiba manufacturing facility in Oita, Japan. In the fiscal year ended March 31, 2004, the Sony Group recorded capital expenditure of about ¥69.0 billion for the first stage of construction of a mass-production facility for semiconductors that use 65 nanometer (one nanometer equals 1/1,000 of a micrometer) process technology. Additional capital expenditure of about ¥120.0 billion is planned for the second stage of construction, beginning in the fiscal year ending March 31, 2005. Trial operations at each of the three locations are scheduled to commence during the first half of 2005. Combined monthly production capacity of the three facilities for 300mm wafers is expected to be approximately 15,000 wafers.

Taking the initiative to lead the broadband network era

Digital consumer electronics and network-enabled devices, which support games, music, pictures, digital broadcasts and many other broadband applications, will be the leaders of the broadband network era. Accordingly, semiconductors, the key strategic components in these products, will be one of the key sources of Sony's competitiveness.

A chip combining the EE and GS

"Sony's goal is to be a manufacturer of the world's preeminent semiconductors"

Interview with Ken Kutaragi, Executive Deputy President, Corporate Executive Officer

Why are these components so important to Sony?

Many people believe that digital consumer electronics goods will become "commodified," that is, inexpensive enough for anybody to buy, thereby preventing manufacturers from making a profit. In fact, nothing could be further from the truth. Of course, it is true that, manufacturers cannot create any added value by simply procuring components and using them to assemble their finished products. However, the story is different for companies that in addition to being able to manufacture key components themselves utilizing their own distinctive technologies, and being able to take advantage of mass production technology, can also capture the imagination of consumers. An enormous amount of value can be added in this manner. For example, Sony's Handycam video camera and Cybershot digital still camera are making large contributions to our earnings. That is because we produce CCDs, the camera's "electronic eye," LCD panels, batteries and other advanced components ourselves. This allows us to create more competitive, value-added products. The shift of management resources in order to concentrate on key components is essential to our pursuit of implementing a vertically integrated business model that will enable us to create distinctive new products.

Exactly what kind of components are there?

In order to differentiate our products, we must develop components for display, imaging, storage, semiconductor and many other types of devices. Among these components, semiconductors are considered to be the most important key component, based on the plans for our future product lineup. In the near future, semiconductors will become ever more miniaturized, enabling a vast number of transistors to be incorporated onto one chip. The development of this semiconductor technology will enable the realization of a diverse range of ideas and architecture, meaning continued convergence of added-value on the semiconductor.

In addition, as the resolution of displays improves, there will be more demand for even better picture quality, whether for video or still photos. This trend points to an even more important role for CCDs and other imaging components used in video cameras and digital still cameras.

What kind of measures is Sony taking to secure a stable supply of key components?

To meet the explosive growth in demand that is foreseen for digital consumer electronics, we are currently making substantial investments in the construction of manufacturing facilities for key components.

For example, to manufacture Cell we must introduce state-of-the-art semiconductor production technologies and facilities. We are working with IBM and Toshiba to put in place a highly sophisticated mass-production infrastructure.

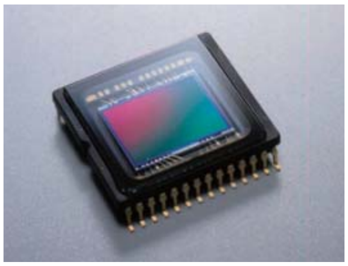
As for display components, we are striving to enhance our manufacturing capability of amorphous silicon TFT LCD panels, enabling us to keep up with the expected growth in demand for LCD televisions.

Image sensors

Tapping the strengths of CCD and CMOS image sensors

Sony has the leading share of the global market for CCDs. This key component not only supports our lineup of mobile products, such as digital still cameras and video cameras, but also contributes to profitability through sales to external customers. In July 2003, Sony was the first company to develop a CCD for consumer digital still cameras that has a four-color filter: red, green, blue and emerald. This breakthrough will be leveraged to differentiate Sony cameras from those of its competitors. We will also strive to make the CCDs smaller, while simultaneously enhancing picture quality.

Sony is also developing CMOS image sensors. This component offers the advantages of low power consumption, faster processing speed, and the ability to place peripheral circuitry on a single chip. Traditionally, picture quality from CMOS image sensors has been thought to be inferior to that of CCDs. Sony has almost completed work on a CMOS image sensor that produces a higher-quality picture. This is being accomplished by applying manufacturing know-how that was gained from the production of CCDs and using sophisticated equipment for the MOS process. Sony will continue its CMOS image sensor development program with the goal of expanding this business.



CCD with a four-color filter

Display components

Joint venture with Samsung to mass-produce next generation LCD panels

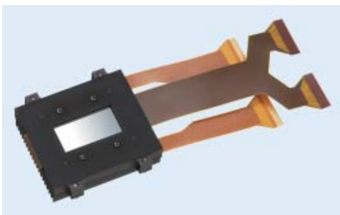
Demand for flat panel displays is increasing rapidly, with applications for this technology ranging from cellular phones, digital still cameras, televisions, PC monitors and rear-projection televisions. To ensure a stable supply of LCD panels to meet the expected growth in demand for large screen LCD televisions, Sony and Samsung Electronics Co., Ltd. established S-LCD Corporation. This joint venture will develop and manufacture seventh-generation (1,870mm x 2,200mm glass substrate) amorphous silicon TFT LCD panels to be used in large screen televisions. Full scale production is scheduled to begin in the fiscal year ending March 31, 2006.

A rear-projection television with an ultra high-resolution LCD

As LCD panels with increasingly high-resolution become available, even small devices will have the ability to display ultra-fine images. Sony has developed a display device called the SXRD (Silicon X-tal Reflective Display) that can produce high-resolution, high-contrast images with cinematic quality. Sony will use SXRD to produce front projectors and rear-projection televisions that will have a far better picture quality than those currently available.

Practical application for OEL displays

OEL displays can reproduce highly vivid colors with the fast response required for smooth video playback. Backlighting is not required because the panel is self-luminescent, producing three colors: red, green and blue. This allows for panels to be extremely slim. Sony is working toward the practical application of the OEL display to mobile devices.



LCD display component, “4K SXRD”

Memory Stick

Meeting the new demand for increasingly widespread music distribution and high-resolution video recording

Since its debut six years ago, the Memory Stick business has continued to grow rapidly, fueled by the growth of the digital still camera market. As a result, cumulative shipments have surpassed 70 million units. Sony and more than 500 other companies that support this technology are developing new markets for Memory Stick. Music and e-book distribution services are two applications that will be added during the fiscal year ending March 31, 2005, with high-resolution video recording as another potential addition. To ensure ease of use for a broad range of applications, all Memory Stick media is equipped with copyright protection technology and high-speed data transfer capability. Sony plans to launch higher-capacity media with the introduction of a 2GB version in 2004 and a 4GB version in 2005.

Memory Stick PRO

Memory Stick PRO Duo

Memory Stick

Memory Stick Duo

Lithium-ion batteries

Supporting Sony's mobile products

Demand for rechargeable lithium-ion batteries is rapidly growing due to its use in a diverse range of mobile devices, such as notebook PCs, cellular phones, digital still cameras and video cameras. With superior safety and high performance, Sony's lithium-ion batteries have contributed to making Sony's core mobile devices, such as the digital still camera Cybershot, VAIO PCs and the video camera Handycam, more slender and compact. There is no doubt that these batteries will play a greater role in Sony's strategy to differentiate its mobile products by making them even slimmer and lighter.

Aiming to increase sales of lithium-ion batteries

Sony has secured firm positions in the markets for both the liquid-electrolyte lithium-ion batteries used in notebook PCs and the lithium-ion polymer batteries used in cellular phones. To reinforce its leading position in the notebook PC battery market, Sony will continue to increase the capacity and output of liquid-electrolyte lithium-ion batteries. In 3G and subsequent generations of the cellular phone market, the goal is to increase sales by taking advantage of the high capacity and light weight of polymer batteries, which give them the flexibility to fit any size of cellular phones.

Opportunities also exist for using lithium-ion batteries in electric tools, shavers and other products that currently use nickel metal hydride batteries. Sony is currently making inroads into these market segments.

Prismatic liquid-electrolyte lithium-ion battery

Cylindrical liquid-electrolyte lithium-ion battery

Lithium-ion polymer battery

Optical disc components and digital tuners

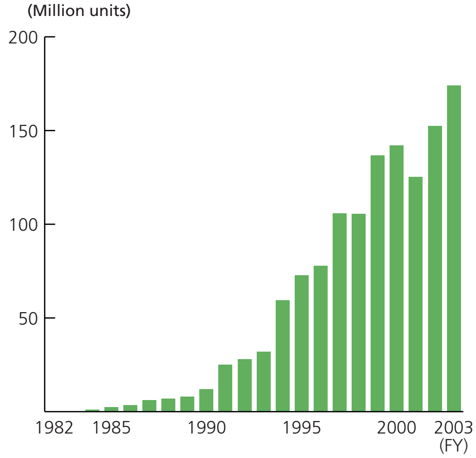
Concentrate our energies on high-density, high-speed recording technology for optical disc components

Sony manufactures semiconductor lasers, optical pickups and other components used in CD and DVD players and recorders, PlayStation 2, disk drives for PCs, the video camera DVD Handycam and other products. Sony is the industry leader in the field of optical pickups for audio-visual equipment. Currently, demand for DVD optical pickups and semiconductor lasers is increasing, due to the growing diffusion of DVD players. To further expand this component business, work is under way to commercialize recordable dual-layer DVDs and an optical pickup and semiconductor laser with 16x recording speed. In addition, Sony has developed a three-wavelength optical pickup and semiconductor laser that are compatible with the Blu-ray Disc, DVD and CD formats.

Quick to respond to the opportunities of digital broadcasting

Sony has developed an ultra-compact digital tuner that can receive terrestrial digital broadcasts. The industry's smallest tuner measures 18mm x 14mm x 2mm, weighs only 1.5 grams and is also low power consumption. Sony plans to use this digital tuner in a variety of mobile devices.

■ Sales of Sony Optical Pickups



Blu-ray Disc

The Blu-ray Disc format

The increase in high-definition broadcast programs is sparking demand for technologies capable of recording outstanding picture and sound quality. In response, Sony and eight other companies signed an agreement in February 2002 and formed the Blu-ray Disc Founders (BDF), to promote the rewritable Blu-ray Disc standard. While promoting the Blu-ray Disc standard with members of the computer, media and other industries, the number of BDF members has increased to 13*. To establish the Blu-ray Disc standard and capitalize on business opportunities, BDF has decided to establish the Blu-ray Disc Association (BDA), which solicits the participation of companies from a wide range of industries.

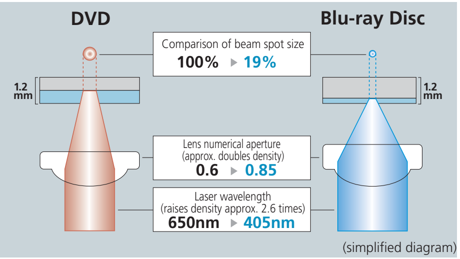
*Sony Corporation, Dell Inc., Hitachi, Ltd., LG Electronics Inc., Matsushita Electric Industrial Co., Ltd., Hewlett-Packard Company, Pioneer Corporation, Royal Philips Electronics, Samsung Electronics Co., Ltd., Sharp Corporation, TDK Corporation, Thomson, Mitsubishi Electric Corporation (As of March 18, 2004)

Key technologies underlying the Blu-ray Disc system

Blu-ray Disc requires at least 27GB of storage capacity to record two hours of high-definition television programs. This is about six times the storage capacity of a standard DVD. Yet the Blu-ray Disc provides this massive capacity within the 12cm diameter (and 1.2mm thickness) of a CD or DVD. Listed on the following page are some of the key technologies that made this possible.

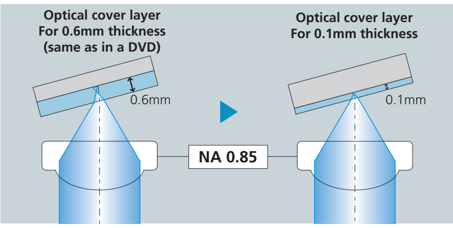
Blue-violet laser achieves high recording density

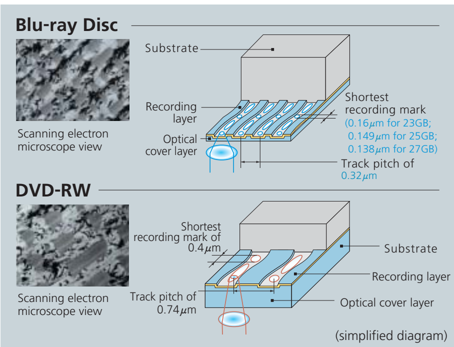
Data on an optical disc is recorded and read by passing a beam from the laser through the lens and onto a spot on the disc called the beam spot. Since blue-violet light has a shorter wavelength than red, it can produce a smaller beam spot. The result is higher recording density. Blue-violet lasers with a wavelength of 405 nanometer enable Blu-ray Disc to increase recording density about 2.6 times, and combined with high-powered lenses, the recording capacity of Blu-ray Disc is six times that of the standard DVD.



0.1mm optical cover layer improves reliability

On a Blu-ray Disc, data is stored at more than 2.5 times the density of a DVD, while the width of the recording tracks is less than half that of a DVD. Furthermore, the tracks where the data is stored are only 0.1mm below the disc surface. Placing the recording tracks closer to the surface means that Blu-ray Discs are less prone to problems caused by disc warping and other factors compared to CDs and DVDs.





High-speed data rate of 36Mbps to accommodate digital content

Blu-ray Disc has a data rate of 36Mbps, much greater than the maximum speed of 24Mbps in digital HDTV from a broadcasting satellite (BS). This speed enables Blu-ray Disc to easily record digital HDTV programs from the BS and play them with remarkably high-quality picture.

Blu-ray Disc recorder

In April 2003, Sony unveiled the world's first Blu-ray Disc recorder. By using the same MPEG-2TS video recording method used in BS digital TV broadcasts, this unit can record more than two hours of BS digital TV programming with no degradation in picture quality.

Blu-ray Disc recorder

Success in developing a 25GB optical disc made of paper

Sony and Toppan Printing Co., Ltd., have succeeded in developing a 25GB paper optical disc with a paper content of more than 51%. Part of the disc uses paper because Blu-ray Discs can be played and recorded on the 0.1mm surface layer. The use of paper reduces the need for plastic, making the discs more environment-friendly and decreasing manufacturing costs.

A paper disc

The development of three-wavelength recording/playback optical pickups that are compatible with Blu-ray Disc, DVDs and CDs

Sony has developed a three-wavelength recording/playback optical pickup that is compatible with the Blu-ray Disc, DVD and CD. In addition to reducing the number of components required and decreasing its size, Sony is striving to increase the optical pickup's reliability and productivity, in order to rapidly commercialize this product. As the key component for the Blu-ray Disc system, this new optical pickup is positioned to contribute to the expansion of this market.

Prototype of the newly developed three-wavelength optical pickup for recording and playback

Optical pickup for conventional DVDs/CDs (top) and Blu-ray Disc (bottom)

Cross-licensing agreement for optical disc-related blue-violet laser diode patents

Sony and Nichia Corporation from Japan have agreed to cross-license patents involving the Blu-ray Disc format's blue-violet laser diode. This agreement is expected to open the door to Sony's mass-production of blue-violet laser diodes, a big step that will position it to respond to expansion in the market for Blu-ray Disc-format products.

Sony with You

Eikou Sumura

Ikebana (the ancient Japanese art of flower arrangement) and leading edge technology don't seem like natural partners, yet Ms. Eikou Sumura has been using a recordable Walkman for more than 20 years to refine her teaching skills in this ancient art form.

Sony stands for captivating products

Sony first caught my eye when I was a young child

When I was a child, I was captivated by the Sony products. I saw them at elementary school and on billboards on the way to school. The novelty of Sony, which was somehow different and "newer" than other electronics, left a lasting impression on me. I remember reading the autobiographies of Sony founders, Masaru Ibuka and Akio Morita. I was impressed by their dedication to corporate citizenship. What particularly struck me was their efforts to create employment opportunities for disabled people. When I was growing up, like most people in Japan, I was fascinated by American culture. The Sony Plaza in Ginza was like a variety store offering a slice of American life. It was an ideal place to see the kinds of things you couldn't find in Japan back then and I often went there. Sony has been an important part of my life.

Good instructors should listen to themselves

I have used a recordable Walkman for more than 20 years. I use it mostly to record myself explaining the principles of ikebana and giving demonstrations during class. Later when I play back the recordings they allow me to identify things I can improve on, even things like the tone of my voice. As a teacher, the ability to hear yourself in the third-person is extremely important. I strongly recommend this technique to my advanced students who are teachers themselves.

Eikou Sumura **Master Instructor, Sogetsu Headquarters**
A native of Tokyo, Eikou Sumura began studying ikebana in 1953 and from 1963, worked as an assistant to her father, the famous ikebana master Kousoku Sumura. She became a director of the Sogetsu Ikebana Instructors Association in 1973. Ms. Sumura has traveled the world conducting demonstrations and workshops. Always looking for new challenges, she recently began collaborating with a French chef.
Eikou Sumura URL: http://www.sumuraeikou.com

Like a memopad, my IC recorder is always by my side

I bought an IC recorder not long ago, not for recording my classes but to record ideas that come into my head or phrases that I don't want to forget. It's smaller than a Walkman, so I can take it with me everywhere. I even keep it by my bed at night.

R&D

research & development

Sony's DNA: Freedom and open-mindedness

Sony has created an environment of freedom and open-mindedness in which its researchers and developers can give free rein to their imaginations while managing research and development by efficiently focusing management resources in strategic fields

Biped robot

Sony's R&D strategy

The importance of R&D and its management

Sony's philosophy regarding R&D was set forth by Masaru Ibuka in the Founding Prospectus when he established the company: "To establish an ideal factory that stresses a spirit of freedom and open-mindedness, and where engineers with sincere motivation can exercise their technological skills to the highest level." Today, Sony carries on its tradition of fostering freedom in research while concurrently managing R&D by efficiently focusing management resources in strategic fields.

How research priorities are determined

Sony has a virtually unlimited selection of key technologies. To identify which of these will have the potential to deliver revolutionary devices and products, Sony holds the Technology Round Table, at which senior management and research engineers gather to formulate strategies consistent with Sony's R&D road map. These Round Tables are also responsible for determining how management resources should be concentrated within strategic fields.

R&D and Sony's intellectual property strategy

There are many R&D accomplishments that are of vital strategic importance to Sony. Three operating units—R&D, business and intellectual property—all combine to forge Sony's intellectual property strategy, ensuring that these assets are properly protected and effectively utilized.

Sony is acutely aware of the importance of utilizing intellectual property to reinforce its competitive edge and, to this end, frames an intellectual property portfolio suited to each business unit and determines policy for the use of each. This approach entails the acquisition of intellectual property assets for Sony's exclusive use, as well as establishing cross-licensing rights and taking other actions as required, giving Sony more flexibility in its business operations. Moreover, the standardization of basic technologies has become an increasingly important issue with the growth of digital networks in recent years. In response, Sony is actively pursuing alliances, licenses and other means to increase the utilization of technologies in its patent portfolio.

Strategic fields for the next three years

Sony is focusing on semiconductors, displays and home servers as its key strategic fields for R&D over the next three years

Semiconductors

In electronics, added value has migrated from finished products to key components. In light of this, Sony regards the semiconductor business as one of its most important R&D priorities. Sony's semiconductor business has steadily raised its profile in terms of production value, as well as in capital expenditure and R&D spending. In the short and medium terms, central R&D themes will concentrate on functional components, particularly CCDs, where Sony holds the number one worldwide market share, and semiconductor lasers. Another priority is System-on-Chip (SoC) components, which integrate an enormous number of processors and memories. Components incorporating these technologies play a central role in enabling Sony to supply highly distinctive digital consumer electronics and game products with increasingly sophisticated functions.

Displays

Display technology has been a Sony core technology since the days of the CRT, when Sony created its highly acclaimed Trinitron system. Sony is developing next generation display technologies for LCDs, organic electroluminescence (OEL) and projectors to best match differing market requirements in terms of screen size and product category. One highly advanced component is the Grating Light Valve (GLV) projector, which uses high-output lasers to produce the three primary colors. Sony has also developed a Silicon X-tal Reflective Display (SXRD) projector that produces a high-resolution 8.85 megapixel (4,096H x 2,160V), four times sharper than current digital high-definition televisions. Development work continues with the aim of delivering solutions that achieve remarkable resolution and color reproduction from content to displays, all with the unmistakable Sony touch.

Home Servers

Home servers are set to become important fixtures in the home. As digital consumer electronics become increasingly linked through networks, home servers will be needed to control both the operations of network appliances and the flow of content. These servers are likely to function as storage terminals, most likely in the form of DVD or Blu-ray Disc recorders equipped with hard disk drives, as well as content service and network portals. Possessing many of the world's most advanced technologies in both semiconductor lasers and optical pickups, Sony is set to become the industry leader in an emerging network server market that demands expanded storage functionality and high-speed transfer rates.

Long-term research fields

The shift from inorganic to organic materials

Inorganic materials, such as metals and silicon, in addition to mechanical technologies, have defined much of the technology of the past century. But a new century has shifted the spotlight to carbon-based and other organic materials, as well as biomolecular emulation technologies. Sony is targeting this shift through its R&D activities with a mid- to long-term perspective. The fiscal year ended March 31, 2004, witnessed the first step in this direction, namely, Sony's announcement that it had developed a tandem dye-sensitized solar cell that employs a polymer gel electrolite and nano-structured electrode. Currently, solar cells are made of semiconductor materials, such as silicon and gallium arsenide. Polymers have a high energy conversion efficiency of 10.5%. Moreover, they are inexpensive and enable the easy creation of a large surface area. At the time of announcement, this technology had the highest conversion rate for its type in the world. In the field of electronic components, Sony unveiled an organic transistor in February 2004 at the Institute of Electrical and Electronics Engineers International Solid-State Circuit Conference (IEEE ISSCC), the world's most prestigious international conference for semiconductor ICs. The fruits of Sony's research shed light on the mechanism by which charged carriers are injected from electrodes into the organic semiconductor layer. This made possible a new technology that improves the charge carrier mobility of electrons within organic transistors. Sony engineers were not only successful in proving the operation of these transistors, but also in utilizing them as the driving transistor for an LCD that produces a 160 x 120 pixel image.

Sony's wide-ranging technological expertise in materials, analysis, circuitry and finished products made these accomplishments possible.

Imitating living organisms and brain functions

Sony is exploring sophisticated robotics and computing technology to create robots even more like living beings.

In December 2003, Sony announced the world's first humanoid robot with the ability to run and jump. Over the mid- to long-term, Sony plans to further refine these movements while incorporating the latest advances in perception technology, as well as utilizing networks so that robots can acquire knowledge and learn about their environment. Research continues with the aim of making robots even more human-like to the point where people do not tire of them even after frequent and extended encounters.

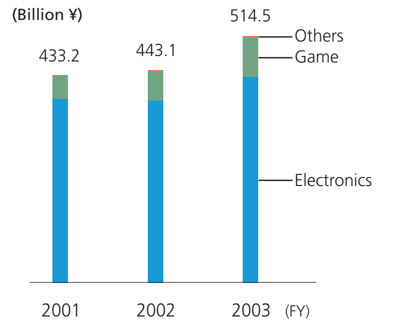
R&D activities for the fiscal year ended March 31, 2004

R&D expenses totaled ¥514.5 billion for the fiscal year ended March 31, 2004, which amounted to ¥71.4 billion, or 16%, more than in the previous fiscal year. The ratio of R&D expenses to sales, excluding the Financial Services segment, rose from 6.4% to 7.5%.

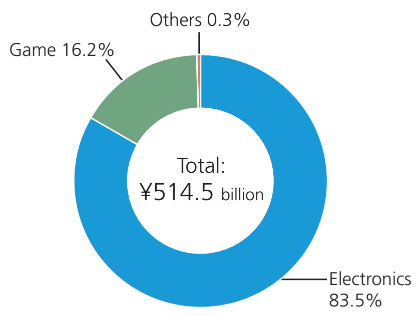
R&D expenses in the Electronics segment increased ¥49.1 billion, or 13%, to ¥429.4 billion, while in the Game segment R&D expenses increased ¥21.9 billion, or 36%, to ¥83.4 billion.

Within R&D expenses in the Electronics segment, about 62% was allocated for product prototype development and the remaining 38% for new, mid- to long-term technologies for semiconductors, telecommunications, displays, next generation optical discs and other fields. In the Game segment, R&D expenses were mainly allotted for hardware, including semiconductors and network technology, and the creation of software.

■ R&D Expenses



■ Composition of FY2003 R&D Expenses



Q U A L I A

Since the founding of our company, Sony has always sought to deliver new qualia—to captivate and move people, bringing them joy and excitement—through our products, content and services.
With the “QUALIA Movement”, we express our sincere determination and great joy in introducing new qualia to the world.
In the electronics field, we will realize the “QUALIA Movement” through our product creation, marketing and service activities, offering unique emotional value that touches people’s hearts.

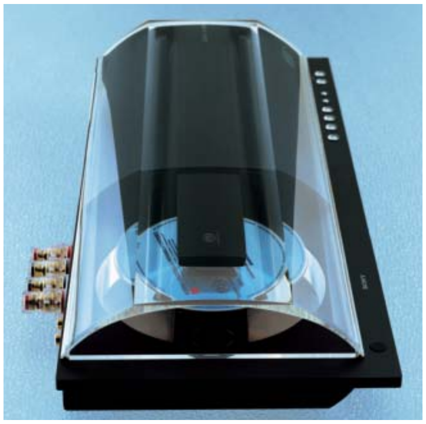
http://www.sony.net/QUALIA/

QUALIA 017

QUALIA 016

QUALIA 010

QUALIA 004



QUALIA 007

QUALIA 015

Sony Craftsmanship

How Sony makes its products
Speeding up the manufacturing revolution

The art of manufacturing—Adding value and driving Sony's growth

As one element of "Transformation 60," Sony is taking a fresh look at its past manufacturing practices and conducting a worldwide realignment of manufacturing activities. Engineering and manufacturing capabilities and operating speed are crucial to creating competitive products. By globally reinforcing these capabilities, Sony believes it can bolster its entire product lineup and enhance profitability.

Constant manufacturing innovation propels product creation at Sony

Sony views manufacturing as a core competence. Over the years, Sony has introduced many revolutionary products as only Sony can do. To cope with rapidly changing market conditions, even more manufacturing innovations are being implemented at Sony. The aim is to restructure the product creation framework into a knowledge-intensive process that can generate added value. One example of this kind of measure is the widespread adoption of a highly efficient, flexible production system called the "cell production method." Other ongoing projects involve increasing the output of devices and modules, upgrading core technologies, such as high-density mounting, and building an integrated manufacturing process for semiconductors and components that extends to the point where they are incorporated on the circuit board and as parts of products in the assembly process. Concurrent to this, Sony is assembling a powerful supply chain management system and raising overall production-related operating efficiency. The combined result of these actions is the optimization of Sony's engineering and manufacturing systems for each regional market. Sony is now accelerating the innovation of its product creation as a vital factor in maintaining its vitality and continued ability to flourish and grow.

Integrating distribution with engineering, manufacturing and customer service axis

To add even more value to its manufacturing operations, Sony is extending the level of its process integration over and above the engineering, manufacturing and customer service axis. Logistics have been seamlessly integrated, and an even more advanced supply chain management (SCM) system is being assembled. Close links between manufacturing and distribution mean products can reach customers even faster. Also, by executing logistics reforms in tandem with manufacturing innovation, Sony is cutting the procurement costs of product components as well as reducing the inventories of these components and the finished products themselves. As a result, overall space utilization at manufacturing and distribution sites can be enhanced.

Sony believes constant manufacturing and distribution innovation—even on a daily basis—will yield continuous improvements, essential to the Sony Group's success.

Strengthening the development, engineering and manufacturing processes of key components will accelerate product differentiation

Semiconductors and other new components are vital to success in the emerging market for digital consumer electronics. With this in mind, operation sites in Japan are positioned as hubs to strengthen the domestic production sites' ability to produce advanced modules and components. By stepping up the output of original and unique components, Sony is differentiating its products and creating added value in the manufacturing stage.

Promoting a worldwide EMCS structure: Overhauling engineering and manufacturing frameworks to reflect distinctive regional needs on a global scale

Rethinking global engineering, manufacturing, distribution and service functions

As part of "Transformation 60," Sony is busy reshaping its product creation structure into a more knowledge-intensive model. For its worldwide operations, Sony has introduced a new engineering and production platform called EMCS (representing engineering, manufacturing and customer services). From the ground up, Sony is completing a comprehensive review of its production network, which had been structured to manufacture products within each region. The intent is to overhaul the engineering and manufacturing frameworks to better reflect the distinct features of each region, and simultaneously increase the added value generated by these frameworks. Maximizing the integration of global functions from engineering through manufacturing, distribution and customer service will foster an environment for the global implementation of an advanced supply chain management (SCM) system. Sony plans to convert some of its manufacturing facilities into Customer Front Centers (CFC). By improving distribution and service capabilities, these centers will enable Sony to further upgrade various customer services and respond even more efficiently to consumer needs.

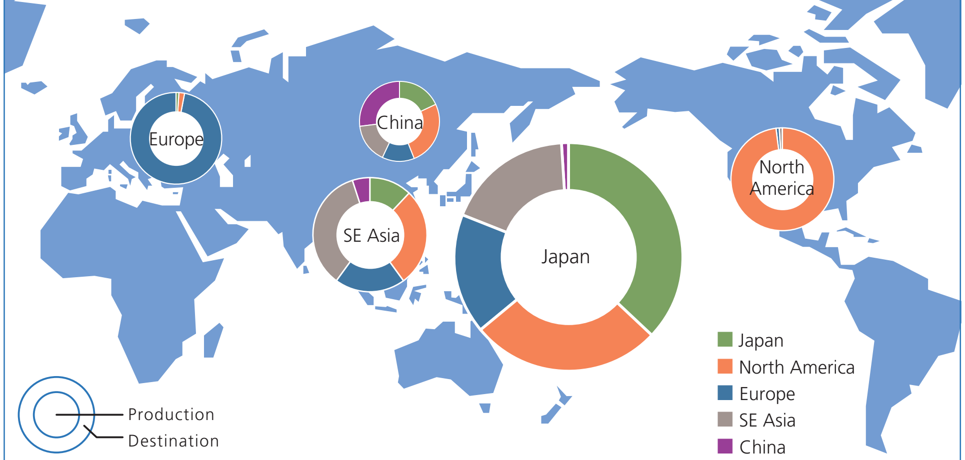
Raising Japan's profile as a source of advanced technology

Through the creation of its new EMCS-based structure, Sony has made Japan a focal point for sophisticated technology. By forming close ties between its development and engineering teams, Sony seeks to reinforce its engineering framework and refine its ability to manufacture value-added components, such as semiconductors, in turn enhancing its mounting processes and helping to create new state-of-the-art products. Producing a steady flow of new products that use leading-edge components, hence giving them a distinctly Sony feel, will be central to the future of Sony's electronics business.

Regional production strategies that mirror market needs

Sony's strategy for its global production bases is to deepen ties between manufacturing activities in Japan, China and elsewhere in Asia. Sony is increasing production of finished goods in China in anticipation of continued rapid growth in demand, as well as increasing the output of both cost-competitive, mass-produced products for export and components and modules associated with operations in Japan. Products that are manufactured price-competitively in other parts of Asia are exported to Japan, Europe and the U.S. as well as supplied within the region itself. To enhance responsiveness to customer needs in each region, CFC functions are also being added to Asian manufacturing sites. In Europe and the U.S., two of Sony's major markets, the current single-category mass-production framework will be complemented by adding CFC functions, thus enabling a faster response to market needs while strengthening manufacturing and sales activities within each region.

Production Locations and Destinations of Electronics Products

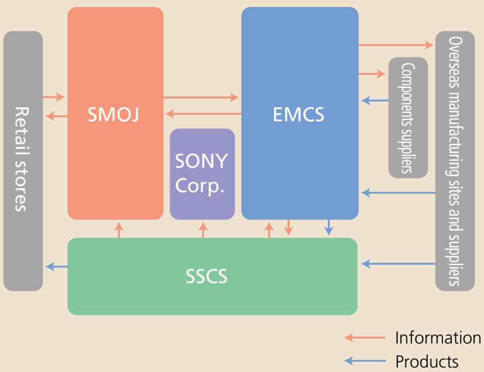


*Size of circle represents scale of production

A new information system that integrates sales, manufacturing and distribution

CLOVER

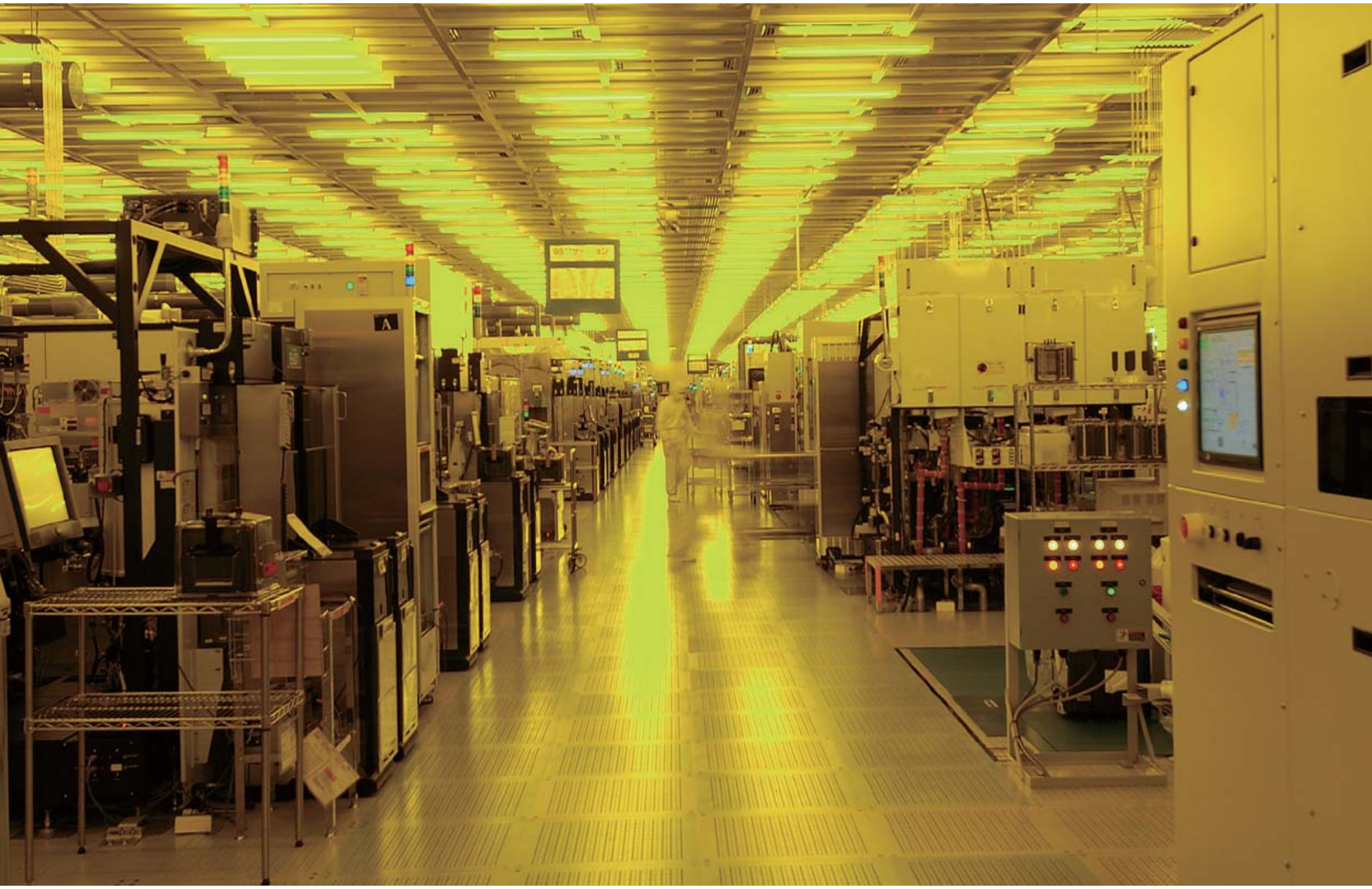
- Prepares highly accurate sales forecasts based on actual results through collaboration with distribution operations
- Performs real-time monitoring of retail sales and inventories and uses this data to create an optimal manufacturing and supply system
- Provides highly accurate responses to inquiries for delivery times by combining manufacturer inventory data with manufacturing plans
- Constructs a logistics system that minimizes manufacturer inventories
- Expands the scope of weekly management operations to increase responsiveness to rapid shifts in sales trends and other events



Utilizing demand chain management to create a product supply framework that responds immediately to sales data

CLOVER comes into operation: A new information system supporting the integration of sales, manufacturing and distribution operations

The new CLOVER information system began operating in May 2004. Adopted by Sony Corporation, Sony Marketing (Japan) Inc. (SMOJ), Sony EMCS Corporation (EMCS) and Sony Supply Chain Solutions, Inc. (SSCS), the new system integrates sales, manufacturing and distribution operations to give Sony a competitive edge in Japan. CLOVER provides sophisticated data links between individual operations, facilitating demand chain management with the aim of creating an enhanced flexible product supply system that responds immediately to changes in actual retail sales data. Key benefits are greater customer satisfaction, minimal loss of sales opportunities, and lower inventories at manufacturing sites and in distribution channels. Sony expects CLOVER to produce cost savings and inventory reductions in Japan.



Isahaya City in Nagasaki Prefecture, in Japan, is the home to Sony's strategic semiconductor production base. Since 2000, Nagasaki Fab* has produced state-of-the-art semiconductors and continues to be an industry-leading manufacturing facility. Nagasaki Fab produces the key components that give the Sony Group its solid competitive edge.

*The official name of the facility is "Sony Computer Entertainment Fab." Following the integration of the semiconductor production businesses of the Sony Group, the name will be changed to "Sony Semiconductor Kyushu Corporation Nagasaki Technology Center" on July 1, 2004.

The strategic base for next generation key components that give the Sony Group its solid competitive edge


Staff wearing particle-free suits called Clean Suits


Electrical testing after packaging

One of the world's most advanced semiconductor fabs

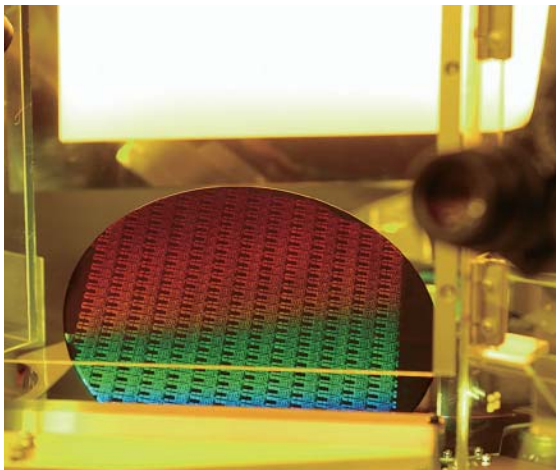
Nagasaki Fab started out as the semiconductor production base of Sony Computer Entertainment Inc. (SCE), producing advanced LSIs for PlayStation 2 (PS2), notably the Graphics Synthesizer (GS), a high performance graphic rendering processor. Fab 1 began operations in spring of 2000 and Fab 2 in spring of 2001. Since then, Sony has continued to upgrade both fabs with the latest production equipment. The two fabs have a total of three clean rooms. Fab 1 produces chips on 200mm wafers using 0.18–0.15 micrometer processes (one micrometer equals 1/1,000 of one mm). On the upper level of Fab 2, another line processes 200mm wafers utilizing 90 nanometer (one nanometer equals 1/1,000 of a micrometer) technology. As of spring 2004, there were only a few fabs in the global semiconductor industry using a 90 nanometer mass-production process, giving Nagasaki Fab recognition as one of the world's most advanced wafer fabs.

A vital strategic base for the Sony Group

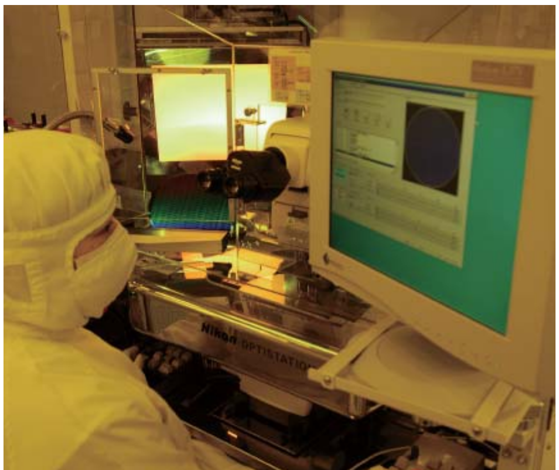
In November 2003, the Semiconductor Solutions Network Company (SSNC) was established within Sony Corporation. This gave the Sony Group an integrated framework within which to implement its semiconductor strategy, including semiconductor development and design. In order to further enhance and integrate its semiconductor manufacturing operations, SCE's semiconductor production business will be merged with Sony Semiconductor Kyushu Corporation (SCK) in July 2004 (meaning that SCK will now be responsible for all production operations). In areas such as production, personnel and technology, the two units already have a history of extremely close cooperation. Formal integration is expected to deepen these ties, strengthening Sony's semiconductor production system and further enhancing the efficiency of its operations.

Cumulative capital investments in Nagasaki Fab through March 2004 totaled approximately ¥290 billion. The fab is now equipped with the most advanced semiconductor process technology in the world. Since the fiscal year ended March 31, 2004, Nagasaki Fab has been preparing for 300mm wafer, 65 nanometer process technology production lines on the lower level of Fab 2. This will enable fabrication of many sophisticated processors that will inevitably be at the heart of next generation digital consumer electronics products and computer entertainment system. Nagasaki Fab will be increasingly important as the Sony Group's strategic base for semiconductor production as it establishes a mass-production system with 65 nanometer process technology.

200mm wafer in manufacturing process



Surface inspection stage of the LSI production process



Setting the industry standard for time to commission a new fab

Speed was essential when Fab 1 was built. Fab 1 had to be able to supply a large volume of semiconductors for PS2, which was scheduled to go on sale in March 2000, meaning that SCE needed to set a new standard for speed in commissioning a new fab. Construction began in spring 1999. Only five and a half months was needed to complete the Fab 1 clean room, while production of prototypes began in the ninth month following the installation of equipment. The construction period was about half of the industry norm at that time, thereby setting a new industry standard.

Productivity well above the industry standard

Early adoption of the new Standard of Mechanical Interface (SMIF) production system is one reason Nagasaki Fab is the leader in productivity in the fabrication of advanced semiconductors. Another is the existence of PS2, a product sold in enormous volumes worldwide.

When fabricating semiconductors, even the tiniest speck of airborne dust can ruin a chip. That is why wafer fabs typically place manufacturing equipment in a class 1 (one dust particle or less per cubic foot) clean room, one of the highest standards for these types of facilities. The SMIF method, on the other hand, does not place the entire production line into a clean room. Instead, only the insides of production machines and the SMIF-Pod, where wafers are stored, need to be raised to class 1 level. Thanks to this technology, Sony gained much more freedom in the layout of production machinery and management of each process. The result is improvements in capacity utilization and overall productivity.

Cumulative production shipments of PS2 surpassed 70 million units only four years after its introduction, and high shipment volumes continue. From the beginning, Nagasaki Fab produced the GS, one of the core semiconductor components for PS2 and a key factor in its performance. The enormous popularity of PS2 forced the fab to make constant improvements in productivity in order to ensure a large and reliable supply of chips. GS is an LSI with embedded DRAM, making it more complex than ordinary logic LSIs. Manufacturing GS and other specialized chips in large quantities is one of the greatest strengths of Nagasaki Fab. This skill has enabled the fab to raise productivity to one of the highest levels through its focus on improvements in production processes.

Central to raising productivity has been an unrivaled quality evaluation and analysis system, permitting the detailed monitoring of quality as each process is under way. This system improves the ability to detect and instantly respond to abnormalities, raising both quality level and productivity.

An optimal production strategy based on process technologies

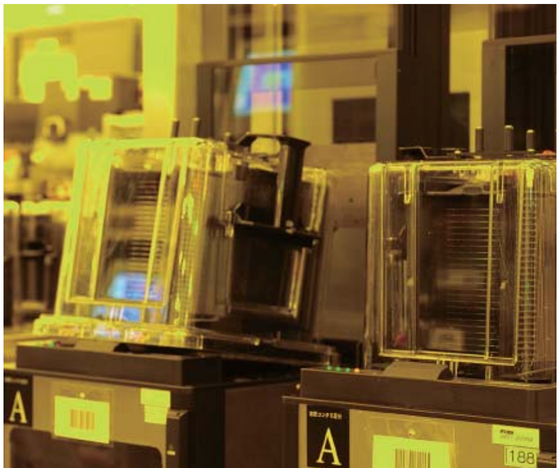
At Nagasaki Fab, the best possible production strategies are formulated and executed based on the process technologies used on each line. Currently, the 0.18–0.15 micrometer line at Fab 1 produces LSIs for PS2; Wega Engine, an image quality enhancing signal processor for Sony televisions; video cameras and other AV products. In the near future, this line will be used to manufacture CMOS image sensors, a component for which demand is likely to rise, especially for use in mobile products.

The 90 nanometer line on the upper level of Fab 2 produces a highly sophisticated chip that integrates GS and EmotionEngine (EE), a 128-bit CPU for PS2 into a single chip. This chip, which has 53.5 million transistors, is used in PSX, a DVD recorder. Benefits of this chip include reductions in both power consumption and production costs. This line is planned to be used for the production of the CPU for PlayStation Portable (PSP), a handheld video game system that is expected to go on sale during the fiscal year ending March 31, 2005.

On the lower level of Fab 2, the 65 nanometer process line employs the FOUP (Front Opening Unified Pod) method, a technique that takes SMIF to a higher level. Additionally, this facility is moving toward complete automation by integrating the AMHS (Automated Material Handling System) and MES (Manufacturing Execution System). Armed with these cutting-edge processes, this fab plans to produce some of the most sophisticated microprocessors for use in next generation digital consumer electronics products and computer entertainment system.

SMIF technology achieves local clean areas

A material handling box used for SMIF technology



State of the art equipment for ultra-fine processing

The automated material handling system installed to new 300mm wafer line

FOUP holding 300mm wafers

Deionized water system for ultra high-purity water

A zero-emission facility backed by advanced energy conservation and environmental technologies

Environmental preservation and energy conservation technologies are found throughout Nagasaki Fab, where operations adhere to two principles: 1) coexisting in harmony with people, that is to say, making products that do not contain prohibited substances and 2) reducing environmental impact. Advanced technologies and know-how in the semiconductor business are applied to protect the environment. One illustration is a zero-emission program that has raised the facility's recycling rate for waste materials to 99.8%. Since wafer fabs use large amounts of pure water and liquid chemicals, sound facility management is essential. At Nagasaki Fab, three different elevations of the site are utilized for a gravity-driven wastewater removal and treatment system. This reduces the electricity used on pumps by 20%. Use of the SMIF method further reduces energy consumption.

Increasing the Sony Group's competitiveness

Nagasaki Fab, constructed in a short time frame and now established as one of the world's most advanced semiconductor fabrication facilities, has amassed various technological know-how, while achieving the highest level of productivity in the industry. Three key factors have underpinned these accomplishments. First is the feedback loop in quality detection and production technology. Second is the high degree of freedom in process management afforded by the adoption of SMIF. Third is taking advantage of the fact that a large customer, that is Sony, already exists for the production and shipments of these components. These accomplishments, which represent a major competitive advantage, will be indispensable elements in the Sony Group's design and development of various digital consumer electronics products and computer entertainment system in the years ahead.

Overview of Nagasaki Fab

Location: Isahaya City, Nagasaki Prefecture, Japan
Total site area: 99,000m^2
Clean room floor area:
Fab 1—11,120m^2
Fab 2—20,000m^2
Wafer processing capacity per month (200mm):
Fab 1—Approx. 12,000 wafers
Fab 2—Approx. 9,000 wafers*

*This does not include the processing capacity of the fab line on the lower level of Fab 2, which is used for producing next generation semiconductor chips.

Sony with You

Alejandro M. Lopez

Sony's technology: Transcending ages and generations

Mr. Alejandro M. Lopez is the President of beacon communications k.k., an advertising company that has produced numerous television commercials. Here, he shares some of his thoughts on unique ways to use Sony products that reflect his creativity.

I use a lot of Sony mobile devices in my work, like a cellular phone and CLIÉ, the personal digital assistant, but I have even more Sony products at home. Inside an antique wooden cabinet in my living room are numerous Sony products, including an AV amplifier, an Airboard location free television, a DVD player, a CS tuner and a PlayStation 2. I don't have a television in the living room because I prefer to use a Cineza video projector. Using an entire white wall as a screen, I enjoy watching everything from movies to news programs.

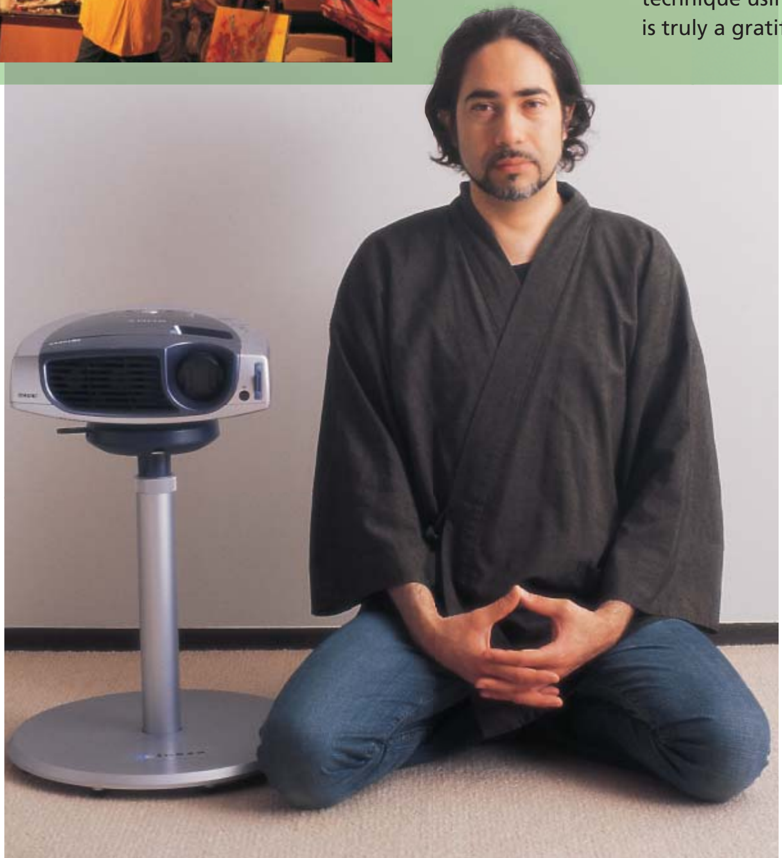
An antique cabinet is my Sony treasure chest

Cineza— The artist's assistant

I graduated from an art school and like painting in oils. Whenever I have the time, I paint at home using my other Cineza video projector as an assistant. In the old days, Dutch and Italian painters used mirrors and lenses to paint life-like portraits. With my Cineza, I can project pictures from my digital still camera and video camera onto my canvas. Cineza has a side-shot feature that prevents distortion even when projecting at an angle. Recreating an age-old painting technique using modern digital technology is truly a gratifying experience.

My son the Airboard expert

When I have friends over for a visit and my son Sora, who is three-and-a-half years old, finds our conversation hard to follow, he comes to ask me if he can use the Airboard. I say yes, and he's already run off somewhere in the house with it to watch his favorite cartoons and movies. It just goes to show that even young children can enjoy using state-of-the-art technology.



Alejandro M. Lopez

President and Representative Director, beacon communications k.k.

Alejandro M. Lopez joined Leo Burnett (USA) in 1986. Since then, he has had a diverse creative career in North America, Europe, Latin America and Asia. In 1997, he came to Tokyo, where he played a key role in the establishment of beacon communications k.k., serving as its Managing Director and Chief Creative Officer. In March 2004, he was appointed to his current position.

beacon communications k.k. URL: http://www.beaconcom.co.jp/en/

Sony with You

Previously President of the American Chamber of Commerce in Japan, Mr. Lance Lee currently manages a gymnastics program for children that aims to foster self-esteem and confidence. He is full of praise for Sony's technology and brand.

Sony, a brand that I can trust

I choose Sony for many reasons

My first Sony product was a color television in a wooden cabinet. Since then, I have purchased many other products made by Sony, including a video cassette recorder, tape cassette player and MD player. Sony products are easy to use and built to last. Come to think of it, I've been using the same Sony television at work for 15 years. I probably use my video camera the most often, though. I use it to record business presentations and meetings. I like the stylish design of the video camera and the wide choice of colors.

The "Lance Lee Method" for recording athletics

I bought my first Sony video camera in the early 1980s. It was quite heavy then. I'm now on my third video camera – Handycam. As I record the children's movements during gymnastic classes, the video camera's light weight and usability are of utmost importance. When I follow their movements with the video camera, I place it in my hand to keep it steady. When I want to record an entire scene, I hold the camera over my head, tilting the monitor downward so that I can watch what I'm shooting.

A quality image

The name Sony is associated with quality. Although Sony products are sometimes a little pricey, the company's proven track record is a sure sign of its products' reliability. Sony's customer service is also very dependable and Sony parts are readily available anywhere, so you can keep on using Sony products without ever having to worry.

Lance Lee

Born in 1952, Lance Lee first came to Japan about 30 years ago. After working for an investment company, in 1977 he became a physical education instructor at a number of international schools in Tokyo, including the American School in Japan, International School of the Sacred Heart and Aoba International School. In 2003, he served as the President of the American Chamber of Commerce in Japan. Currently, he manages IGC Japan Ltd., a gymnastics program for children, and The Resource Group, an organization that recycles medical equipment.
IGC Japan URL: http://www.igcjapan.com/

At a Glance:

Operating Performance Highlights

Electronics

http://www.sony.net/electronics/

Description of Business

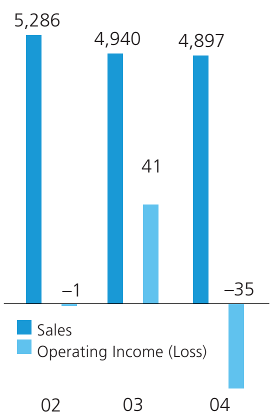
The Electronics segment consists of the following categories: Audio, Video, Televisions, Information and Communications, Semiconductors, Components and Other.

Fiscal Year in Review

- Segment sales slipped 1% due to a significant decline in intersegment sales to the Game segment that resulted from the outsourcing of PlayStation 2 (PS2) game console production in China. However, sales to outside customers increased 5% compared with the previous year.
- Major contributors to the growth in sales to outside customers were cellular phones, mainly to Sony Ericsson, Cybershot digital still cameras and flat panel televisions.
- The segment recorded an operating loss, despite the rise in sales, owing to an increase in restructuring expenses and falling sales prices.

Sales and Operating Income (Loss)

(Billion ¥)
(Year ended March 31)



Audio

Principal Products

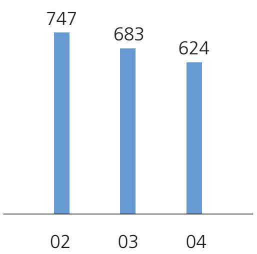
Home audio, portable audio, car audio and car navigation systems

Fiscal Year in Review

Sales decreased 9%, owing to declining prices for MD Walkmans, CD Walkmans and other portable audio products as well as a contraction in the overall home audio market.

Sales to Outside Customers

(Billion ¥)
(Year ended March 31)



Video

Principal Products

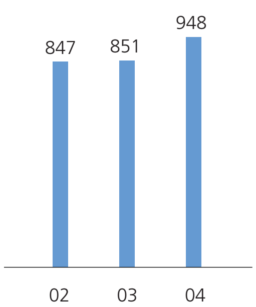
Video cameras, digital still cameras, video decks, DVD players/recorders and set-top boxes

Fiscal Year in Review

Sales advanced 11%, mainly due to higher unit sales of the Cybershot digital still camera, a consequence of market expansion, and our full-scale entry into the DVD recorder market during the period.

Sales to Outside Customers

(Billion ¥)
(Year ended March 31)



Televisions

Principal Products

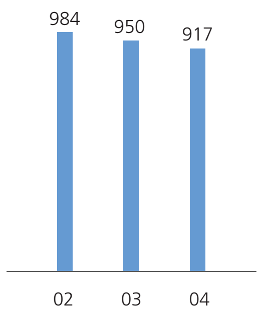
CRT televisions, projection televisions, plasma televisions, LCD televisions, PC projectors, computer displays and CRTs

Fiscal Year in Review

Sales declined 4%, due to a significant decline in sales of CRT televisions. In contrast, there was a large increase in sales of flat panel televisions, including plasma televisions and LCD televisions, and Grand Wega LCD projection televisions.

Sales to Outside Customers

(Billion ¥)
(Year ended March 31)

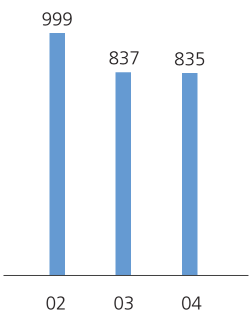


Information and Communications

Principal Products
PCs, printers, personal digital assistants (PDAs), broadcast and professional-use audio/video/monitors and other professional-use equipment

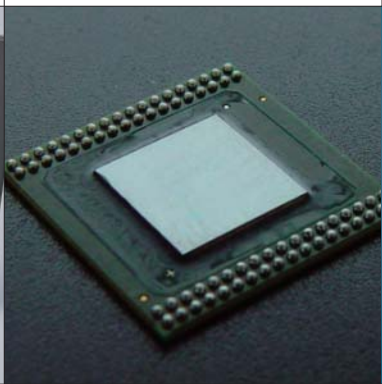
Fiscal Year in Review
Sales decreased 0.2%. Although the VAIO PC performed well, sales of CLIÉ PDAs fell due to increasingly intense competition, particularly in the U.S. market.

Sales to Outside Customers
(Billion ¥)
(Year ended March 31)



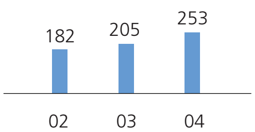
Semiconductors

Principal Products
LCDs, CCDs and other semiconductors



Fiscal Year in Review
Sales climbed 24%, reflecting strong demand for CCDs, mainly for use in digital still cameras.

Sales to Outside Customers
(Billion ¥)
(Year ended March 31)

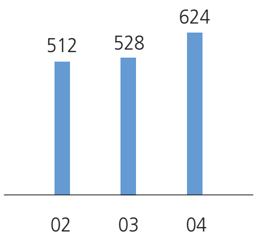


Components

Principal Products
Optical pickups, batteries, audio/video/data recording media and data recording systems

Fiscal Year in Review
Sales rose 18%, mainly owing to higher unit sales of PC optical disc drives and lithium-ion batteries, primarily for PCs.

Sales to Outside Customers
(Billion ¥)
(Year ended March 31)

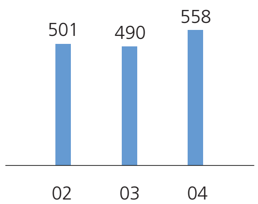


Other

Principal Products
Aiwa products, entertainment robots, cellular phones (mainly sold to Sony Ericsson), and products and services not included in other categories

Fiscal Year in Review
Sales increased 14%, mainly as a result of increased sales of cellular phones, which benefited from increased demand for camera-equipped models in Japan and Europe.

Sales to Outside Customers
(Billion ¥)
(Year ended March 31)



At a Glance:
Operating Performance Highlights

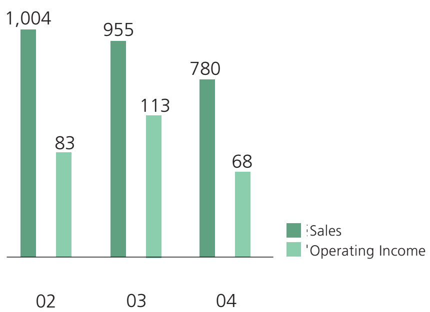
Game

Description of Business
Game consoles and software business is conducted by Sony Computer Entertainment Inc.

http://www.sony.net/games/

Fiscal Year in Review
- Segment sales fell 18%, as sales of hardware and software decreased compared with the previous period.
- PS2 hardware sales decreased, owing to a decline in PS2 unit sales and strategic price reductions for PS2 consoles. An increase in unit sales and revenue of PS2 software was outweighed by a decrease in the volume and value of PlayStation software sales.
- Operating income decreased 40% owing to an increase in research and development expenses for future businesses and the decline in hardware sales.
- PS2 hardware production shipments: 20.1 million units.
- PS2 software production shipments: 222 million units.

Sales and Operating Income
(Billion ¥)
(Year ended March 31)



Music

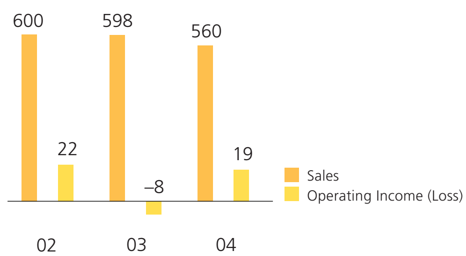
Description of Business
Music business is conducted by Sony Music Entertainment Inc. (SMEI) and Sony Music Entertainment (Japan) Inc. (SMEJ).

http://www.sony.net/music/


EVANESCENCE

Fiscal Year in Review
- Segment sales declined 6%.
- Sales at SMEI, on a U.S. dollar basis, were flat compared with the previous period. The appreciation of European currencies contributed to higher sales outside the U.S., although this effect was offset by lower sales in the U.S. Sales at SMEJ were flat amid challenging market conditions.
- SMEI recorded operating income as it reaped the benefits from the worldwide restructuring measures implemented over the past two years and from a reduction in advertising and promotion expenses. Operating income at SMEJ increased due to a reduction in selling, general and administrative expenses, primarily advertising and promotion expenses, and strong sales of recordings by Japanese artists.

Sales and Operating Income (Loss)
(Billion ¥)
(Year ended March 31)

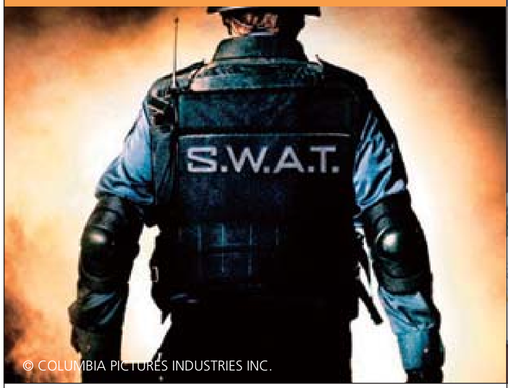


Description of Business

Motion pictures, television and other businesses are conducted by Sony Pictures Entertainment Inc. (SPE).

Pictures

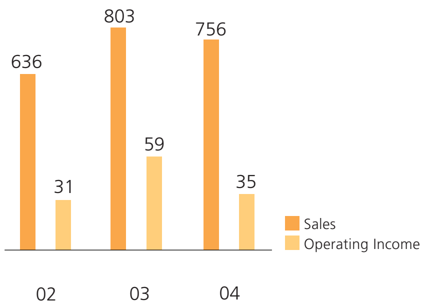
http://www.sony.net/movies/



Fiscal Year in Review

- Segment sales decreased 6% compared with the previous year, although U.S. dollar-denominated sales edged up 2%, representing a new record for SPE. This increase was led by growth in television revenue.
- Television revenue rose significantly due to contributions from *The King of Queens, Seinfeld* and *Wheel of Fortune.*
- Operating income fell 40%, despite an increase in operating income from television, primarily owing to the absence of profits contributed by the hit film *Spider-Man* in the previous year.

Sales and Operating Income
(Billion ¥)
(Year ended March 31)



Description of Business

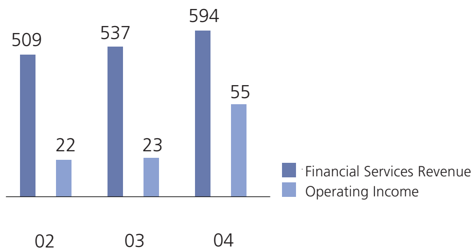
The Financial Services segment includes Sony Life Insurance Co., Ltd. (Sony Life), Sony Assurance Inc., Sony Bank Inc. and Sony Finance International, Inc.

Financial Services

Fiscal Year in Review

- Segment revenue rose 11%, reflecting an improvement in valuation gains and losses from investments at Sony Life.
- Operating income soared 142%, owing to an improvement in valuation gains and losses from investments in the general account at Sony Life.

Financial Services Revenue and Operating Income
(Billion ¥)
(Year ended March 31)



Description of Business

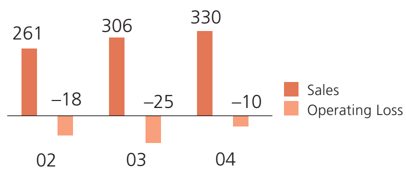
The Other segment includes an Internet-related business, So-net, which is conducted by Sony Communication Network Corporation, an in-house information system services business, an IC card business and other businesses.

Other

Fiscal Year in Review

- Segment sales increased 8%, owing to higher sales by in-house information system services business and by the IC card business.
- Operating loss declined as a result of a one-time gain on the sale of rights related to a portion of the Sony Credit Card portfolio by a U.S. subsidiary.

Sales and Operating Loss
(Billion ¥)
(Year ended March 31)



Convergence – A Key to Sony's

With a strong foundation in semiconductor technologies, and with the convergence of home and mobile electronics, Sony is continuing to produce the most fascinating consumer brand goods in the world

Sony is implementing a growth strategy for its electronics business by refining the definition of home and mobile electronics. Semiconductors and other key components, which support the development of new products, are vital both for differentiating Sony's products from those of its competitors and sustaining growth. Through the continued evolution of these key components and their utilization in the development of attractive new products, Sony aims to maintain its allure as the world's most fascinating consumer brand.

Constant Transformation

Broadband will accelerate the convergence of electronics and entertainment

Undoubtedly, broadband will be at the forefront of the unfolding digital age. The creation of seamless networks that allow the increasing interconnectivity of digital consumer electronics will lead to a world of unparalleled consumer convenience, satisfaction and even surprise. As one of the few companies in the world to be involved in both the electronics and entertainment industries, Sony intends to take advantage of its unique position to actively pursue the convergence strategies. By utilizing these new networks, and through the development of completely original media and services, Sony aims to make entertainment an even more inspiring experience.

The convergence of pictures and music entertainment: Redefining Sony as a global media and content company

In addition to the convergence of its electronics and entertainment businesses, Sony is acutely aware of the importance of transcending the traditional boundaries of pictures, music and other areas within the entertainment business itself. By linking up these various kinds of entertainment services, and thus creating even more attractive entertainment content, Sony aims to position itself as the world's leading global media and content company.

Ken Kutaragi, Executive Deputy President, Corporate Executive Officer

Home Electronics

The proliferation of broadband networks with television as the hub

Over the past several decades, television has evolved significantly, and it is clear that it will be the hub of the living room in the 21st century

A large screen television is essential for enjoying broadcast programs, movies, games and other entertainment content. Looking back at the evolution of television, it began as a small black and white unit. The advent of color television brought a new level of enjoyment, while the addition of stereo sound has reproduced a striking realism. Today, the flat panel is making large screen televisions possible, while the digitization of images allows for remarkable detail. Television will always be the hub of the living room, which today can be transformed into an entertainment theater or a place to enjoy games.

In the post-CRT television era, Sony is committed to developing a digital television that is equipped with multiple features and acts as the point of contact between people and entertainment

In addition to reproducing high resolution audio and video, digital television enables easy access to various types of entertainment, such as movies, music and games, through IP networks and broadcasts. Sony strongly believes that the television will evolve to become the main point of contact between consumers and entertainment content. In order to be well positioned to offer full-featured advanced televisions, Sony has focused on developing such innovative technologies as Wega Engine and SXRD (Silicon X-tal Reflective Display). Unlike any other company, the Sony Group has an entertainment portfolio comprising motion pictures, music and game, in addition to its electronics business. Through the convergence of these businesses going forward, Sony will continue to strengthen its electronics business.

Just as the introduction of CDs revolutionized how users listen to music, we aim to revolutionize the visual world

More than 20 years ago, Sony co-developed the compact disc (CD) with Royal Philips Electronics of the Netherlands. We created an environment where people can easily listen to high-quality audio, which only used to be possible at recital halls or other live concert venues. Looking ahead, similar changes are about to unfold in the visual realm. As television shifts from analog to digital, the quality of image will evolve to high-definition. Viewers will not only enjoy true natural colors but also be immersed in an overwhelming sense of realism. Sony's goal is to accelerate the visual revolution at home through digital television.

The home server's role—to enable the enjoyment of entertainment anywhere in the home

There will soon be a time when high resolution, large screen, thin flat panel televisions are common not only in the living room but also throughout the home. The home server's role will be to distribute movies, music, games and other types of entertainment to each of these flat panel televisions. The home server will store a variety of entertainment that can be downloaded or streamed through the network, then broadcast and distributed to the various consumer electronics within the home. It will also act as a network server, distributing digital photographs and videos to friends anywhere in the world via the Internet. The DVD recorder with a hard disk drive, which was introduced in the fiscal year ended March 31, 2004, is a precursor to the home server with its large storage capacity. Future DVD recorders will incorporate such advanced technologies as Blu-ray Disc and the new microprocessor for the broadband era, Cell, and will evolve into a device capable of acting as a home server. Along with multi-function digital television, it will become a core element of broadband network systems within the home.

Super Audio CD/DVD

DVD recorder Sugoroku

The evolution of rear-projection television

In the fiscal year ended March 31, 2004, Sony's Grand Wega LCD rear-projection television, particularly the larger models with 60 inch to 70 inch screens, was a huge success in the U.S. market. Two key reasons for its popularity were its larger screen and lower power consumption.

In the fiscal year ending March 31, 2005, Sony will introduce a newly developed high resolution digital cinema projector equipped with the newly developed SXRD, a high resolution LCD display device, in the U.S. market. It will be marketed as a commercial-use projector, targeting cinemas and multi-purpose halls, where there is a strong demand for higher resolution images. In the future, Sony plans to incorporate this device into its household LCD projection televisions.

Grand Wega

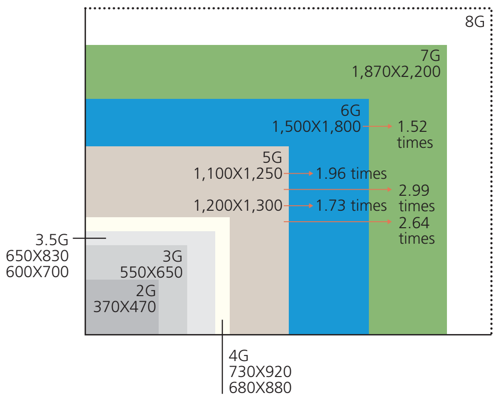
Sony and Samsung Electronics establish S-LCD Corporation to jointly mass-produce large size LCD panels

Sony is laying the groundwork to mass-produce large size LCD panels, a technology considered to be one of the most important display technologies of the post-CRT television era. Sony and Samsung Electronics Co., Ltd., have collaborated to establish S-LCD Corporation. The joint venture will begin manufacturing the seventh-generation amorphous silicon TFT LCD display panel, which is primarily intended for large size flat panel televisions, in April 2005. The glass substrate for these seventh-generation panels measures 1,870mm x 2,200mm. Each substrate is expected to produce six large panels for 46 inch televisions, twice as many as the preceding generation*. These substrates, along with other technologies, will allow for a highly efficient production process. By establishing a stable supply of panels over the foreseeable future, Sony intends to actively develop products for the LCD television market, which is expected to grow steadily in the years ahead.

* Compared to sixth-generation amorphous TFT LCD substrates

Overview of S-LCD

Capital:	2.1 trillion won (Samsung Electronics: 50% +1 share, Sony: 50% –1 share)
Location:	Tangjeong, Republic of Korea
Product:	Amorphous silicon TFT LCD display panel (principally for large screen televisions)
Capacity:	60,000 panels per month



Comparison of different generations of glass substrates
(Unit: mm)


Shizuo Takashino, Executive Deputy President, Corporate Executive Officer

Mobile Electronics

Control the pocket, control the future: Sony's core concept in mobile consumer electronics

Once products are reduced to pocket size, demand for them skyrockets

Walkman changed how people enjoy music. Similarly, the video camera and the digital still camera have transformed the recording of images into something anyone can enjoy. The conclusion is clear: In the consumer electronics sector, converting products into portable formats can spawn entirely new markets. Sony's products in the forefront of the mobile electronics market include the video camera Handycam, the digital still camera Cybershot, the portable audio Walkman and the VAIO notebook PC.

In the fiscal year ended March 31, 2004, Cybershot DSC-T1 garnered the top share in Japan's digital still camera market, while in the U.S., DVD Handycam was a huge hit. Video cameras and digital still cameras are making large contributions not only to Sony's sales but also to its profitability. These accomplishments are not due to smaller size and weight alone. By incorporating internally manufactured key components, such as LCDs, batteries and CCDs, Sony is also reducing production costs while offering products that differentiate it from competitors.

Sony's core concept in mobile electronics is "control the pocket, control the future." The Walkman is irrefutable proof that downsizing a device to pocket size can spark explosive growth in a product category. Sony is dedicated to devising new ideas for mobile electronics that can alter lifestyles through products that give customers new forms of excitement.

Tape recorders, radios and radio cassette players are all examples of product categories that are generally viewed as mature. Sony is retaining high market shares and profitability in these markets. At the same time, Sony is creating new markets by launching many products incorporating revolutionary technologies. Illustrating this drive is the Hi-MD Walkman, which went on sale in April 2004. This product transforms the MD into a versatile recording medium for the broadband era by offering large storage capacity and outstanding sound quality. Other features include high compatibility with PCs and advanced copyright protection technology.

Delivering impressive images—Another central role for Sony in mobile electronics

Sony's DVD Handycam has been a huge hit in the U.S., as it offers the user the convenience of being able to immediately play back recordings on a DVD player. The second model in this series, which is even smaller than the first and embodies a new concept for disc-based video cameras, has already been launched in Japan and is beginning to appear in markets around the world. Attention is now turning toward high-definition (HD) video cameras. Sony is currently working toward the global launch of this product, accelerating the transition from standard-definition (SD) to HD cameras. For digital still cameras, the focus is on unique features with the unmistakable "Sony touch," such as low power consumption, large displays, slim profiles and a rotating lens. Equally important is further progress in resolution and overall picture quality.

Chapter 2 of the VAIO business: The quest for a world in which quality pictures and sound can be enjoyed easily through networks

Since its introduction, the VAIO PC has carved out a new market as a PC with enhanced audio and visual (AV) functions, making it easy to enjoy video, audio and other forms of content. Today, as broadband networks are creating demand for new ways to enjoy such content through networks, Sony has responded by taking VAIO to the next level. In addition to the basic PC functions, VAIO is now equipped with cutting-edge imaging technologies that deliver a dramatic improvement in picture and sound quality, enabling it to be enjoyed as an AV device. Moreover, portability is enhanced, owing to a more compact size, lighter weight and lower power consumption. VAIO also offers the ease of operation that users expect from a mobile consumer electronics product. Sony is introducing network AV products that function as portable music players, taking the VAIO brand into new business domains.

Portable music player VAIO pocket

PC VAIO type U

Hi-MD format

Hi-MD is a next generation format that transforms the MD into a recording medium suitable for a variety of applications. In addition to functioning as a conventional MD recorder, the Hi-MD Walkman has a Hi-MD recording mode that approximately doubles recording capacity. With a Hi-MD disc, which holds an enormous 1 GB of data, up to about 45 hours* of music can be stored. The Hi-MD mode recordings are encrypted with OpenMG for copyright security. Designed for compatibility with a PC, the Hi-MD is also a rewritable medium that can be used to store text, as well as visual and many other types of data, opening up more potential applications for this new format.

* Recording time from a PC using ATRAC3plus at 48 kbps to a 1 GB Hi-MD disc.

Hi-MD Walkman

Sony Ericsson

Established on October 1, 2001 as a 50-50 joint venture between Sony Corporation and LM Ericsson, Sony Ericsson Mobile Communications AB combines the strengths of Sony in the areas of consumer electronics, games, pictures and music with Ericsson's leading mobile telecommunications technologies. During the fiscal year ended December 31, 2003, Sony Ericsson significantly increased sales and became profitable. By improving supply chain management and increasing operational efficiencies and expanding its product portfolio, it has laid a solid foundation for the company's future growth.

As users increasingly demand more sophisticated ways to communicate with others, the multi-functionality of cellular phones has evolved rapidly. By offering a wide range of innovative cellular phones accessories, Sony Ericsson's cellular phones excel in the areas of easy-to-use mobile imaging, messaging, entertainment and connectivity. The T610, for example, has consistently shown strong sales in all Global System for Mobile Communications (GSM) markets and was one of the most popular cellular phones in 2003, winning a string of awards including the GSM Association's Best Cellular Phone Award. In the Japanese market, the company bolstered its market position through the popularity of megapixel camera phones, SO505i/iS for NTT DoCoMo Inc., and A5404S for KDDI Corporation. In addition, Sony Ericsson's first 3G video phone, Z1010, is already rated as the best 3G phone in the markets where it is sold. Sony Ericsson has also unveiled Z500, the first camera phone equipped with true EDGE technology which enables faster data transmission speeds. It also features push-to-talk two-way radio-style communication possibilities.

Z1010

S700

SO505iS

A5404S

Game

PlayStation 2

Building on the PlayStation platform to create a new world of computer entertainment

PlayStation: The first home-use game console to ship a cumulative 100 million units worldwide

In May 2004, Sony Computer Entertainment Inc. (SCE)'s PlayStation (PS) became the first home game console to surpass the 100 million unit mark in cumulative global production shipments for first generation PS and PS one. Launched in Japan in December 1994, PS made its way to North America and Europe in 1995 and soon after to Asia, Middle East, Africa, Oceania, and Central and South America. Today, PS is available in nearly 120 countries and regions around the world. Additionally, more than 7,300 PS software titles have been marketed globally as of March 31, 2004, with production shipments of game software reaching a cumulative total of 949 million units.

PlayStation appeared in Japan in December 1994, and it has gradually amassed worldwide popularity

PS one, a lighter, more compact version of the PlayStation, debuted in 2000.

Cumulative Production Shipments of PlayStation Hardware by Geographic Region

(as of May 18, 2004)

Japan and Asian region	20.72 million units	(Launch date: Dec. 3, 1994)
North America	39.67 million units	(Launch date: Sept. 9, 1995)
Europe (PAL region)	39.61 million units	(Launch date: Sept. 29, 1995)
Cumulative total worldwide	100.00 million units	

*Includes combined cumulative production shipments for PlayStation and PS one.

With an extensive and appealing software lineup, PS is known to a broad range of users around the world as the standard household gaming platform. This year marks a full decade since PS was first introduced. A long product cycle and worldwide availability have enabled PS to far surpass all preceding game platforms.

PlayStation 2: New ways to enjoy the console as popularity continues to soar

Launched in 2000, PlayStation 2 (PS2) had cumulative hardware production shipments of 71.3 million units as of March 31, 2004, with cumulative shipments of PS2 software reaching 572 million units. The fiscal year ended March 31, 2004 was a record-breaking year for production shipments of PS2 software, with 222 million units shipped. A steady stream of compelling game software is also expected to hit the market during the current fiscal year and beyond. Now entering its fifth year, PS2 has become the global standard and is, undoubtedly, the household game console of the moment. Due to further penetration of PS2 in the worldwide game market, both SCE and other game software developers/ publishers expect the peak years of the PS2 software business to continue.

The fiscal year ended March 31, 2004 saw a number of hit titles emerge from both SCE and other game software developers/publishers. One was *EyeToy: Play*, which was published by SCE and shipped over 3 million units. Also during the past fiscal year, additional software has been introduced that makes possible new ways to enjoy the PS2 platform, including online games and software with new user interfaces.

In Japan, North America, Europe and the Republic of Korea, the development of game software for online gaming is continuing apace. As of March 31, 2004, a cumulative total of more than 3.6 million units of network adapters for PS2, which are required for online play, had been sold worldwide. The number of titles available with online gaming capability has reached approximately 140 worldwide. In recent years, game software has been extremely well received, and has been successful at attracting many new users, by creating features that allow users to enjoy PS2 in many new ways including USB cameras, used with *EyeToy: Play*, and drum-style controllers, used in the *Taiko no Tatsujin* series created by NAMCO Ltd. These new interfaces are also playing a major role in attracting new PS2 users.

SCE will continue to propose various new ways to enjoy PS2, helping it gain further ground as the standard game platform among a wide range of users.

PlayStation Portable (PSP), handheld video game system, to be launched

SCE is planning to roll out a handheld video game system called PlayStation Portable (PSP) in Japan in late 2004. PSP is scheduled to be shipped in the U.S. and Europe in spring 2005.

PSP has a high-grade TFT LCD screen and will allow users to enjoy game software with 3D computer graphics on a par with PS2 anytime anywhere. PSP's wireless networking capabilities will give users access to online gaming and permit various PSP units to be linked up into a wireless network—a feature that should greatly expand available options for playing games. The medium chosen for PSP content is UMD (Universal Media Disc) —Sony's newly developed ultra-compact optical disc. UMD can store up to 1.8 GB of digital data and is equipped with the latest copyright protection technology. This allows UMD to be used not only for encoding game software with dynamic moving images but also for movies, music and other digital content.

SCE intends to promote both PSP and UMD as new entertainment platforms, giving even more people worldwide the opportunity to experience the joy of portable entertainment.

PlayStation Portable (PSP)

Universal Media Disc (UMD)

Generating a new computer entertainment system

By providing advanced technologies in the form of development tools and middleware necessary for the development of new computer entertainment, SCE is continuing to enhance the environment for creating new content and further stimulate creativities of game creators.

SCE continues to work on further increasing the popularity of the PS and PS2 platforms. At the same time by aggressively promoting PSP, which is scheduled for launch in late 2004, SCE will introduce an even more extensive and more appealing lineup of software. SCE is also dedicated to stimulating further development and growth of the game market and developing an entertainment market beyond its conventional boundaries.

Proposing new modes of play—*EyeToy: Play*

SCE released *EyeToy: Play*, a software title that provides a whole new way to enjoy the PS2 computer entertainment system, in July 2003 first in Europe and then, subsequently, in other regions. Through a USB camera, which connects to the PS2 console, this software allows players to use their hands, legs and heads to interact with the game, by placing them on the screen. This hit title has sold more than 3 million units worldwide, playing a major role in attracting new users to PS2. SCE and other game software developers/publishers are planning to launch a stream of titles compatible with the *EyeToy* USB camera.

EyeToy: Play

EyeToy camera

Entertainment

Howard Stringer, Vice Chairman, Corporate Executive Officer

Motion Picture & Artwork © 2004 Columbia Pictures Industries, Inc. All Rights Reserved.
Spider-Man Character ® & © 2004 Marvel Characters, Inc. All Rights Reserved.

Embracing the Sony spirit, entertainment businesses drive the digital age forward to offer 21st century experiences

Capitalizing on the strength of Sony's core assets – content and devices – the entertainment businesses have embraced a convergence philosophy and are successfully driving the digital age forward. We are creating new forms of content and services to deliver consumers the 21st century entertainment experiences they desire. At the same time, we remain focused on current and future profitability by strengthening our core businesses and pursuing growth opportunities, and by continuing restructuring efforts to reduce costs and gain efficiencies.

Our positive momentum is a true testament to our new executive leadership at Sony Music Entertainment Inc. (SMEI) and Sony Pictures Entertainment Inc. (SPE). Both SMEI Chairman and CEO Andrew Lack and SPE Chairman and CEO Michael Lynton are utilizing their extensive business experience, financial discipline and creativity to evolve their companies, to develop new opportunities and to facilitate cross-company collaboration.

In the fiscal year ended March 31, 2004, Sony's entertainment divisions took steps to improve profitability through a discerning approach to content development and the successful execution of cost-saving initiatives. Significant savings were achieved through overhead reductions, streamlined shared services, consolidated buying and more effective marketing and promotional spending. Moving forward, we expect to generate additional savings by continuing to evolve more efficient business models.

To stimulate revenue growth, Sony's entertainment businesses are leveraging new distribution platforms by expanding our valuable content libraries, digitizing existing content to license to emerging mobile and broadband services, and creating unique content for new and exciting channels and formats.

Sony is also fostering innovative digital content services, such as the Connect online music store; SoapCity® for soap opera video-on-demand; and Sony Music Mobile for ringtone and music

A music store for the digital age

In May 2004, Sony launched the Connect music store in the U.S., offering consumers an easy-to-use, affordable and secure means of purchasing music online for download to a wide variety of Sony portable electronic devices. Customers can choose from hundreds of thousands of music tracks from all major and many independent music labels. Music fans can purchase singles for 99 cents and albums starting at $9.99. In the U.S. alone, Sony has sold more than 2.5 million Walkman-branded devices that are already compatible with the Connect store. By the end of 2004, that number is expected to increase to nearly 7 million. In addition to Hi-MD Walkman digital music players, other compatible devices include Net MD Walkman recorders, ATRAC CD Walkman players and Network Walkman players. This year Sony expects to introduce a Connect-compatible pocketsize hard disc drive Walkman device that will hold up to 13,000 songs and provide a 30-hour battery life. In Europe, the Connect store launches in summer 2004 in France, Germany, and the United Kingdom.

video downloads. In addition to generating revenues for Sony, these services provide distribution opportunities for artists along with greater convenience and flexibility for consumers.

Moreover, Sony's entertainment companies are positioning themselves for the next generation of media distribution and content creation. For example, SPE's home entertainment group plans to distribute its movies in the Blu-ray Disc format for storing high definition movies and other digital content. Similarly, we are looking forward to expanding the consumer experience and generating additional revenues through the distribution of content in the new UMD optical disc format for Sony's new handheld video game system PSP which will play games, music and video.

Sony's entertainment companies are proud to be playing such an important role in shaping the future of digital entertainment for consumers. We are continuing to create personalized entertainment experiences that can be enjoyed anywhere at anytime – offering consumers choice, innovation, flexibility and control.

MUSIC BUSINESS

A transformation is under way, driven by talent development and distribution on emerging new platforms

Under the direction of Chairman and CEO Andrew Lack, SMEI returned to profitability in the fiscal year ended March 31, 2004, realizing the benefits from worldwide restructuring activities that included the streamlining of manufacturing, distribution and support functions and the consolidation of label services. At the same time, SMEI is currently investing resources to further cultivate U.S. and worldwide talent development.

In addition, in December 2003 Sony and Bertelsmann AG entered into a binding agreement to combine their recorded music businesses in a joint venture. The newly formed company, to be known as Sony BMG, will be 50% owned by each parent company. Sony BMG will combine the recorded music businesses of BMG and Sony Music Entertainment (but not the parent companies' businesses in music publishing, physical distribution and manufacturing, or Sony Music Entertainment Japan Inc. (SMEJ)). The merger is expected to close in summer 2004, following receipt of regulatory approvals in the United States and the European Union.

Currently, Sony's music business continues to succeed on a global scale, supported by top 2003 releases such as *Dangerously In Love* by Beyoncé; *Fallen* by Evanescence; *In This Skin* by Jessica Simpson; and *Heavier Things* by John Mayer. Some other notable current and upcoming releases contributing to SMEI's momentum include titles by Prince, George Michael, Destiny's Child, Good Charlotte, Jennifer Lopez, System of a Down and Shakira.

SMEI is continuing to focus its resources on developing U.S. and worldwide talent. One of the primary efforts in this ongoing project is the newly established Sony Urban Music, which is exclusively dedicated to nurturing

Beyoncé
Beyoncé's multi-platinum debut solo album, *Dangerously In Love*, earned five 2004 Grammy Awards, the most Grammys won in a single year by a female artist, including Best Contemporary R&B Album and Best R&B Song for "Crazy In Love."

Delta Goodrem
"Born To Try," the first single from Delta Goodrem's debut album, *Innocent Eyes*, went to number one in Australia and New Zealand. The second single, "Lost Without You," debuted at number one in Australia. *Innocent Eyes* entered the Australian charts at number one and spent 29 weeks there, spawning five number one singles.

John Mayer
John Mayer's second album, *Heavier Things*, debuted at number one on Billboard's Top 200 Albums chart and has sold more than two million units since its release in September 2003.

Prince
Celebrating the 20th anniversary of *Purple Rain*, Prince recaptured the public's acclaim with a spectacular performance at the 2004 Grammy Awards, his induction into the Rock and Roll Hall of Fame, and a historic world tour.

PornoGraffitti
This group's popularity is rooted in its ability to combine pop melodies with rich vocals. Live performances never fail to draw enthusiastic fans. On July 28, 2004, PornoGraffitti will release its first double-album of best hits.

Crystal Kay
Crystal Kay is a captivating artist who, after debuting at age 13, is now in her fifth year of performing. Known for her dedication and sincerity, Crystal has an unforgettable voice. On June 30, 2004, SMEJ released *CK5*, an album composed mainly of songs that commemorate the fifth anniversary of Crystal's debut.

and developing urban talent on behalf of the company's labels and divisions. This group has recently worked with such top artists as Lil' Flip, Jagged Edge and Bow Wow. The music business also remains committed to fostering local acts throughout the world and bringing these artists to the international stage. Such Sony artists as La Oreja de Van Gogh (Spain), Delta Goodrem (Australia), Jay Chou (Taiwan) and Garou (Canada) are achieving international acclaim.

Additionally, SMEI has intensified its efforts to make Sony content available through a broad array of emerging distribution platforms, including legal digital services in the U.S. and Europe, as well as various mobile phone services. The music company has established distribution agreements with a wide range of online services and is currently working with partners to make master ringtone versions of its most popular hit tracks available for sale to mobile phone customers. Currently, SMEI offers master ringtones for sale in more than 15 countries, including the United States, the United Kingdom, France, Belgium, Spain, Portugal, Italy, Sweden, Hungary, Australia, Germany, the Netherlands, Norway, Taiwan, New Zealand and Hong Kong, with more partners and territories being added each quarter.

SMEI is also continuing its work with the Recording Industry Association of America (RIAA) and the International Federation of the Phonographic Industry (IFPI) on the industry's anti-piracy efforts, and has led the industry in the development of an innovative initiative known as the Campus Action Network (CAN). CAN is designed to help colleges and universities across the country launch legal online music services and combat illegal file-sharing on campus.

SMEJ has long maintained a leadership position in the Japanese music industry through its recording, music publishing, artist management and other related businesses. In the fiscal year ended March 31, 2004, although the Japanese market experienced an overall double-digit decline in sales, SMEJ posted higher sales and earnings. Releases from such leading artists as CHEMISTRY, Mika Nakashima, ORANGE RANGE and SOUL'd OUT helped bolster SMEJ's record business. SMEJ's network service business is continuing its growth, primarily through the strength of the Chaku-Uta® mobile phone master ringtone download service, which is expected to be a major contributor to revenues moving forward.

SMEJ plays a pivotal role within the music industry by helping protect copyrights. In an effort to stem the industry-wide problem of unauthorized copying of CDs, SMEJ is distributing CDs with a unique technology to control copying, known as Labelgate CD 2.

Taking the music library to mobile phone users

Ringtone sales have become a burgeoning market for the music industry and a promising new revenue stream for SMEI. Sony Music currently offers fans clips of actual song recordings, known as master ringtones, as well as monophonic and polyphonic ringtones, digital voice ringers recorded by celebrities, prepaid cards, sound effects, wallpaper images, song dedications, mobile karaoke and imaging services. SMEI has been collaborating with wireless service partners around the world to sell the ringtones of its most popular hit tracks. SMEI was also the first major music company to offer master ringtones in the U.S. through a partnership with Sprint, one of the leading U.S. wireless carriers. Through its Sony Music Mobile Group, the music company supplies mobile products and services in more than 15 countries and develops a number of unique product lines. Among them are Sony Music Box, a next generation on-handset content browsing service; RUNpics, a leading mobile imaging service; and Front Row by Sony Music, a downloadable service featuring news and previews of music, artists and releases.

The Chaku-Uta® mobile phone ringtone download service

In Japan, the rising popularity of third-generation mobile phones is sparking rapid growth in demand for SMEJ's Chaku-Uta®, which allows users to use a CD passage as a ringtone. These downloads have grown into a ¥10 billion market just one year after the rollout of this service. To become the first in the world to launch a service of this type, SMEJ drew mainly on the resources of Label Mobile Inc., a company formed with four other major record companies. Today, Chaku-Uta® is the largest ringtone service in the industry.

PICTURES BUSINESS

Vision and creativity enable Sony to build a leadership position for the digital future

SPE Chairman and CEO Michael Lynton and his talented team are strengthening the motion picture, television and digital divisions through a disciplined approach to content development and by enhancing the value of Sony Pictures' vast library of films and television programs. Emerging new formats and distribution channels also continue to serve as a catalyst for SPE to explore and develop unique business opportunities.

Under SPE Motion Picture Group Chairman Amy Pascal, the motion picture group has continued its strong performance by releasing a broad portfolio of films via multiple distribution labels including Columbia Pictures, Screen Gems and Sony Pictures Classics, as well as Revolution Studios. For the second consecutive year, SPE has generated ticket sales in excess of $1 billion in each of the U.S. and international markets. Success in the fiscal year ended March 31, 2004 was fueled by releases such as *Bad Boys II*, *S.W.A.T.*, *Anger Management*, *Something's Gotta Give* and *50 First Dates*. With a slate led by the much anticipated summer 2004 release of *Spider-Man 2*, SPE is poised for another outstanding year at the box office. In addition, SPE will continue to capitalize on the rapidly growing worldwide home entertainment market by generating revenue from both new releases and its library of more than 4,000 films.

The television group had an exceptional year in 2003. Employing a creative and economic approach to program development, the television production business successfully launched *Joan of Arcadia* in 2003, one of the highest-rated new shows on U.S. prime time television. Syndication sales such as the record-setting third cycle syndication of *Seinfeld*, and the ongoing success of game shows such as *Wheel of Fortune* and *Jeopardy!* and daytime dramas such as the Emmy award-winning *The Young & the Restless* and *Days of Our Lives* also continue to contribute significantly to SPE's profitability.

Internationally, SPE continues to expand its local television programming production and to enhance the value of its international library. Building on its investments in more than 35 networks, SPE is extending its AXN and Animax network brands through new launches in important territories.

Developing new revenue streams through its digital businesses is a priority for SPE. With nearly 1,700 films and television programs already digitized, SPE is well-prepared to offer its library to new distribution outlets. Moreover, SPE plans to support the launch of the PSP portable player and the Blu-ray high definition formats. Having established a leading position in digital effects and animation through Sony Pictures Imageworks, SPE looks to extend further into digital content with Sony Pictures Animation, its new animation unit that will develop and produce all-computer generated feature films.

On the cutting edge of all aspects of digital entertainment, SPE continues to work closely with the Motion Picture Association of America (MPAA) on efforts to combat piracy and to protect its content around the world.

Sony Pictures Imageworks moves forward with IMAGEMOTION™

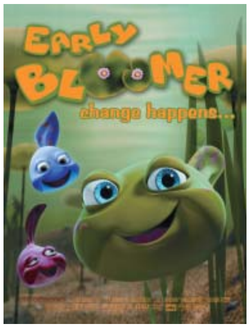
Sony Pictures Imageworks is advancing to the next level of digital content creation with IMAGEMOTION™, the new proprietary performance-motion-capture system developed for the movie *The Polar Express*, starring Tom Hanks and directed by Robert Zemeckis. Imageworks is well known as an award-winning visual effects and character animation facility responsible for the groundbreaking visual effects in such films as *Spider-Man*, *Spider-Man 2*, *Stuart Little*, *Bad Boys II*, *Cast Away*, *Harry Potter and the Sorcerer's Stone* and the Academy Award®-winning CG-animated short film *The ChubbChubbs!*.

IMAGEMOTION™ is a revolutionary system capable of simultaneously recording high-fidelity facial and body motions of many actors in a particular scene. This technology enables creation of computer-based characters with remarkably realistic facial expressions and human motions. Currently, a number of projects are under development at Imageworks, many of which utilize the IMAGEMOTION™ process. Imageworks will continue to invent cutting-edge technologies and produce groundbreaking visual experiences for the next generation of digital entertainment.

Big Fish

Tim Burton's *Big Fish*, released in 2003, is the heartwarming tale of the fabled relationship between a storytelling father and his estranged son, who is trying to separate fact from fiction and come to terms with his father's great feats and great failings.

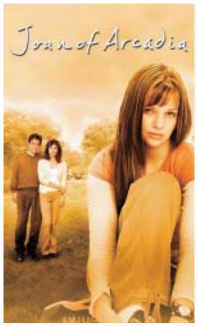
Motion Picture & Artwork © 2003 Columbia Pictures Industries, Inc. All Rights Reserved.



Early Bloomer

Early Bloomer, a CG animated short film, is a comical coming-of-age tale about an awkward, but adorable, tadpole just trying to fit in and keep up with his mischievous and playful friends.

Motion Picture © 2003 Sony Pictures Imageworks Inc. All Rights Reserved.



Joan of Arcadia

Joan of Arcadia is an hour-long drama that follows sixteen-year-old Joan Girardi (Amber Tamblyn) as she struggles with the uneasy life of a teenager, further complicated when God visits her through a variety of different people. Although she initially questions her sanity, Joan eventually follows His advice, finding truth in the old adage that "God works in mysterious ways."

Television Series © 2003, 2004 Sony Pictures Television Inc. and CBS Broadcasting Inc. All Rights Reserved.

Spider-Man 2

Two years have passed since Peter Parker walked away from his longtime love and decided to shoulder great responsibility as Spider-Man. In *Spider-Man 2*, Peter faces new challenges as he struggles to balance his dual identities as Spider-Man and a college student. The relationships he holds most dear are in danger of unraveling as he clashes with a powerful, multi-tentacled villain.

Motion Picture & Artwork © 2004 Columbia Pictures Industries, Inc. All Rights Reserved. Spider-Man Character ® & © 2004 Marvel Characters, Inc. All Rights Reserved.

S.W.A.T.

S.W.A.T., a summer 2003 hit, is an explosive action-thriller, inspired by the popular 1970s television series. In the film, an elite law enforcement unit transporting a drug lord to federal prison is pursued by a ruthless and well-armed band of mercenaries trying to free a kingpin for a $100 million reward.

Motion Picture & Artwork © 2003 Columbia Pictures Industries, Inc. All Rights Reserved.

EverQuest II

EverQuest II is currently in development by Sony Online Entertainment Inc. (SOE). *EverQuest II* is the next generation of massive-multiplayer online gaming, allowing hundreds of thousands of online gamers to come together in an immense 3D fantasy world for adventure, excitement and social interaction.

Teruhisa Tokunaka, Executive Deputy President,
Representative Corporate Executive Officer

Financial Services

A new financial holding company integrating life insurance, non-life insurance and banking functions, and offering high added-value products and high-quality services

Sony Financial Holdings

Sony established a financial holding company, Sony Financial Holdings Inc., on April 1, 2004

On April 1, 2004, Sony established Sony Financial Holdings Inc. (SFH) to oversee the operations of Sony Life Insurance Co., Ltd. (Sony Life), Sony Assurance Inc. (Sony Assurance) and Sony Bank Inc. (Sony Bank). With this move, SFH became the first financial holding company in Japan to integrate three financial services under one umbrella: life insurance, non-life insurance and banking.

Unlike other Sony Group businesses, a growth in our financial services business brings a concurrent increase in the volume of assets deposited by customers. As of March 31, 2004, total assets of Sony's Financial Services segment stood at approximately ¥3,475.0 billion, a 20% increase compared to the end of the previous fiscal year, as these businesses continued to expand. The financial services market in Japan is changing due to factors such as a decreasing birth rate, a rapidly aging population and advances in information technology. These trends are expected to generate even greater diversity in customers' lifestyles, and consequently in the financial products they require.

To respond quickly and accurately to these changes, we decided that the Sony Group's financial services business needed to adopt a holding company structure that further concentrates specialized knowledge and operational resources believing that such a structure would better enable the Group to develop value-added products and services that enhance customer convenience. Accordingly, we set up SFH as a strategic and creative financial holding company. The aim is to raise the corporate value of financial services businesses by transcending the boundaries of life insurance, non-life insurance and banking, creating a unified platform for the diverse functions of savings, investment, borrowings and protection.

Promoting extensive disclosure for the financial services business
Increasing the corporate value of the entire Sony Group by raising the value of the financial services business

While preserving the independence of the three financial services from Sony Corporation as a whole, the establishment of SFH allows the provision of a coordinated and comprehensive financial strategy. SFH is confident that this approach will create a sound financial services business and lead to steady growth. Accomplishing this aim will add value to the Sony brand by linking it more closely with security and trust in the eyes of its customers, while at the same time producing earnings that contribute to Sony's consolidated performance.

SFH is also committed to extensive disclosure. By encouraging greater understanding regarding the soundness of its management by customers and investors alike, SFH will strive to become an increasingly trusted provider of financial services.

To reinforce and enlarge its operating foundation, the Sony Group is currently contemplating a public offering of SFH, which would diversify SFH's ability to procure funds to support its growth. It would also facilitate accurate assessment of the value of SFH's business, thereby likely leading to a growth in value of the entire Sony Group.

Strengthening products and services by integrating sales channels and delivering comprehensive financial services that adapt quickly to shifts in market trends

All three Sony financial services companies have an excellent reputation among customers for their ability to offer distinctive products and services. Sony Life is known for its consulting sales centered around a team of highly trained life insurance professionals called Lifeplanners. Sony Assurance conducts direct sales, predominantly by telephone and the Internet, while Sony Bank serves customers mainly through the Internet. We plan to integrate the strengths of these companies while harnessing Sony's spirit of creativity and innovation. This process will allow us to fill in gaps that exist in the customer segments and services of each financial services company.

This integration strategy is already being put into practice. For instance, Sony Life's Lifeplanners introduce automobile insurance services offered by Sony Assurance to their customers. Likewise, the sales team at Sony Assurance recommend the Lifeplanner consulting services of Sony Life. Furthermore, at Sony Bank, Sony Life's group credit life insurance policies are offered to customers who apply for housing loans from Sony Bank. SFH intends to accelerate its integration strategy in order to continue offering competitive, value-added products and services that conventional financial institutions cannot match.

Sony Finance International, Inc.

Sony Finance International, Inc. is involved in the provision of credit card, e-commerce payment processing and leasing operations. In 2002, the company began issuing its eLIO-branded cards, which were created specifically for Internet shopping and incorporated Sony's contactless IC card technology. Efforts to increase the number of member merchants and affiliated partners are supporting steady growth in the number of card members and volume of transactions. As of March 31, 2004, there were about 500,000 eLIO cards and 1 million conventional credit cards, in total about 1.5 million cards issued by Sony Finance International, Inc. Raising the number of eLIO cards issued to 1 million by March 31, 2005 is the next goal. Making the card even more attractive are two additional functions: the ability to serve as e-money for the Edy service of bitWallet, Inc.; and VISA cobranding.

My Sony Card, a credit card created for secure and simple Internet shopping

Sony Life

Sony Life is guided by the slogan "Sony Life Quality." which expresses the company's desire for people to understand that, like any other product, quality is a key element in the life insurance industry.

Customized insurance plans are formulated for each customer by highly trained life insurance professionals called Lifeplannners, or Partners (independent agents), who listen to the customer and offer analysis and consulting based on the their current status, plans and future goals. Sony Life provides policies and protection that best match the needs of each customer over their entire lifetime, ensuring peace of mind and well-being. In the event of an unfortunate occurrence, coverage and other benefits are provided in an accurate and timely manner.

While overall individual life insurance in force in Japan is declining, Sony Life's excellent reputation led to a 5.8% increase in individual life insurance in force during the fiscal year ended March 31, 2004 to ¥26,242.6 billion. Furthermore, the cancellation and lapse rate remained low at 7.4%.

Sony Assurance

Sony Assurance offers fair and meticulously structured individualized policies through its diversified-risk automobile insurance and cancer insurance called SURE, both of which are sold through the Internet and over the telephone. For the fiscal year ended March 31, 2004, steady growth in the number of policyholders continued, resulting in a 27% increase* in net premiums received to ¥31 billion. The number of automobile and cancer insurance policies in force surpassed 500,000. As a result, Sony Assurance recorded operating income for the first time (on a U.S. GAAP basis). Five years since its creation, Sony Assurance is entering the next phase of its operations based on the corporate slogan, "Feel the Difference—A difference that will change insurance." We are working on creating distinctive products and services to achieve this difference and translate it into value for customers.

* Net premium revenues and year-on-year changes at Sony Assurance are calculated on a U.S. GAAP basis. Therefore, these figures differ from the results that Sony Assurance announces on a Japanese statutory basis.

Sony Bank

In an effort to allocate, manage and invest the financial assets of customers to match their individual needs, Sony Bank offers an investment and asset management tool called MONEYKit through its Internet service site. During the fiscal year ended March 31, 2004, the number of accounts at Sony Bank increased 77,666, or 40%, to 268,780, and deposits rose ¥130.1 billion, or 52%, to ¥378.8 billion. Particularly noteworthy were foreign currency deposits, a 24-hour service, which rose 2.2 times, or ¥58.6 billion, to ¥107.2 billion.

Sony Bank is dedicated to maximizing convenience for housing loan customers. For example, Sony Bank offers a loan that eliminates the need to visit a bank office during the entire application and approval process. Furthermore, housing loan customers can use the Internet to easily change the interest rate structure on a loan or make advance repayments. As a result, the balance of housing loans rose ¥39.7 billion, or 2.9 times, during the fiscal year ended March 31, 2004 to ¥60.4 billion.

(as of May 2004)

Other

Internet Service Provider

So-net

The Internet environment in Japan is changing rapidly. At the end of March 2004, out of more than 36 million Internet users currently in Japan, over 14 million are using a broadband connection.

In this climate, Sony is taking steps, through its Internet service business So-net, to offer a comprehensive range of broadband connection and content services.

For example, in April 2004, as part of a service that allows consumers to view Internet web sites on their home television, So-net has pioneered a new way to enjoy television viewing by launching a new service for the location free television Airboard LF-X1. By connecting the Airboard to the Internet, this service allows users to conveniently view a variety of content, including news, weather forecasts, program listings and horoscopes—even while they are watching television.

So-net also supports NetAV*, a distinctive feature of Airboard, which allows users to remotely view television programs and DVD content broadcast from their homes, even when they are overseas.

A web site service for Sony's Airboard LF-X1 location free television

* NetAV is a function made possible through So-net's Dynamic DNS service (recommended). Content viewed through this service is intended for personal use only, and any other use, unless permission is obtained from the copyright holder, is strictly prohibited.

Integrated Circuit (IC) Card Business

FeliCa, Sony's contactless IC card technology, is becoming an essential part of our everyday lives

FeliCa is a contactless IC card that, when placed over an electronic reading device, facilitates the smooth exchange of information. "FeliCa" stems from the word "felicity," which literally means "great happiness." As its name suggests, FeliCa was designed to make daily activities more enjoyable and convenient. Because data on the card can be overwritten many times, the card can be used repeatedly. In addition, the card can store distinct information for, and be accessed independently by, various companies, making it a multiple-purpose card. It also boasts the fastest processing speed in the IC card industry. Through its mutual authentication and data encryption technology, it provides a secure environment for data transmission. Separate access rights can be established for different companies in the card's memory, thus facilitating independent access by multiple companies. As evidence of the high value placed upon these features, FeliCa technology is currently being utilized by a wide range of mass transit systems in Japan, including the Suica commuter pass of East Japan Railway Co., Ltd. (JR East); the ICOCA commuter pass of West Japan Railway Co., Ltd. (JR West); and local bus services.

FeliCa has also been adopted by public transportation systems in Hong Kong, Singapore, China and India. In particular, in Hong Kong, which was the first location worldwide to adopt FeliCa technology, cards based on FeliCa technology can be used in public phones and convenience stores.

FeliCa technology has also been adopted for use in electronic payment systems for the purchase of food and beverages at stores and shopping centers, as well as for ID and access control for corporate offices and schools. In Japan, FeliCa is being employed in the Edy electronic money service, which is operated by bitWallet, Inc., and accepted at more than 9,000 convenience stores and other retail outlets nationwide. Sony Finance International, Inc., also uses FeliCa technology for its credit card, eLIO, which was developed exclusively for Internet shopping. Also, in summer 2004, NTT DoCoMo Inc., will begin selling cellular phones embedded with an IC chip based on FeliCa technology.

Contactless IC card FeliCa

Suica* prepaid commuter pass, valid on all JR East, Tokyo Monorail and Tokyo Waterfront Area Rapid Transit railway lines
Approximately 9 million cards issued to date
*Suica is a registered trademark of JR East.

ICOCA* prepaid commuter pass, valid on all JR West railway lines
Approximately 1.3 million cards issued to date
* ICOCA is a registered trademark of JR West.

ez-link Card (Singapore)
Used on railway, subway and buses in Singapore
Approximately 6 million cards issued to date

ANA Mileage Club Card, Edy card (All Nippon Airways Co., Ltd.)
Can be used to convert air miles into Edy electronic money

Octopus Card (Hong Kong)

Can be used on railway, subway, buses, ferries and other public transportation, as well as for the purchase of goods and as a form of ID
Available in card or watch form
More than 10 million cards issued to date
* Octopus Card and Octopus Watch are registered trademarks of Octopus Cards Limited.

Octopus Watch (Hong Kong)

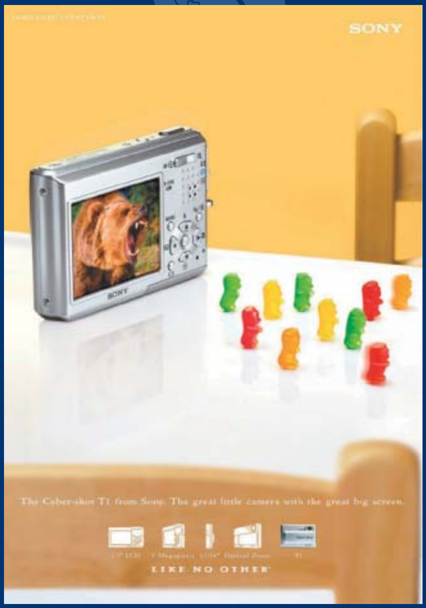
Europe—DVD Handycam

Latin America—Net MD Walkman

Sony's Advertising Around the World

To promote its products and brand, Sony conducts advertising around the world in a style that matches the cultures and customs of individual countries and regions.

Japan—QRIO robot



U.S.—Digital still camera

China—DVD player

Canada—Flat panel television

Corporate Governance

Functions of the "Company with Committees" system

Adoption of the "Company with Committees" system

In June 2003, Sony adopted the "Company with Committees" system in accordance with the Japanese Commercial Code. The result was the establishment of three statutory committees, the Nominating Committee, the Audit Committee and the Compensation Committee, each consisting of a majority of outside directors, and the appointment of Corporate Executive Officers (*"Shikko-yaku"*). The Board of Directors and the three statutory committees determine the fundamental management policies of the Sony Group and ensure that the Group is managed appropriately and compliance with its legal obligations with the law, thereby enhancing corporate value.

The role of each corporate governance body

The roles of the Board of Directors and its three statutory committees are as follows.

Board of Directors

(1) Determinates the fundamental management policies for the Sony Group
(2) Supervises the execution of the Sony Group's business operations
(3) Determines the Directors organizing each committee
(4) Appoints and dismisses Corporate Executive Officers

Statutory Committees

Nominating Committee: Proposes the nomination and dismissal of Directors

Audit Committee: Audits the execution of duties of Directors and Corporate Executive Officers, determines proposals to nominate and dismiss the independent auditors

Compensation Committee: Determines the individual compensation of each Director and Corporate Executive Officer

Corporate Executive Officers ("*Shikko-yaku*"): The Board of Directors has delegated considerable authority to the Corporate Executive Officers with relation to capital expenditure, equity-based business alliances and other actions related to the execution of their respective business operations. Using their authority and carrying out their responsibilities within the scope delegated to them by the Board of Directors, these officers work toward enhancing the Sony Group's corporate value.

Executive Officers (*"Gyomu shikko-yakuin"*): These officers are delegated responsibility for carrying out business operations within specific areas of Sony Corporation, such as its business units, research activities and head office functions. They act in accordance with fundamental policies determined by the Board of Directors and Corporate Executive Officers.

Composition of each corporate governance body

At the Ordinary General Meeting of Shareholders held on June 22, 2004, shareholders elected 16 Directors, including eight outside Directors. At the subsequent Board of Directors meeting, members of the three statutory committees and 15 Corporate Executive Officers, including the two Representative Corporate Executive Officers, were determined.

Meetings held

During the fiscal year ended March 31, 2004 (June 20, 2003 through March 31, 2004 for Statutory Committees), the Board of Directors met nine times, the Nominating Committee met four times, the Audit Committee met eight times and the Compensation Committee met six times.

Structure of New Sony Corporate Governance System

Supervision

Board of Directors
(1) Determination of fundamental management policies for the Sony Group
(2) Supervision of execution of the Sony Group's business operations
(3) Determination of Directors organizing each committee
(4) Appointment and dismissal of Corporate Executive Officers
Chairman of the Board: Iwao Nakatani* Vice Chairmen of the Board: Hirobumi Kawano*, Teruo Masaki

Nominating Committee
Proposes nomination and dismissal of Directors, etc.

Yotaro Kobayashi* (Chairman)
Hirobumi Kawano*
Carlos Ghosn*
Nobuyuki Idei
Kunitake Ando

Audit Committee
Audits the execution of duties of Directors and Corporate Executive Officers, determines proposals to nominate and dismiss the independent auditors, etc.

Yoshiaki Yamauchi* (Chairman)
Sakie T. Fukushima*
Akihisa Ohnishi

Compensation Committee
Determines the compensation of each Director and Corporate Executive Officer, etc.

Akishige Okada* (Chairman)
Yoshihiko Miyauchi*
Teruo Masaki

Execution

Corporate Executive Officers
Execute Sony Group business activities within the scope of authority delegated by the Board of Directors

Executive Officers / Group Executive Officers / Employees

*Outside Director

Reasons for adoption of the "Company with Committees" system

The adoption of the "Company with Committees" system proceeded very smoothly due to the fact that Sony already had nominating and compensation committees in place and had elected outside directors. This new system was adopted in order to strengthen our system of corporate governance, which has the primary function of ensuring transparency in corporate management, as well as serving as a resource for the prompt identification of, and response to, corporate problems. Prior to the adoption of this system, Sony had already taken a variety of steps to strengthen corporate governance, including the adoption of the executive officer system in order to separate the roles of corporate oversight and business execution. Sony adopted the "Company with Committees" system, when it was first provided as an option under law, in order to enhance the legality of the governance system Sony had already voluntarily established.

Teruo Masaki, Member of the Board

Progress report on corporate governance one year after the adoption of the "Company with Committees" system

Sony's distinctive approach to corporate governance

In order to further strengthen corporate governance, regulations for the Sony Board of Directors include requirements in addition to those mandated by the Japanese Commercial Code. For example, there are rules to ensure the independence of the Board of Directors, a supervisory body, from the execution of business activities. There are also rules to ensure that appropriate actions and decisions are taken by the statutory committees.

Certain provisions in Sony's corporate governance regulations are unique to Sony and are based on the specific views of the company. For example, one regulation requires that the Board of Directors, a supervisory body, consists of between 10 and 20 members, and that at least five of these Directors also must be Corporate Executive Officers. In general, a system that stipulates a minimum number of internal directors is unusual given the importance attached to separating the supervisory and executive roles within a company. Nevertheless, Sony believes that the participation of more than just a minimum number of internal Directors on the Board of Directors is critical, based upon the belief that specific areas of the executive functions, such as accounting, finance, legal affairs and other internal control functions, should be directly linked to the supervisory side of corporate governance. In the event of the discovery of a problem related to the business execution within a company, a framework that completely separates corporate oversight from business execution could increase risk, due to a lack of communication or the existence of an inadequate interface between the two sides. For this reason allowing part of the internal control functions belonging to the business execution side, led by the Group CEO, to be an extension of the Board of Directors, allows for the creation of a direct link between business execution and corporate oversight. Within this corporate governance framework, potential problems discovered within the scope of business execution can be reported directly to those responsible for corporate governance, allowing the latter to respond more rapidly to any potential problems. We therefore seek to avoid risks associated with the complete separation of corporate oversight from business execution, including the risk that information involving executive actions is not being properly communicated to the Directors. Through this corporate governance system, Sony is able to strengthen the supervisory function of the Board of Directors and delegate greater authority for business execution to the Corporate Executive Officers, enabling the continued sound and dynamic management of the Sony Group.

Changes resulting from the adoption of the "Company with Committees" system

The adoption of this system has facilitated even more lively deliberations among the Board of Directors. Previously, most executive decisions were made by the Board of Directors, the highest-level decision making body. However, under the new system, the Board has delegated greater authority to Corporate Executive Officers, in the process entrusting them with a broader range of executive decisions. The introduction of this system has led to the clear division of these two corporate governance functions. Corporate Executive Officers execute business operations by making decisions within the scope of authority delegated to them by the Board of Directors, and the Board of Directors oversees their decisions. As a result of this structure, executives responsible for the execution of business operations are required to explain, with even greater clarity, to the Board of Directors the reasons behind their business decisions.

Corporate Social Responsibility (CSR)

As a global organization, the Sony Group conducts its business activities with due consideration of the interests of its various stakeholders, including shareholders, customers, employees, business partners and local communities. In 2003, Sony published the Sony Group Code of Conduct, which establishes fundamental policies for all Sony Group executives and employees with regard to the respect for human rights, the safety of its products and services, the environmental impact of its business activities and the disclosure of information. The Sony Group will continue to make strenuous efforts to strengthen its system of compliance and ensure the sound conduct of all its business activities.

The Sony CSR Report 2004.

New Members of the Board and Corporate Executive Officers

(As of June 22, 2004)

MEMBERS OF THE BOARD

Nobuyuki Idei
Sony Corporation
Chairman, Representative
Corporate Executive Officer

Kunitake Ando
Sony Corporation
President, Representative
Corporate Executive Officer

Teruo Masaki
Sony Corporation
Executive Deputy President,
Corporate Executive Officer

Howard Stringer
Sony Corporation
Vice Chairman,
Corporate Executive Officer

Ken Kutaragi
Sony Corporation
Executive Deputy President,
Corporate Executive Officer

Teruhisa Tokunaka
President, Representative Director,
Sony Financial Holdings Inc.

Göran Lindahl
Sony Corporation

Akihisa Ohnishi
Sony Corporation

Iwao Nakatani
Director of Research,
UFJ Institute Ltd.

Akishige Okada
Chairman of the Board
(Representative Director),
Sumitomo Mitsui Financial
Group, Inc.

Hirobumi Kawano
Executive Adviser to The Tokio
Marine and Fire Insurance Co., Ltd.

Yotaro Kobayashi
Chairman of the Board, Fuji Xerox
Co., Ltd.

Carlos Ghosn
President and CEO, Nissan Motor
Co., Ltd.

Sakie T. Fukushima
Representative Director &
Regional Managing Director-
Japan, Korn/Ferry International

Yoshihiko Miyauchi
Director, Representative Executive
Officer, Chairman and CEO, ORIX
Corporation

Yoshiaki Yamauchi
Director, Sumitomo Mitsui
Financial Group, Inc.

CORPORATE EXECUTIVE OFFICERS

Nobuyuki Idei
Chairman and Group CEO,
Representative Corporate
Executive Officer

Kunitake Ando
President and Global Hub
President, Representative
Corporate Executive Officer,
Officer in charge of Personal
Solutions Business Group

Howard Stringer
Vice Chairman and COO
(in charge of Entertainment
Business Group), Sony Group
Americas Representative

Shizuo Takashino
Executive Deputy President and
COO (in charge of IT & Mobile
Solutions Network Company and
Professional Solutions Network
Company)

Ken Kutaragi
Executive Deputy President and
COO (in charge of Game Business
Group, Home Electronics
Network Company (HENC) and
Semiconductor Solutions Network
Company (SSNC)), NC President,
SSNC

Teruo Masaki
Executive Deputy President and
Group General Counsel

Katsumi Ihara
Executive Deputy President and
Group CSO & CFO

Ryoji Chubachi
Executive Deputy President and
COO (in charge of Micro Systems
Network Company (MSNC) and
EMCS), NC President, MSNC

Keiji Kimura
Senior Executive Vice President,
NC President, IT & Mobile
Solutions Network Company

Tsutomu Niimura
Executive Vice President, NC
President, HENC

Fujio Nishida
Executive Vice President, Officer
in charge of Marketing and
Corporate Communications

Takao Yuhara
Senior Vice President, Officer in
charge of Finance and Investor
Relations

Nobuyuki Oneda
Senior Vice President, Officer in
charge of TR60, Corporate
Planning & Control, Accounting
and Information Systems

Yasunori Kirihara
Senior Vice President, Officer in
charge of Corporate Human
Resources

Nicole Seligman
Group Deputy General Counsel

Consolidated Financial Information

The Notes to Consolidated Financial Statements and Report of Independent Accountants are in the Consolidated Financial Information CD-ROM.

OPERATING RESULTS

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

OVERVIEW

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

Despite these market conditions and the impact of the translation of financial results into yen, in accordance with Generally Accepted Accounting Principles in the U.S. ("U.S. GAAP"), the currency in which Sony's financial statements are prepared, Sony's sales and operating revenue ("sales") for the fiscal year ended March 31, 2004 increased 0.3 percent compared with the previous fiscal year. Sales to outside customers in the Electronics segment increased, and revenue in the Financial Services segment increased due to improvements in valuation gains and losses at Sony Life Insurance Co., Ltd. ("Sony Life"), despite a decrease in sales in the Game, Pictures and Music segments.

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

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

RESTRUCTURING

For more detailed information about restructuring, please refer to Note 17 of Notes to the Consolidated Financial Statements. In addition, refer to "Trend Information" below for more information on planned restructuring efforts.

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

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

ELECTRONICS

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

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

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

MUSIC

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

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

PICTURES

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

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

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

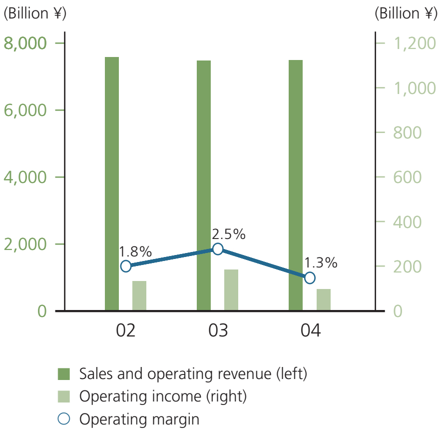
OPERATING PERFORMANCE

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

SALES

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

Sales and operating revenue and operating income



* Year ended March 31

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

COST OF SALES AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

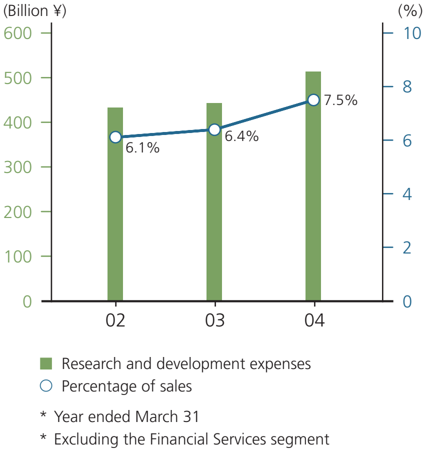
The cost of sales ratio decreased from 61.5 percent to 60.7 percent in the Music segment. However, the cost of sales ratio increased from 58.2 percent to 60.0 percent in the Pictures segment.

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

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

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

Research and development expenses and as a percentage of sales

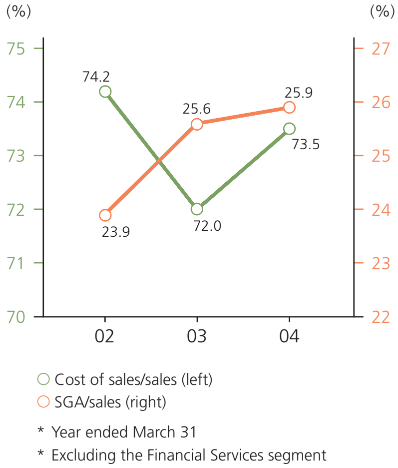


Selling, general and administrative expenses for the fiscal year ended March 31, 2004 increased by 15.9 billion yen, or 0.9 percent, to 1,798.2 billion yen compared with the previous fiscal year. The ratio of selling, general and administrative expenses to sales increased from 25.6 percent in the previous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

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

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

Cost of sales and selling, general and administrative expenses (SGA) as percentages of sales



OPERATING INCOME

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

OTHER INCOME AND EXPENSES

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

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

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

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

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

INCOME BEFORE INCOME TAXES

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

INCOME TAXES

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

RESULTS OF AFFILIATED COMPANIES ACCOUNTED FOR UNDER THE EQUITY METHOD

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

MINORITY INTEREST IN INCOME (LOSS) OF CONSOLIDATED SUBSIDIARIES

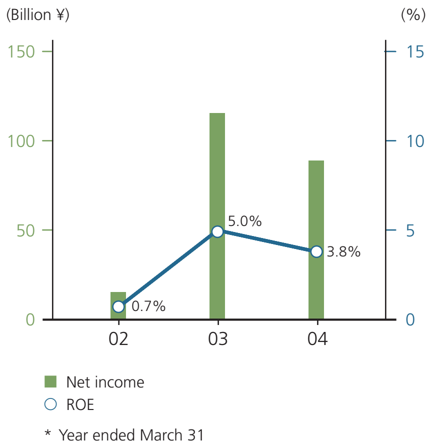
In the fiscal year ended March 31, 2004, minority interest in income of consolidated subsidiaries decreased 4.2 billion yen, or 63.9 percent, to 2.4 billion yen. This decrease is due to the absence of the previous year's increase which resulted from the reversal, in that year, of valuation allowances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

NET INCOME

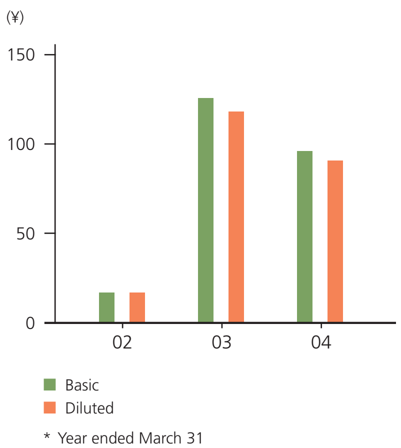
Net income for the fiscal year ended March 31, 2004 decreased by 27.0 billion yen, or 23.4 percent, to 88.5 billion yen compared with the previous fiscal year. As a percentage of sales, net income decreased 0.3 percentage points from 1.5 percent to 1.2 percent. Although income before income taxes decreased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

Basic net income per share was 95.97 yen compared with 125.74 yen in the previous fiscal year, and diluted net income per share was 90.88 yen compared with 118.21 yen in the previous fiscal year. Refer to Notes 2 and 21 of Notes to Consolidated Financial Statements.

Net income and ROE



Net income per share of common stock



OPERATING PERFORMANCE BY BUSINESS SEGMENT

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

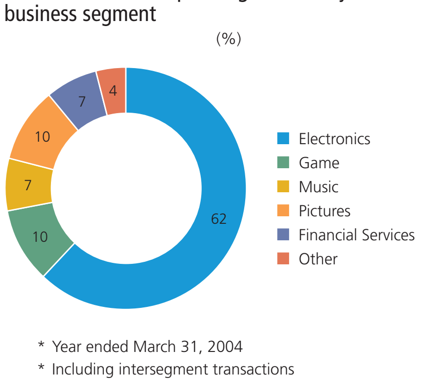
Business Segment Information

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

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

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

Share of sales and operating revenue by business segment



ELECTRONICS

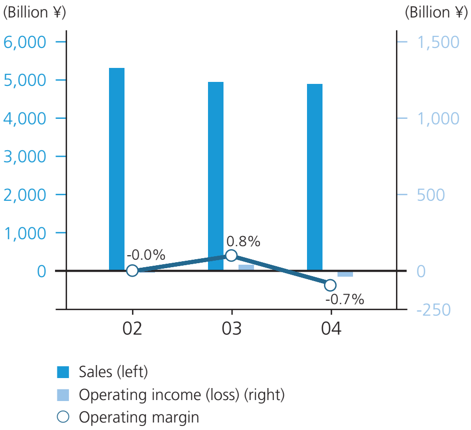
Sales for the fiscal year ended March 31, 2004 decreased by 43.1 billion yen, or 0.9 percent, to 4,897.4 billion yen compared with the previous fiscal year. An operating loss of 35.3 billion yen was recorded compared to operating income of 41.4 billion yen in the previous fiscal year.

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

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

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

Sales and operating income (loss) in the Electronics segment



* Year ended March 31

Performance by Product Category

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

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

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

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

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

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

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

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

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

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

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

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

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

Manufacturing by Geographic Area

Approximately 50 percent of the Electronics segment's total annual production took place in Japan, including the production of digital still cameras, video cameras, flat panel televisions, PCs, semiconductors and components such as batteries and Memory Sticks. Approximately 60 percent of the annual production in Japan was destined for other regions. China accounted for approximately 10 percent of total annual production, approximately 60 percent of which was destined for Japan, the U.S. and Europe. Asia, excluding Japan and China, accounted for approximately 15 percent of total annual production, with approximately 60 percent destined for Japan, the U.S. and Europe. The Americas and Europe together accounted for the remaining approximately 25 percent of total annual production, most of which was destined for local distribution and sale. Until July 2003, total annual production included the assembly of PlayStation 2 hardware for the Game segment; however, due to the outsourcing of PlayStation 2 hardware production to China-based third parties, this assembly activity ceased in July 2003.

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

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

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

GAME

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

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

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

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

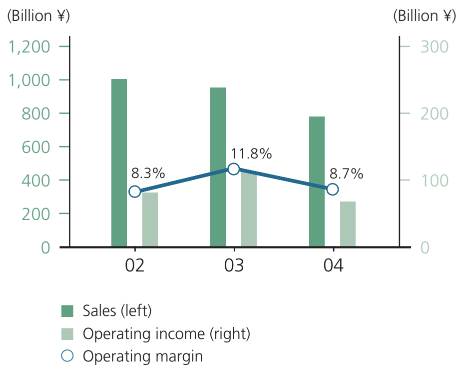
	Year ended March 31 2003	Year ended March 31 **2004**	Cumulative as of March 31, 2004
	(Million units)		
Total Production Shipments of Hardware			
PlayStation + PS one	6.78	**3.31**	99.72
PlayStation 2	22.52	**20.10**	71.30
Total Production Shipments of Software*			
PlayStation	61.00	**32.00**	949.00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

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

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

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

Sales and operating income in the Game segment



* Year ended March 31

MUSIC

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

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

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

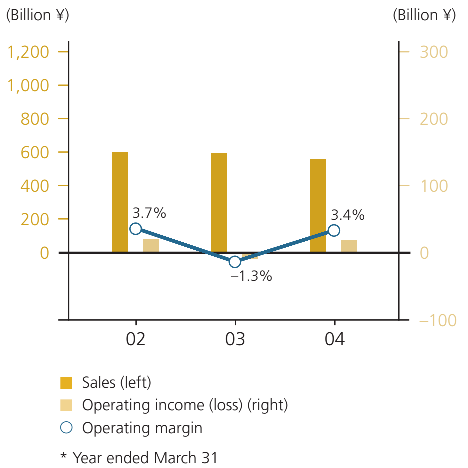
The increase in profitability resulted in operating income at SMEI, compared to an operating loss recorded in the previous fiscal year. The improvement in profitability primarily resulted from the benefits realized from the worldwide restructuring activities implemented over the past two years to reduce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

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

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

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

Sales and operating income (loss) in the Music segment



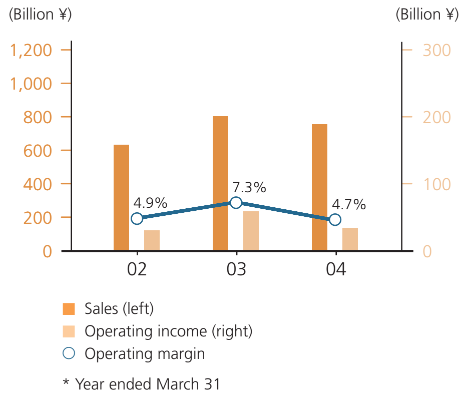
PICTURES

Sales for the fiscal year ended March 31, 2004 decreased by 46.4 billion yen, or 5.8 percent, to 756.4 billion yen compared with the previous fiscal year. Operating income decreased by 23.7 billion yen, or 40.3 percent, to 35.2 billion yen and the operating income margin decreased from 7.3 percent to 4.7 percent. The results in the Pictures segment consist of the results of Sony Pictures Entertainment ("SPE"), a U.S. based subsidiary.

On a U.S dollar basis, sales for the fiscal year in the Pictures segment increased approximately 2 percent and operating income decreased approximately 30 percent. The increase in sales was primarily due to higher television performance in the fiscal year. Television revenues increased significantly due to initial syndication sales of *The King of Queens* and third cycle syndication sales of *Seinfeld*, as well as the extension of a licensing agreement for *Wheel of Fortune*. This increase in sales was partially offset by lower theatrical and home entertainment revenues from the fiscal year release slate, which included such notable titles as *Bad Boys II*, *S.W.A.T.*, *Anger Management* and *Something's Gotta Give*, when compared to the prior fiscal year release slate, which included *Spider-Man*, the highest grossing film in SPE's history, *Men in Black II*, *xXx* and *Mr. Deeds*. Sales for the fiscal year release slate decreased 359 million U.S. dollars as compared to the previous fiscal year. Operating income for the segment decreased significantly due to the absence of profits contributed by the record breaking performance of *Spider-Man* in the previous fiscal year and, to a lesser extent, the aggregate disappointing performance of several films from the fiscal year release slate including *Gigli*, *Hollywood Homicide*, *The Missing* and *Charlie's Angels: Full Throttle*, resulting in a decrease in operating income of 412 million U.S. dollars from the prior fiscal year release slate. Additionally, operating income was also negatively impacted by a 38 million U.S. dollar increase in restructuring charges recorded in the fiscal year (refer to "Restructuring" above for details). Partially offsetting these decreases in operating income was the contribution from the syndication sales and extension of a licensing agreement noted above, DVD sales of television library product and an additional syndication sale of *Dawson's Creek*, resulting in a 201 million U.S. dollar increase in operating income. Further improving operating income was the absence of the 66 million U.S. dollar provision recorded in the prior year with respect to previously recorded revenue from KirchMedia, a licensee in Germany of SPE's feature film and television product, and related adjustments to ultimate film income.

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

Sales and operating income in the Pictures segment

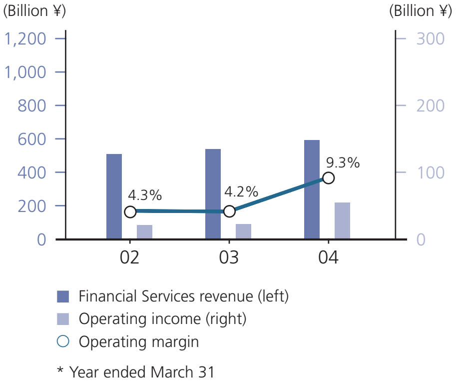


FINANCIAL SERVICES

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

At Sony Life, revenue increased by 46.4 billion yen, or 9.9 percent, to 513.0 billion yen and operating income increased by 33.6 billion yen, or 113.3 percent, to 63.2 billion yen compared with the previous fiscal year. Revenue increased due to improvements in valuation gains and losses from investments in the sepa-

Revenue and operating income in the Financial Services segment



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

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

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

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

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

CONDENSED STATEMENTS OF INCOME SEPARATING OUT THE FINANCIAL SERVICES SEGMENT (UNAUDITED)

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

CONDENSED STATEMENTS OF INCOME SEPARATING OUT THE FINANCIAL SERVICES SEGMENT

Year ended March 31

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

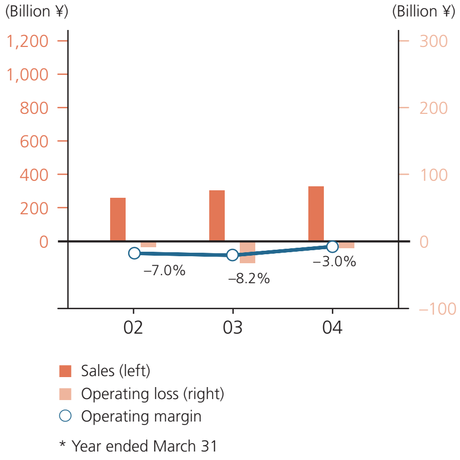
OTHER

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

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

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

Sales and operating loss in the Other segment



FOREIGN EXCHANGE FLUCTUATIONS AND RISK HEDGING

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

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

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

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

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

ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY

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

ASSETS

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

CURRENT ASSETS

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

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

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

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

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

INVESTMENTS AND ADVANCES

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

Investments and advances on March 31, 2004 in all segments excluding the Financial Services segment decreased by 24.4 billion yen, or 6.4 percent, to 358.6 billion yen. This decrease was mainly due to the recording of an impairment loss on securities issued by a privately held Japanese company, which Sony accounted for under the cost method, that is engaged in cable broadcasting and other businesses and a decrease in the amount recorded in "investments" due to the consolidation of an affiliated company that was formerly accounted for under the equity method as a result of the adoption during the fiscal year ended March 31, 2004 of Financial Accounting Standards Board ("FASB") Interpretation ("FIN") 46 (refer to Notes 6 and 7 in the Notes to the Consolidated Financial Statements).

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

PROPERTY, PLANT AND EQUIPMENT (AFTER DEDUCTION OF ACCUMULATED DEPRECIATION)

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

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

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

Capital expenditures in the Music segment decreased by 7.3 billion yen, or 36.2 percent, to 12.9 billion yen, in the Pictures segment by 1.1 billion yen, or 15.8 percent to 6.0 billion yen, and in the Other segment by 6.9 billion yen, or 40.4 percent, to 10.1 billion yen.

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

OTHER ASSETS

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

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

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

LIABILITIES

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

CURRENT LIABILITIES

Current liabilities on March 31, 2004 increased by 547.2 billion yen, or 22.5 percent, to 2,982.2 billion yen compared with the previous fiscal year-end. Current liabilities on March 31, 2004 in all segments excluding the Financial Services segment increased by 307.7 billion yen, or 14.9 percent, to 2,373.6 billion yen.

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

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

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

LONG-TERM LIABILITIES

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

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

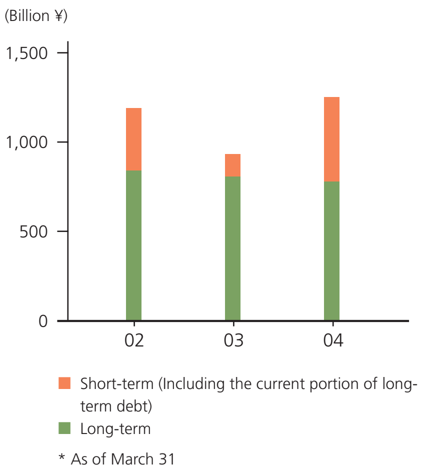
Long-term debt on March 31, 2004 in all segments excluding the Financial Services segment decreased 27.7 billion yen, or 3.4 percent, to 775.2 billion yen. This was mainly due to the shift to current liabilities of 287.8 billion yen (as of March 31, 2004) in outstanding convertible bonds, due for redemption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

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

TOTAL INTEREST-BEARING DEBT

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

Interest-bearing liabilities



INCREASE IN ASSETS AND LIABILITIES AS A RESULT OF CONSOLIDATION OF VARIABLE INTEREST ENTITIES

Sony adopted FIN 46 on July 1, 2003. As a result, Sony's assets and liabilities increased as non-cash transactions, which resulted in no cash flows, by 95.3 billion yen and 98.0 billion yen, respectively. Cash and cash equivalents also increased by 1.5 billion yen. The Variable Interest Entities ("VIEs") consolidated by Sony include the following:

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

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

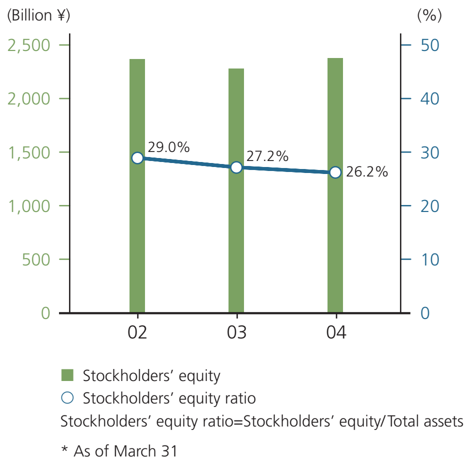
Sony has utilized a VIE to erect and operate a multi-use real estate complex in Berlin, Germany, which was accounted for under the equity method by Sony until June 30, 2003. On July 1, 2003, Sony consolidated this entity. Upon consolidation of the VIE, assets and liabilities increased by 61.3 billion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

Regarding further information on transactions with VIEs please refer to Notes 22 and 23 of Notes to Consolidated Financial Statements.

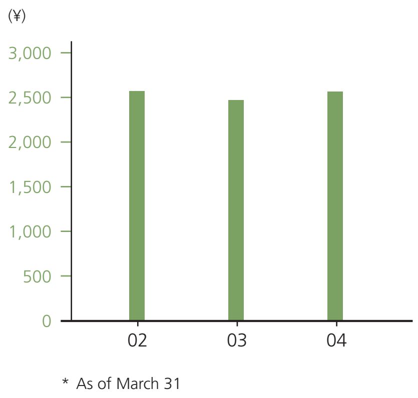
STOCKHOLDERS' EQUITY

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

Stockholders' equity and stockholders' equity ratio



Stockholders' equity per share of common stock



CONDENSED BALANCE SHEETS SEPARATING OUT THE FINANCIAL SERVICES SEGMENT (UNAUDITED)

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

CONDENSED BALANCE SHEETS SEPARATING OUT THE FINANCIAL SERVICES SEGMENT

As at March 31

(Yen in millions)	Financial Services 2003	Financial Services **2004**	All other Segments excluding Financial Services 2003	All other Segments excluding Financial Services **2004**	Consolidated 2003	Consolidated **2004**
Assets						
Current assets	684,945	**699,698**	2,503,940	**2,692,436**	3,154,214	**3,363,355**
Cash and cash equivalents	274,543	**256,316**	438,515	**592,895**	713,058	**849,211**
Marketable securities	236,621	**270,676**	4,899	**4,072**	241,520	**274,748**
Notes and accounts receivable, trade	68,188	**72,273**	943,073	**943,590**	1,007,395	**1,011,189**
Other	105,593	**100,433**	1,117,453	**1,151,879**	1,192,241	**1,228,207**
Film costs	–	**–**	287,778	**256,740**	287,778	**256,740**
Investments and advances	1,731,415	**2,274,510**	383,004	**358,629**	1,994,123	**2,512,950**
Investments in Financial Services, at cost	–	**–**	166,905	**176,905**	–	**–**
Property, plant and equipment	45,990	**40,833**	1,232,359	**1,324,211**	1,278,350	**1,365,044**
Other assets	434,769	**459,998**	1,251,810	**1,251,901**	1,656,080	**1,592,573**
Deferred insurance acquisition costs	327,869	**349,194**	–	**–**	327,869	**349,194**
Other	106,900	**110,804**	1,251,810	**1,251,901**	1,328,211	**1,243,379**
	2,897,119	**3,475,039**	5,825,796	**6,060,822**	8,370,545	**9,090,662**
Liabilities and stockholders' equity						
Current liabilities	415,877	**648,803**	2,065,854	**2,373,550**	2,435,048	**2,982,215**
Short-term borrowings	72,753	**86,748**	126,687	**409,766**	158,745	**475,017**
Notes and accounts payable, trade	5,417	**7,847**	693,589	**773,221**	697,385	**778,773**
Deposits from customers in the banking business	248,721	**378,851**	–	**–**	248,721	**378,851**
Other	88,986	**175,357**	1,245,578	**1,190,563**	1,330,197	**1,349,574**
Long-term liabilities	2,168,476	**2,450,969**	1,600,484	**1,482,378**	3,632,580	**3,707,587**
Long-term debt	140,908	**135,811**	802,911	**775,233**	807,439	**777,649**
Accrued pension and severance costs	8,737	**10,183**	487,437	**358,199**	496,174	**368,382**
Future insurance policy benefits and other	1,914,410	**2,178,626**	–	**–**	1,914,410	**2,178,626**
Other	104,421	**126,349**	310,136	**348,946**	414,557	**382,930**
Minority interest in consolidated subsidiaries	–	**–**	16,288	**17,554**	22,022	**22,858**
Stockholders' equity	312,766	**375,267**	2,143,170	**2,187,340**	2,280,895	**2,378,002**
	2,897,119	**3,475,039**	5,825,796	**6,060,822**	8,370,545	**9,090,662**

INVESTMENTS

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

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

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

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

The most significant portion of these unre-

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

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

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

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

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

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

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

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

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

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

CONTRACTUAL OBLIGATIONS, COMMITMENTS, AND CONTINGENT LIABILITIES

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

		Payments Due by Period			
(Yen in millions)	**Total**	Less than 1 year	1 to 3 year	3 to 5 year	After 5 year
Contractual Obligations and Major Commitments:					
Long-term debt (Note 11)					
Capital lease obligations (Notes 8 and 11)	**42,689**	12,667	13,109	10,923	5,990
Other long-term debt (Note 11)	**1,118,717**	371,090	316,103	299,984	131,540
Minimum rental payments required under operating leases (Note 8)	**187,379**	42,649	58,725	29,498	56,507
Purchase commitments for property, plant and equipment and other assets (Note 23)	**20,796**	20,331	462	3	–
Expected payments regarding contracts with recording artists and other (Note 23)	**39,073**	19,470	14,759	3,708	1,136
Expected cost for the production or purchase of films and television programming or certain rights (Note 23)	**95,232**	39,672	55,560	–	–
Commitment under the joint venture agreement with Samsung Electronics Co., Ltd. (Note 23)	**96,285**	96,285	–	–	–

* The total amount of expected future pension payments is not included in the above table or the total amount of commitments outstanding at March 31, 2004 discussed below as such amount is not currently determinable. Sony expects to contribute approximately 23.0 billion yen to the Japanese pension plans and approximately 17.0 billion yen to the foreign pension plans for the year ending March 31, 2005 (Note 14).

The total amount of commitments outstanding at March 31, 2004 was 316.1 billion yen (refer to Note 23 of Notes to Consolidated Financial Statements). The commitments include major purchase obligations as shown above.

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

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

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

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

The following table summarizes Sony's contingent liabilities.

(Yen in millions)	Total Amounts of Contingent Liabilities
Contingent Liabilities (Notes 22 and 23)**:**	
Loan guarantees to related parties	19,903
Maximum potential future unrecorded obligation associated with a joint venture in the Pictures segment	17,955
Other	22,004
Total contingent liabilities	59,862

In December 2003, Sony and Bertelsmann AG signed a binding agreement to combine their recorded music businesses in a joint venture. The newly formed company, which will be known as Sony BMG, will be 50 percent owned by each parent company. The merger is subject to regulatory approvals in the U.S. and European Union.

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

OFF-BALANCE SHEET ARRANGEMENTS

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

Sony has, from time to time, entered into various financing arrangements with VIEs. These arrangements include facilities which provide for the leasing of certain property, the financing of film production and the development and operation of a multi-use real estate complex. Although not a significant part of its financing activities, Sony employs these arrangements because they provide a diversification of funding sources. The assets and liabilities associated with these arrangements previously qualified for off-balance sheet treatment. On July 1, 2003, Sony adopted FIN 46 and accordingly, the assets and liabilities associated with these arrangements were consolidated. Refer to Note 22 of Notes to Consolidated Financial Statements for more information. As a result, Sony recognized a one time charge with no tax effect of 2.1 billion yen for a cumulative effect of accounting change. Additionally, Sony's assets and liabilities increased as non-cash transactions, which resulted in no cash flows, by 95.3 billion yen and 98.0 billion yen, respectively. Cash and cash equivalents also increased by 1.5 billion yen. For all the VIEs in which Sony holds a significant variable interest Sony is a primary beneficiary, and all these VIEs are consolidated by Sony.

CASH FLOWS

(The fiscal year ended March 31, 2004 compared with the fiscal year ended March 31, 2003.)
Operating Activities: During the fiscal year ended March 31, 2004, Sony generated 632.6 billion yen of net cash from operating activities, a decrease of 221.2 billion yen, or 25.9 percent compared with the previous fiscal year. Of this total, all segments excluding the Financial Services segment generated 401.1 billion yen of net cash from operating activities, a decrease of 143.0 billion yen, or 26.3 percent, compared with the previous year, and the Financial Services segment generated 241.6 billion yen of net cash from operating activities, a decrease of 73.1 billion yen, or 23.2 percent, compared with the previous year.

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

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

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

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

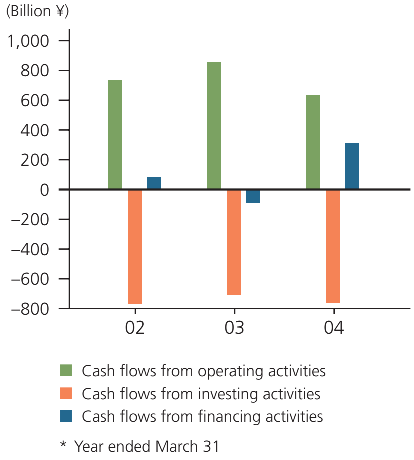
Compared with the previous fiscal year, net cash used in investing activities increased due to an increase in purchases of fixed assets, primarily in the Electronics and Game segments. In all segments excluding the Financial Services segment, the amount of payments for investments and advances decreased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

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

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

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

Cash flows



CONDENSED STATEMENTS OF CASH FLOWS SEPARATING OUT THE FINANCIAL SERVICES SEGMENT (UNAUDITED)

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

Condensed Statements of Cash Flows Separating Out the Financial Services Segment

Year ended March 31

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

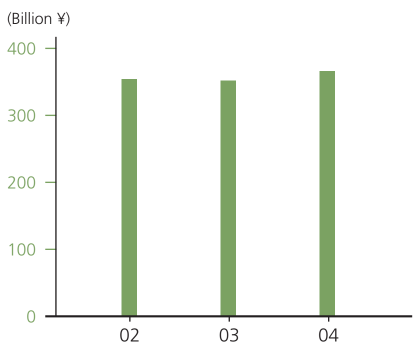
LIQUIDITY AND CAPITAL RESOURCES

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

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

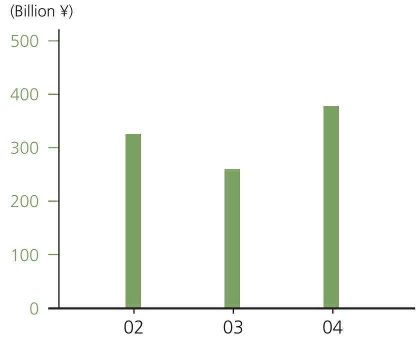
In regards to the funding requirements that arise from this business strategy, working capital needs, repayment of existing debt, and all its other capital needs, Sony believes that it can maintain sufficient liquidity and financial flexibility through operating cash flow and cash and cash equivalents,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

Depreciation and amortization



* Year ended March 31
* Including amortization expenses for intangible assets and for deferred insurance acquisition costs

Capital expenditures (additions to property, plant and equipment)



* Year ended March 31

CAPITAL RESOURCES

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

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

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

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

LIQUIDITY MANAGEMENT AND COMMITMENT LINES

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

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

In general, there are no restrictions on how Sony's borrowings can be used except that some borrowings may not be used to acquire securities listed on a U.S. exchange or traded over-the-counter in U.S., and use of such borrowing must comply with the rules and regulations issued by authorities such as the Board of Governors of the Federal Reserve Board.

In addition, there are no financial covenants that would cause an acceleration of the obligation in the event of a downgrade in Sony's credit ratings, in any of Sony's material financing agreements.

RATINGS

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

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

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

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

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

CASH MANAGEMENT

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

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

FINANCIAL SERVICES SEGMENT

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

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

THE USE OF EVA® METHODOLOGY

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

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

RESEARCH AND DEVELOPMENT

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

- CTO of Home Electronics
- CTO of Device Technology
- CTO of Semiconductor Technology
- CTO of Material Technology
- CTO of Information Technology

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

- Materials Laboratories
- Information Technologies Laboratories

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

Research and development costs for the fiscal year ended March 31, 2004 increased 71.4 billion yen, or 16.1 percent, to 514.5 billion yen, compared with the previous fiscal year. The ratio of research and development costs to sales (excluding the Financial Services segment) increased from 6.4 percent to 7.5 percent. The bulk of research and development costs were incurred in the Electronics and Game segments; expenses in the Electronics segment increased 49.1 billion yen, or 12.9 percent, to 429.4 billion yen, and expenses in the Game segment increased 21.9 billion yen, or 35.7 percent, to 83.4 billion yen. In the Electronics segment, approximately 62 percent of expenses were for the development of new product prototypes while the remaining approximately 38 percent were for the development of mid- to long-term new technologies in such areas as semiconductors, communications, displays and next generation optical discs. Research and development costs in the Game segment increased primarily in the semiconductor and hardware field, with network technology accounting for part of the increase in the hardware area.

NUMBERS OF EMPLOYEES

Although employees were reduced through restructuring activities, due to an increase at manufacturing facilities in Asia, primarily in China, the number of employees at the end of March 2004 was approximately 162,000, an increase of approximately 900 from the end of March 2003. Approximately 3,600 employees in Japan who left Sony on March 31, 2004, through the early retirement program and other means, are counted as a part of this total.

REWARDING SHAREHOLDERS

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

A year-end cash dividend of 12.5 yen per share of Sony Corporation Common Stock was approved at the Board of Directors meeting held on April 26, 2004 and was paid on June 1, 2004. Sony Corporation has already paid an interim dividend for Common Stock of 12.5 yen per share to each shareholder; accordingly, the total annual cash dividend per share of Common Stock is 25.0 yen.

Regarding shares of subsidiary tracking stock issued in Japan by Sony Corporation, Sony Communication Network Corporation ("SCN") has been working to manage its operations so as to expand cash flow, fully solidify its financial base and increase its retained earnings to aggressively expand its business to strengthen its foundation and respond to the quickly expanding Internet market. For these reasons, SCN does not plan to distribute earnings to SCN shareholders for the time being. As such, Sony Corporation will continue its policy of not paying dividends to shareholders of the subsidiary tracking stock.

TREND INFORMATION

This section, including the *Forecast of Consolidated Results*, contains forward-looking statements about the possible future performance of Sony and should be read in light of the cautionary statement on that subject, which appears on page 3 and which applies to this entire document.

ISSUES FACING SONY AND MANAGEMENT'S RESPONSE TO THOSE ISSUES

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

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

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

ELECTRONICS

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

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

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

GAME

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

MUSIC

In the Music segment, album sales over the past several years have decreased due to the worldwide contraction of the global music industry brought on by piracy and competition from other entertainment sectors. Although Sony experienced improvement in a number of key retail markets during the fiscal year ended March 31, 2004, it continued to record declining sales on a global basis. In an effort to maintain profitability, Sony is continuing to implement restructuring initiatives designed to reduce fixed costs at a rate equal to or above the rate of the decline in sales. Sony is also working to combat digital piracy and generate profits through digital distribution of content, most notably through its launch of the Connect music store, a digital downloading service. Finally, in an effort to achieve significant operational efficiencies, Sony is seeking to merge its recorded music business with BMG. In December 2003, Sony and Bertelsmann AG announced that they had signed a binding agreement to combine their recorded music businesses in a joint venture. The newly formed company, which will be known as Sony BMG, will be 50 percent owned by each parent company. The merger is subject to regulatory approvals in the U.S. and the European Union.

PICTURES

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

FINANCIAL SERVICES

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

FORECAST OF CONSOLIDATED RESULTS

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

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

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

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

ELECTRONICS

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

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

GAME

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

MUSIC

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

PICTURES

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

FINANCIAL SERVICES

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

CAPITAL EXPENDITURES

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

DEPRECIATION AND AMORTIZATION

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

RESEARCH AND DEVELOPMENT

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

CRITICAL ACCOUNTING POLICIES

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

INVESTMENTS

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

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

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

IMPAIRMENT OF LONG-LIVED ASSETS

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

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

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

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

GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

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

PENSION BENEFITS COSTS

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

Therefore, actual results generally affect recognized expenses and the recorded obligations for pensions in future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect Sony's pension obligations and future expense.

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

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

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

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

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

CHANGE IN ASSUMPTION

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

DEFERRED TAX ASSET VALUATION

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

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

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

FILM ACCOUNTING

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

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

FUTURE INSURANCE POLICY BENEFITS

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

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

RECENTLY ADOPTED ACCOUNTING STANDARDS

EMPLOYERS' DISCLOSURES ABOUT PENSIONS AND OTHER POSTRETIREMENT BENEFITS

In December 2003, the FASB revised Statement of Financial Accounting Standards ("FAS") No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits", an amendment of FAS No. 87, "Employers' Accounting for Pensions", FAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits", and FAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". The new FAS No. 132 revised employers' disclosures about pension plans and other postretirement benefit plans. It did not change the measurement or recognition of those plans required by FAS No. 87, 88 and 106. While retaining the disclosure requirements of FAS No. 132, the new FAS No. 132 requires additional disclosures about assets, obligations, cash flows, and net periodic benefit costs of defined benefit plans and other defined benefit postretirement plans. The provisions of the new FAS No. 132 are generally effective for financial statements with fiscal years ending after December 15, 2003, excluding the disclosure of certain information about foreign plans, which shall be effective for fiscal years ending after June 15, 2004. In accordance with the transition provisions of the new FAS No. 132, the disclosure provisions have been adopted in the consolidated financial statements.

CONSOLIDATION OF VARIABLE INTEREST ENTITIES

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51", which addresses consolidation by a primary beneficiary of a VIE. FIN No. 46 became effective immediately for all new VIEs created or acquired after January 31, 2003. Sony has not entered into any new agreements with VIEs on or after February 1, 2003. For VIEs created or acquired prior to February 1, 2003, Sony early adopted the provisions of FIN No. 46 on July 1, 2003. Under FIN No. 46, any difference between the net amount added to the balance sheet and the amount of any previously recognized interest in the VIE shall be recognized as a cumulative effect of accounting changes. As a result of adopting FIN No. 46, Sony recognized a one-time charge with no tax effect of 2.1 billion yen as a cumulative effect of accounting change in the consolidated statement of income, and Sony's assets and liabilities increased by 95.3 billion yen and 98.0 billion yen, respectively. These increases were treated as non-cash transactions in the consolidated statements of cash flows. In addition, cash and cash equivalents increased by 1.5 billion yen. See Consolidated Financial Statements Note 22 for further discussion on the VIEs that are used by Sony.

In December 2003, the FASB issued a revision to FIN No. 46 ("FIN No. 46R"), which replaces FIN No. 46. FIN No. 46R retains many of the basic concepts introduced in FIN No. 46; however, it also introduces a new scope exception for certain types of entities that qualify as a "business" as defined in FIN No. 46R, revises the method of calculating expected losses and residual returns for determination of a primary beneficiary, and includes new guidance for assessing variable interests. Sony early adopted the provisions of FIN No. 46R upon its issuance. The adoption of FIN No. 46R did not have an impact on Sony's results of operations and financial position or impact the way Sony had previously accounted for VIEs.

IMPAIRMENT OF SECURITIES INVESTMENTS

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

MULTIPLE ELEMENT REVENUE ARRANGEMENTS

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

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In April 2003, the FASB issued FAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". This statement amends and clarifies financial accounting and reporting for derivative instruments, including derivative instruments embedded in other contracts and for hedging activities under FAS No. 133. Sony adopted FAS No. 149 on July 1, 2003. The adoption of FAS No. 149 did not have an impact on Sony's results of operations and financial position.

ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS

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

ACCOUNTING FOR CERTAIN FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF BOTH LIABILITIES AND EQUITY

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

RECENT PRONOUNCEMENTS

ACCOUNTING AND REPORTING BY INSURANCE ENTERPRISES FOR CERTAIN NONTRADITIONAL LONG-DURATION CONTRACTS AND FOR SEPARATE ACCOUNTS

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

Five-Year Summary of Selected Financial Data

Sony Corporation and Consolidated Subsidiaries – Year ended March 31

	Yen in millions except per share amounts					Dollars in millions except per share amounts
	2000	2001	2002	2003	**2004**	**2004**
FOR THE YEAR						
Sales and operating revenue	¥6,686,661	¥7,314,824	¥7,578,258	¥7,473,633	**¥7,496,391**	**$72,081**
Operating income	223,204	225,346	134,631	185,440	**98,902**	**951**
Income before income taxes	264,310	265,868	92,775	247,621	**144,067**	**1,385**
Income taxes	94,644	115,534	65,211	80,831	**52,774**	**507**
Income before cumulative effect of accounting changes	121,835	121,227	9,332	115,519	**90,628**	**871**
Net income	121,835	16,754	15,310	115,519	**88,511**	**851**
Per share data:						
Common stock						
Income before cumulative effect of accounting changes						
—Basic	¥ 144.58	¥ 132.64	¥ 10.21	¥ 125.74	**¥ 98.26**	**$ 0.94**
—Diluted	131.70	124.36	10.18	118.21	**93.00**	**0.89**
Net income						
—Basic	144.58	18.33	16.72	125.74	**95.97**	**0.92**
—Diluted	131.70	19.28	16.67	118.21	**90.88**	**0.87**
Cash dividends	25.00	25.00	25.00	25.00	**25.00**	**0.24**
Number of weighted-average shares for basic per share data (thousands of shares)	842,679	913,932	918,462	919,706	**923,650**	
Subsidiary tracking stock						
Net loss						
—Basic	–	–	(15.87)	(41.98)	**(41.80)**	**(0.40)**
Cash dividends	–	–	–	–	**–**	**–**
Number of weighted-average shares for basic per share data (thousands of shares)	–	–	3,072	3,072	**3,072**	
Depreciation and amortization*	¥ 306,505	¥ 348,268	¥ 354,135	¥ 351,925	**¥ 366,269**	**$ 3,522**
Capital expenditures (additions to property, plant and equipment)	435,887	465,209	326,734	261,241	**378,264**	**3,637**
Research and development expenses	394,479	416,708	433,214	443,128	**514,483**	**4,947**
AT YEAR-END						
Net working capital	¥ 861,674	¥ 830,734	¥ 778,716	¥ 719,166	**¥ 381,140**	**$ 3,665**
Stockholders' equity	2,182,906	2,315,453	2,370,410	2,280,895	**2,378,002**	**22,865**
Stockholders' equity per share attributable to common stock	¥ 2,409.36	¥ 2,521.19	¥ 2,570.31	¥ 2,466.81	**¥ 2,563.67**	**$ 24.65**
Total assets	¥6,807,197	¥7,827,966	¥8,185,795	¥8,370,545	**¥9,090,662**	**$87,410**
Number of shares issued at year-end (thousands of shares):						
Common stock	453,639	919,617	919,744	922,385	**926,418**	
Subsidiary tracking stock	–	–	3,072	3,072	**3,072**	

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

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥104=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2004.

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

3. In January 2003, the FASB issued 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 VIE. For VIEs created or acquired prior to February 1, 2003, Sony early adopted the provisions of FIN No. 46 on July 1, 2003. Under FIN No. 46, any difference between the net amount added to the balance sheet and the amount of any previously recognized interest in the VIE shall be recognized as a cumulative effect of accounting changes. As a result of adopting the original FIN No. 46, Sony recognized a one-time charge with no tax effect of ¥2,117 million ($20 million) as a cumulative effect of accounting change in the consolidated statement of income, and Sony's assets and liabilities increased by ¥95,255 million ($916 million) and ¥97,950 million ($942 million), respectively. These increases were treated as non-cash transactions in the consolidated statement of cash flows. In addition, cash and cash equivalents increased by ¥1,521 million ($15 million). In December 2003, the FASB issued FIN No. 46R, which replaces 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.

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

5. In May 2003, the FASB issued Statement of FAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". Sony adopted FAS No. 150 on April 1, 2003. The adoption of FAS No. 150 did not have an impact on Sony's results of operations and financial position for the year ended March 31, 2004.

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

7. On April 1, 2001, Sony adopted FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by FAS No.138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities — an Amendment of FASB statement No.133". As a result, Sony's operating income, income before income taxes and net income for the year ended March 31, 2002 decreased by ¥3.0 billion, ¥3.4 billion and ¥2.2 billion, respectively. Additionally, Sony recorded a one-time non-cash after-tax unrealized gain of ¥1.1 billion in accumulated other comprehensive income in the consolidated balance sheet, as well as an after-tax gain of ¥6.0 billion in the cumulative effect of accounting changes in the consolidated statement of income. In April 2003, the FASB issued FAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". Sony adopted FAS No. 149 on July 1, 2003. The adoption of FAS No. 149 did not have an impact on Sony's results of operations and financial position.

8. In July 2001, the FASB issued FAS No. 142, "Goodwill and Other Intangible Assets". Sony adopted FAS No. 142 retroactive to April 1, 2001. As a result, Sony's operating income and income before income taxes for the year ended March 31, 2002 increased by ¥20.1 billion and income before cumulative effect of accounting changes as well as net income for the year ended March 31, 2002 increased by ¥18.9 billion.

9. In June 2000, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 00-2, "Accounting by Producers or Distributors of Films". Sony adopted SOP 00-2 retroactive to April 1, 2000. As a result, Sony's net income for the year ended March 31, 2001 included a one-time, non-cash charge with no tax effect of ¥101.7 billion, primarily to reduce the carrying value of its film inventory.

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

Quarterly Financial and Stock Information

Sony Corporation and Consolidated Subsidiaries – Year ended March 31
(Unaudited)

	Yen in billions except per share amounts							
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**
Sales and operating revenue	¥1,721.8	**¥1,603.8**	¥1,789.7	**¥1,797.0**	¥2,307.7	**¥2,323.4**	¥1,654.4	**¥1,772.2**
Operating income (loss)	51.9	**16.7**	50.5	**33.2**	199.5	**158.8**	(116.5)	**(109.8)**
Income (loss) before income taxes	116.6	**35.8**	48.8	**44.1**	201.9	**157.8**	(119.7)	**(93.6)**
Income taxes	53.6	**25.4**	(14.9)	**10.3**	65.5	**67.6**	(23.4)	**(50.5)**
Income (loss) before cumulative effect of accounting changes	57.2	**1.1**	44.1	**35.0**	125.4	**92.6**	(111.1)	**(38.2)**
Net income (loss)	57.2	**1.1**	44.1	**32.9**	125.4	**92.6**	(111.1)	**(38.2)**
Per share data of common stock								
Income (loss) before cumulative effect of accounting changes								
—Basic	¥ 62.23	**¥ 1.24**	¥ 47.89	**¥ 37.99**	¥ 136.19	**¥ 100.16**	¥(120.47)	**¥ (41.23)**
—Diluted	57.90	**1.24**	44.70	**35.60**	126.05	**93.14**	(120.47)	**(41.23)**
Net income (loss)								
—Basic	62.23	**1.24**	47.89	**35.69**	136.19	**100.16**	(120.47)	**(41.23)**
—Diluted	57.90	**1.24**	44.70	**33.48**	126.05	**93.14**	(120.47)	**(41.23)**
Depreciation and amortization*	¥ 83.3	**¥ 84.3**	¥ 83.7	**¥ 87.4**	¥ 88.7	**¥ 95.2**	¥ 96.2	**¥ 99.3**
Capital expenditures (additions to fixed assets)	60.7	**81.0**	67.0	**90.0**	56.9	**97.6**	76.6	**109.6**
R&D expenses	97.9	**114.2**	108.3	**136.2**	105.6	**123.8**	131.4	**140.4**
Tokyo Stock Exchange price per share of common stock**:								
High	¥ 7,450	**¥ 4,190**	¥ 6,300	**¥ 4,410**	¥ 5,540	**¥ 4,200**	¥ 5,110	**¥ 4,660**
Low	5,810	**2,720**	4,850	**3,430**	4,870	**3,520**	4,080	**3,780**
New York Stock Exchange price per American Depositary Share**:								
High	$ 59.70	**$ 35.51**	$ 53.17	**$ 38.30**	$ 45.29	**$ 37.96**	$ 43.31	**$ 42.36**
Low	48.63	**23.92**	40.51	**29.23**	39.88	**32.59**	34.86	**34.98**

* Including amortization expenses for intangible assets and for deferred insurance acquisition costs.
** Stock price data are based on daily closing prices.

Notes:

1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥104=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2004.
2. In January 2003, the FASB issued 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 VIE. For VIEs created or acquired prior to February 1, 2003, Sony early adopted the provisions of FIN No. 46 on July 1, 2003. Under FIN No. 46, any difference between the net amount added to the balance sheet and the amount of any previously recognized interest in the VIE shall be recognized as a cumulative effect of accounting changes. As a result of adopting the original FIN No. 46, Sony recognized a one-time charge with no tax effect of ¥2,117 million ($20 million) as a cumulative effect of accounting change in the consolidated statement of income, and Sony's assets and liabilities increased by ¥95,255 million ($916 million) and ¥97,950 million ($942 million), respectively. These increases were treated as non-cash transactions in the consolidated statement of cash flows. In addition, cash and cash equivalents increased by ¥1,521 million ($15 million). In December 2003, the FASB issued FIN No. 46R, which replaces 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.
3. In November 2002, the FASB issued EITF Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables". Sony adopted EITF Issue No. 00-21 on July 1, 2003. The adoption of EITF Issue No. 00-21 did not have a material impact on Sony's results of operations and financial position for the year ended March 31, 2004.
4. In May 2003, the FASB issued Statement of FAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". Sony adopted FAS No. 150 on April 1, 2003. The adoption of FAS No. 150 did not have an impact on Sony's results of operations and financial position for the year ended March 31, 2004.
5. In June 2002, the FASB issued FAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" which nullifies EITF Issue No.94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an activity (including Certain Costs Incurred in a Restructuring)". Sony adopted FAS No. 146 on January 1, 2003. The adoption of this statement did not have a material effect on Sony's results of operations and financial position.
6. In April 2003, the FASB issued FAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". Sony adopted FAS No. 149 on July 1, 2003. The adoption of FAS No. 149 did not have an impact on Sony's results of operations and financial position.

Segment Information

Sony Corporation and Consolidated Subsidiaries – Year ended March 31

Sales and Operating Revenue by Business Segment

	Yen in millions			Dollars in millions*
	Year ended March 31			Year ended March 31
	2002	2003	**2004**	**2004**
Electronics—				
Customers	¥4,772,550	¥4,543,313	**¥4,758,400**	**$45,754**
Intersegment	513,631	397,137	**138,995**	**1,336**
Total	5,286,181	4,940,450	**4,897,395**	**47,090**
Game—				
Customers	986,529	936,274	**753,732**	**7,247**
Intersegment	17,185	18,757	**26,488**	**255**
Total	1,003,714	955,031	**780,220**	**7,502**
Music—				
Customers	541,418	512,908	**487,457**	**4,687**
Intersegment	58,633	84,598	**72,431**	**697**
Total	600,051	597,506	**559,888**	**5,384**
Pictures—				
Customers	635,841	802,770	**756,370**	**7,273**
Intersegment	0	0	**0**	**0**
Total	635,841	802,770	**756,370**	**7,273**
Financial Services—				
Customers	480,190	509,398	**565,752**	**5,440**
Intersegment	28,932	27,878	**27,792**	**267**
Total	509,122	537,276	**593,544**	**5,707**
Other—				
Customers	161,730	168,970	**174,680**	**1,680**
Intersegment	99,733	137,323	**155,712**	**1,497**
Total	261,463	306,293	**330,392**	**3,177**
Elimination	(718,114)	(665,693)	**(421,418)**	**(4,052)**
Consolidated total	¥7,578,258	¥7,473,633	**¥7,496,391**	**$72,081**

* U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥104=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2004.

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

Music intersegment amounts primarily consist of transactions with the Game and Pictures businesses.

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

Electronics Sales and Operating Revenue to Customers by Product Category

	Yen in millions			Dollars in millions*
	Year ended March 31			Year ended March 31
	2002	2003	**2004**	**2004**
Audio	¥ 747,469	¥ 682,517	**¥ 623,582**	**$ 5,996**
	15.7%	15.0%	**13.1%**	
Video	847,311	851,064	**948,111**	**9,116**
	17.8	18.8	**19.9**	
Televisions	984,290	950,166	**917,207**	**8,819**
	20.6	20.9	**19.3**	
Information and Communications	998,773	836,724	**834,757**	**8,027**
	20.9	18.4	**17.6**	
Semiconductors	182,276	204,710	**253,237**	**2,435**
	3.8	4.5	**5.3**	
Components	511,579	527,782	**623,799**	**5,998**
	10.7	11.6	**13.1**	
Other	500,852	490,350	**557,707**	**5,363**
	10.5	10.8	**11.7**	
Total	¥4,772,550	¥4,543,313	**¥4,758,400**	**$45,754**

* U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥104=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2004.

Note: The above table is a breakdown of Electronics sales and operating revenue and operating income (loss) in Sony's business segment information. The Electronics segment is managed as a single operating segment by Sony's management. However, Sony believes that the information in this table is useful to investors in understanding the product categories in this business segment. In addition, commencing with the year ended March 30, 2004, Sony has partly realigned its product category configuration in the Electronics segment. The primary changes are LCD televisions and Computer displays (transferred from "Information and Communication" to "Televisions"), and Set-top boxes (transferred from "Televisions" to "Video"). Accordingly, results of the previous years have been reclassified.

Profit or Loss by Business Segment

	Yen in millions			Dollars in millions*
	Year ended March 31			Year ended March 31
	2002	2003	**2004**	**2004**
Operating income (loss):				
Electronics	¥ (1,158)	¥ 41,380	**¥ (35,298)**	**$ (339)**
Game	82,915	112,653	**67,578**	**650**
Music	22,132	(7,867)	**18,995**	**182**
Pictures	31,266	58,971	**35,230**	**339**
Financial Services	21,822	22,758	**55,161**	**530**
Other	(18,249)	(24,983)	**(10,030)**	**(96)**
Total	138,728	202,912	**131,636**	**1,266**
Elimination	17,148	15,897	**14,530**	**140**
Unallocated amounts:				
Corporate expenses	(21,245)	(33,369)	**(47,264)**	**(455)**
Consolidated operating income	134,631	185,440	**98,902**	**951**
Other income	96,328	157,528	**122,290**	**1,176**
Other expenses	(138,184)	(95,347)	**(77,125)**	**(742)**
Consolidated income before income taxes	¥ 92,775	¥247,621	**¥144,067**	**$1,385**

* U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥104=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2004.

Other Significant Items by Business Segment

	Yen in millions			Dollars in millions*
	Year ended March 31			Year ended March 31
	2002	2003	**2004**	**2004**
Depreciation and amortization:				
Electronics	¥211,910	¥190,836	**¥196,185**	**$1,886**
Game	49,655	53,496	**57,256**	**551**
Music	33,388	32,605	**30,826**	**296**
Pictures	10,619	8,552	**7,844**	**76**
Financial Services, including deferred insurance acquisition costs	37,227	52,041	**56,586**	**544**
Other	8,015	10,157	**13,455**	**129**
Total	350,814	347,687	**362,152**	**3,482**
Corporate	3,321	4,238	**4,117**	**40**
Consolidated total	¥354,135	¥351,925	**¥366,269**	**$3,522**
Capital expenditures for segment assets:				
Electronics	¥220,032	¥170,323	**¥242,696**	**$2,334**
Game	47,822	40,986	**100,360**	**965**
Music	20,882	20,284	**12,935**	**124**
Pictures	11,501	7,138	**6,013**	**58**
Financial Services	16,023	3,655	**4,618**	**44**
Other	5,861	16,993	**10,124**	**97**
Total	322,121	259,379	**376,746**	**3,622**
Corporate	4,613	1,862	**1,518**	**15**
Consolidated total	¥326,734	¥261,241	**¥378,264**	**$3,637**

* U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥104=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2004.

Assets by Business Segment

	Yen in millions			Dollars in millions*
	March 31			March 31
	2002	2003	**2004**	**2004**
Total assets:				
Electronics	¥3,089,791	¥2,848,492	**¥2,876,490**	**$27,658**
Game	722,021	673,208	**684,226**	**6,579**
Music	675,186	604,311	**575,276**	**5,531**
Pictures	960,266	868,395	**856,517**	**8,236**
Financial Services	2,482,536	2,897,119	**3,475,039**	**33,414**
Other	315,984	350,521	**393,291**	**3,782**
Total	8,245,784	8,242,046	**8,860,839**	**85,200**
Elimination	(268,416)	(261,407)	**(313,245)**	**(3,012)**
Corporate assets	208,427	389,906	**543,068**	**5,222**
Consolidated total	¥8,185,795	¥8,370,545	**¥9,090,662**	**$87,410**

* U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥104=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2004.

Sales and Operating Revenue by Geographic Information

	Yen in millions			Dollars in millions*
	Year ended March 31			Year ended March 31
	2002	2003	**2004**	**2004**
Japan	¥2,248,115	¥2,093,880	**¥2,220,747**	**$21,353**
	29.7%	28.0%	**29.6%**	
U.S.A.	2,461,523	2,403,946	**2,121,110**	**20,395**
	32.5	32.2	**28.3**	
Europe	1,609,111	1,665,976	**1,765,053**	**16,972**
	21.2	22.3	**23.6**	
Other	1,259,509	1,309,831	**1,389,481**	**13,361**
	16.6	17.5	**18.5**	
Total	¥7,578,258	¥7,473,633	**¥7,496,391**	**$72,081**

* U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥104=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2004.

Note: Sales and operating revenue are attributed to countries based on location of customers.

Consolidated Balance Sheets

Sony Corporation and Consolidated Subsidiaries – March 31

	Yen in millions		Dollars in millions (Note 3)
	2003	**2004**	**2004**
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 713,058	**¥ 849,211**	**$ 8,165**
Time deposits	3,689	**4,662**	**45**
Marketable securities (Notes 7 and 11)	241,520	**274,748**	**2,642**
Notes and accounts receivable, trade (Note 6)	1,117,889	**1,123,863**	**10,806**
Allowance for doubtful accounts and sales returns	(110,494)	**(112,674)**	**(1,083)**
Inventories (Note 4)	625,727	**666,507**	**6,409**
Deferred income taxes (Note 20)	143,999	**125,532**	**1,207**
Prepaid expenses and other current assets	418,826	**431,506**	**4,149**
Total current assets	3,154,214	**3,363,355**	**32,340**
Film costs (Note 5)	287,778	**256,740**	**2,469**
Investments and advances:			
Affiliated companies (Note 6)	111,510	**86,253**	**829**
Securities investments and other (Notes 7, 10 and 11)	1,882,613	**2,426,697**	**23,334**
	1,994,123	**2,512,950**	**24,163**
Property, plant and equipment (Notes 8 and 11)**:**			
Land	188,365	**189,785**	**1,825**
Buildings	872,228	**930,983**	**8,952**
Machinery and equipment	2,054,219	**2,053,085**	**19,741**
Construction in progress	60,383	**98,480**	**947**
	3,175,195	**3,272,333**	**31,465**
Less—Accumulated depreciation	1,896,845	**1,907,289**	**18,340**
	1,278,350	**1,365,044**	**13,125**
Other assets:			
Intangibles, net (Notes 9 and 14)	258,624	**248,010**	**2,385**
Goodwill (Note 9)	290,127	**277,870**	**2,672**
Deferred insurance acquisition costs (Note 10)	327,869	**349,194**	**3,358**
Deferred income taxes (Note 20)	328,091	**203,203**	**1,954**
Other	451,369	**514,296**	**4,944**
	1,656,080	**1,592,573**	**15,313**
	¥8,370,545	**¥9,090,662**	**$87,410**

(Continued on following page.)

	Yen in millions		Dollars in millions (Note 3)
	2003	**2004**	**2004**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings (Note 11)	¥ 124,360	**¥ 91,260**	**$ 878**
Current portion of long-term debt (Notes 8, 11 and 13)	34,385	**383,757**	**3,690**
Notes and accounts payable, trade (Note 6)	697,385	**778,773**	**7,488**
Accounts payable, other and accrued expenses (Notes 5 and 14)	864,188	**812,175**	**7,809**
Accrued income and other taxes	109,199	**57,913**	**557**
Deposits from customers in the banking business (Note 12)	248,721	**378,851**	**3,643**
Other (Notes 20 and 23)	356,810	**479,486**	**4,610**
Total current liabilities	2,435,048	**2,982,215**	**28,675**
Long-term liabilities:			
Long-term debt (Notes 8, 11 and 13)	807,439	**777,649**	**7,477**
Accrued pension and severance costs (Note 14)	496,174	**368,382**	**3,542**
Deferred income taxes (Note 20)	159,079	**96,193**	**925**
Future insurance policy benefits and other (Note 10)	1,914,410	**2,178,626**	**20,948**
Other	255,478	**286,737**	**2,758**
	3,632,580	**3,707,587**	**35,650**
Minority interest in consolidated subsidiaries	22,022	**22,858**	**220**
Stockholders' equity (Note 15)**:**			
Subsidiary tracking stock, no par value—			
Authorized 100,000,000 shares, outstanding 3,072,000 shares	3,917	**3,917**	**38**
Common stock, no par value—			
2003—Authorized 3,500,000,000 shares, outstanding 922,385,176 shares	472,361		
2004—Authorized 3,500,000,000 shares, outstanding 926,418,280 shares		**476,350**	**4,580**
Additional paid-in capital	984,196	**992,817**	**9,546**
Retained earnings	1,301,740	**1,367,060**	**13,145**
Accumulated other comprehensive income—			
Unrealized gains on securities (Note 7)	17,658	**69,950**	**672**
Unrealized losses on derivative instruments (Note 13)	(4,793)	**(600)**	**(6)**
Minimum pension liability adjustment (Note 14)	(182,676)	**(89,261)**	**(858)**
Foreign currency translation adjustments	(302,167)	**(430,048)**	**(4,135)**
	(471,978)	**(449,959)**	**(4,327)**
Treasury stock, at cost (2003 – 1,573,396 shares, 2004 – 2,468,258 shares)	(9,341)	**(12,183)**	**(117)**
	2,280,895	**2,378,002**	**22,865**
Commitments and contingent liabilities (Notes 8 and 23)			
	¥8,370,545	**¥9,090,662**	**$87,410**

The accompanying notes are an integral part of these statements.

* U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥104=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2004.

Consolidated Statements of Income

Sony Corporation and Consolidated Subsidiaries – Year ended March 31

	Yen in millions			Dollars in millions (Note 3)
	2002	2003	**2004**	**2004**
Sales and operating revenue:				
Net sales (Note 6)	¥7,058,755	¥6,916,042	**¥6,883,478**	**$66,187**
Financial service revenue	480,190	509,398	**565,752**	**5,440**
Other operating revenue	39,313	48,193	**47,161**	**454**
	7,578,258	7,473,633	**7,496,391**	**72,081**
Costs and expenses:				
Cost of sales (Notes 17 and 18)	5,239,592	4,979,421	**5,058,205**	**48,637**
Selling, general and administrative (Notes 16, 17 and 18)	1,695,897	1,782,367	**1,798,239**	**17,291**
Financial service expenses	458,276	486,464	**505,550**	**4,861**
Loss on sale, disposal or impairment of assets, net (Notes 9 and 17)	49,862	39,941	**35,495**	**341**
	7,443,627	7,288,193	**7,397,489**	**71,130**
Operating income	134,631	185,440	**98,902**	**951**
Other income:				
Interest and dividends (Note 6)	16,021	14,441	**18,756**	**180**
Royalty income	33,512	32,375	**34,244**	**329**
Foreign exchange gain, net	–	1,928	**18,059**	**174**
Gain on sales of securities investments, net (Notes 6 and 7)	1,398	72,552	**11,774**	**113**
Gain on issuances of stock by subsidiaries and equity investees (Note 19)	503	–	**4,870**	**47**
Other	44,894	36,232	**34,587**	**333**
	96,328	157,528	**122,290**	**1,176**
Other expenses:				
Interest	36,436	27,314	**27,849**	**268**
Loss on devaluation of securities investments	18,458	23,198	**16,481**	**159**
Foreign exchange loss, net	31,736	–	**–**	**–**
Other	51,554	44,835	**32,795**	**315**
	138,184	95,347	**77,125**	**742**
Income before income taxes	92,775	247,621	**144,067**	**1,385**
Income taxes (Note 20)**:**				
Current	114,930	178,847	**87,219**	**838**
Deferred	(49,719)	(98,016)	**(34,445)**	**(331)**
	65,211	80,831	**52,774**	**507**
Income before minority interest, equity in net income of affiliated companies and cumulative effect of accounting changes	27,564	166,790	**91,293**	**878**
Minority interest in income (loss) of consolidated subsidiaries	(16,240)	6,581	**2,379**	**23**
Equity in net income (loss) of affiliated companies (Note 6)	(34,472)	(44,690)	**1,714**	**16**
Income before cumulative effect of accounting changes	9,332	115,519	**90,628**	**871**
Cumulative effect of accounting changes (2002: Net of income taxes of ¥2,975 million 2004: Net of income taxes of ¥0 million) (Note 2)	5,978	–	**(2,117)**	**(20)**
Net income	¥ 15,310	¥ 115,519	**¥ 88,511**	**$ 851**

(Continued on following page.)

	Yen			Dollars (Note 3)
	2002	2003	**2004**	**2004**
Per share data (Note 21)**:**				
Common stock				
Income before cumulative effect of accounting changes				
—Basic	¥ 10.21	¥125.74	**¥ 98.26**	**$ 0.94**
—Diluted	10.18	118.21	**93.00**	**0.89**
Cumulative effect of accounting changes				
—Basic	6.51	–	**(2.29)**	**(0.02)**
—Diluted	6.49	–	**(2.12)**	**(0.02)**
Net income				
—Basic	16.72	125.74	**95.97**	**0.92**
—Diluted	16.67	118.21	**90.88**	**0.87**
Cash dividends	25.00	25.00	**25.00**	**0.24**
Subsidiary tracking stock (Note 15)				
Net income (loss)				
—Basic	(15.87)	(41.98)	**(41.80)**	**(0.40)**
Cash dividends	–	–	**–**	**–**

The accompanying notes are an integral part of these statements.

* U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥104=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2004.

Consolidated Statements of Cash Flows

Sony Corporation and Consolidated Subsidiaries – Year ended March 31

	Yen in millions			Dollars in millions (Note 3)
	2002	2003	**2004**	**2004**
Cash flows from operating activities:				
Net income	¥ 15,310	¥115,519	**¥ 88,511**	**$ 851**
Adjustments to reconcile net income to net cash provided by operating activities—				
Depreciation and amortization, including amortization of deferred insurance acquisition costs	354,135	351,925	**366,269**	**3,522**
Amortization of film costs	242,614	312,054	**305,786**	**2,940**
Accrual for pension and severance costs, less payments	14,995	37,858	**35,562**	**342**
Loss on sale, disposal or impairment of assets, net (Notes 9 and 17)	49,862	39,941	**35,495**	**341**
Gain on sales of securities investments, net (Notes 6 and 7)	(1,398)	(72,552)	**(11,774)**	**(113)**
Gain on issuances of stock by subsidiaries and equity investees (Note 19)	(503)	–	**(4,870)**	**(47)**
Deferred income taxes	(49,719)	(98,016)	**(34,445)**	**(331)**
Equity in net income of affiliated companies, net of dividends	37,537	46,692	**1,732**	**17**
Cumulative effect of accounting changes (Note 2)	(5,978)	–	**2,117**	**20**
Changes in assets and liabilities:				
(Increase) decrease in notes and accounts receivable, trade	111,301	174,679	**(63,010)**	**(606)**
(Increase) decrease in inventories	290,872	36,039	**(78,656)**	**(756)**
Increase in film costs	(236,072)	(317,953)	**(299,843)**	**(2,883)**
Increase (decrease) in notes and accounts payable, trade	(172,626)	(58,384)	**93,950**	**903**
Increase (decrease) in accrued income and other taxes	(39,589)	14,637	**(46,067)**	**(443)**
Increase in future insurance policy benefits and other	314,405	233,992	**264,216**	**2,541**
Increase in deferred insurance acquisition costs	(71,522)	(66,091)	**(71,219)**	**(685)**
Increase in marketable securities held in the insurance business for trading purpose	(55,661)	–	**–**	**–**
(Increase) decrease in other current assets	5,543	29,095	**(34,991)**	**(336)**
Increase (decrease) in other current liabilities	(19,418)	26,205	**44,772**	**431**
Other	(46,492)	48,148	**39,100**	**375**
Net cash provided by operating activities	¥737,596	¥853,788	**¥632,635**	**$6,083**

(Continued on following page.)

	Yen in millions			Dollars in millions (Note 3)
	2002	2003	**2004**	**2004**
Cash flows from investing activities:				
Payments for purchases of fixed assets	¥(388,514)	¥ (275,285)	**¥ (427,344)**	**$ (4,109)**
Proceeds from sales of fixed assets	37,434	25,711	**33,987**	**327**
Payments for investments and advances by financial service business	(689,944)	(1,012,508)	**(1,167,945)**	**(11,231)**
Payments for investments and advances (other than financial service business)	(106,396)	(123,839)	**(33,329)**	**(320)**
Proceeds from sales of securities investments, maturities of marketable securities and collections of advances by financial service business	330,239	529,395	**791,188**	**7,607**
Proceeds from sales of securities investments, maturities of marketable securities and collections of advances (other than financial service business)	48,842	148,977	**35,521**	**342**
(Increase) decrease in time deposits	1,222	1,124	**(1,456)**	**(14)**
Cash assumed upon acquisition by stock exchange offering	–	–	**3,634**	**35**
Proceeds from the issuance of stock by subsidiaries (Note 19)	–	–	**3,952**	**38**
Net cash used in investing activities	(767,117)	(706,425)	**(761,792)**	**(7,325)**
Cash flows from financing activities:				
Proceeds from issuance of long-term debt	228,999	12,323	**267,864**	**2,575**
Payments of long-term debt	(171,739)	(238,144)	**(32,042)**	**(308)**
Decrease in short-term borrowings	(78,104)	(7,970)	**(57,708)**	**(555)**
Increase in deposits from customers in the banking business (Note 12)	106,472	142,023	**129,874**	**1,249**
Proceeds from issuance of subsidiary tracking stock (Note 15)	9,529	–	**–**	**–**
Dividends paid	(22,951)	(22,871)	**(23,106)**	**(222)**
Other	12,834	21,505	**28,401**	**273**
Net cash provided by (used in) financing activities	85,040	(93,134)	**313,283**	**3,012**
Effect of exchange rate changes on cash and cash equivalents	21,036	(24,971)	**(47,973)**	**(461)**
Net increase in cash and cash equivalents	76,555	29,258	**136,153**	**1,309**
Cash and cash equivalents at beginning of the fiscal year	607,245	683,800	**713,058**	**6,856**
Cash and cash equivalents at end of the fiscal year	¥ 683,800	¥ 713,058	**¥ 849,211**	**$ 8,165**
Supplemental data:				
Cash paid during the year for—				
Income taxes	¥ 148,154	¥ 171,531	**¥ 114,781**	**$ 1,104**
Interest	35,371	22,216	**22,571**	**217**
Non-cash investing and financing activities—				
Obtaining assets by entering into capital lease	¥ 10,572	¥ 9,034	**¥ 18,298**	**$ 176**
Contribution of assets into an affiliated company	10,545	–	**–**	**–**

The accompanying notes are an integral part of these statements.

* U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥104=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2004.

Consolidated Statements of Changes in Stockholders' Equity

Sony Corporation and Consolidated Subsidiaries – Year ended March 31

	Yen in millions						
	Subsidiary tracking stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total
Balance at March 31, 2001	–	¥472,002	¥962,401	¥1,217,110	¥(328,567)	¥(7,493)	¥2,315,453
Exercise of stock purchase warrants		26	26				52
Conversion of convertible bonds		161	162				323
Issuance of subsidiary tracking stock (Note 15)	¥3,917		5,612				9,529
Comprehensive income:							
Net income				15,310			15,310
Other comprehensive income, net of tax (Note 15)—							
Unrealized gains on securities:							
Unrealized holding gains or losses arising during the period					(20,243)		(20,243)
Less: Reclassification adjustment for gains or losses included in net income					(1,276)		(1,276)
Unrealized losses on derivative instruments:							
Cumulative effect of an accounting change					1,089		1,089
Unrealized holding gains or losses arising during the period					2,437		2,437
Less: Reclassification adjustment for gains or losses included in net income					(4,237)		(4,237)
Minimum pension liability adjustment					(22,228)		(22,228)
Foreign currency translation adjustments					97,432		97,432
Total comprehensive income							68,284
Stock issue costs, net of tax				(166)			(166)
Dividends declared				(22,992)			(22,992)
Purchase of treasury stock						(468)	(468)
Reissuance of treasury stock			22			373	395
Balance at March 31, 2002	¥3,917	¥472,189	¥968,223	¥1,209,262	¥(275,593)	¥(7,588)	¥2,370,410
Conversion of convertible bonds		172	172				344
Stock issued under exchange offering (Note 15)			15,791				15,791
Comprehensive income:							
Net income				115,519			115,519
Other comprehensive income, net of tax (Note 15)—							
Unrealized gains on securities:							
Unrealized holding gains or losses arising during the period					(9,627)		(9,627)
Less: Reclassification adjustment for gains or losses included in net income					4,288		4,288
Unrealized losses on derivative instruments:							
Unrealized holding gains or losses arising during the period					(4,477)		(4,477)
Less: Reclassification adjustment for gains or losses included in net income					395		395
Minimum pension liability adjustment					(110,636)		(110,636)
Foreign currency translation adjustments:							
Translation adjustments arising during the period					(83,993)		(83,993)
Less: Reclassification adjustment for losses included in net income					7,665		7,665
Total comprehensive income							(80,866)
Stock issue costs, net of tax				(19)			(19)
Dividends declared				(23,022)			(23,022)
Purchase of treasury stock						(1,817)	(1,817)
Reissuance of treasury stock			10			64	74
Balance at March 31, 2003	¥3,917	¥472,361	¥984,196	¥1,301,740	¥(471,978)	¥(9,341)	¥2,280,895

(Continued on following page.)

	Yen in millions						
	Subsidiary tracking stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total
Balance at March 31, 2003	¥3,917	¥472,361	¥984,196	¥1,301,740	¥(471,978)	¥(9,341)	¥2,280,895
Conversion of convertible bonds		**3,989**	**3,988**				**7,977**
Stock issued under exchange offering (Note 15)			**5,409**				**5,409**
Comprehensive income:							
Net income				**88,511**			**88,511**
Other comprehensive income, net of tax (Note 15)—							
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.)

	Dollars in millions (Note 3)						
	Subsidiary tracking stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total
Balance at March 31, 2003	$38	$4,542	$9,463	$12,517	$(4,538)	$ (90)	$21,932
Conversion of convertible bonds		**38**	**38**				**76**
Stock issued under exchange offering (Note 15)			**52**				**52**
Comprehensive income:							
Net income				**851**			**851**
Other comprehensive income, net of tax (Note 15)—							
Unrealized gains on securities:							
Unrealized holding gains or losses arising during the period					**558**		**558**
Less: Reclassification adjustment for gains or losses included in net income					**(55)**		**(55)**
Unrealized losses on derivative instruments:							
Unrealized holding gains or losses arising during the period					**72**		**72**
Less: Reclassification adjustment for gains or losses included in net income					**(32)**		**(32)**
Minimum pension liability adjustment					**898**		**898**
Foreign currency translation adjustments:							
Translation adjustments arising during the period					**(1,242)**		**(1,242)**
Less: Reclassification adjustment for losses included in net income					**12**		**12**
Total comprehensive income							**1,062**
Stock issue costs, net of tax				**(1)**			**(1)**
Dividends declared				**(222)**			**(222)**
Purchase of treasury stock						**(82)**	**(82)**
Reissuance of treasury stock			**(7)**			**55**	**48**
Balance at March 31, 2004	**$38**	**$4,580**	**$9,546**	**$13,145**	**$(4,327)**	**$(117)**	**$22,865**

The accompanying notes are an integral part of these statements.

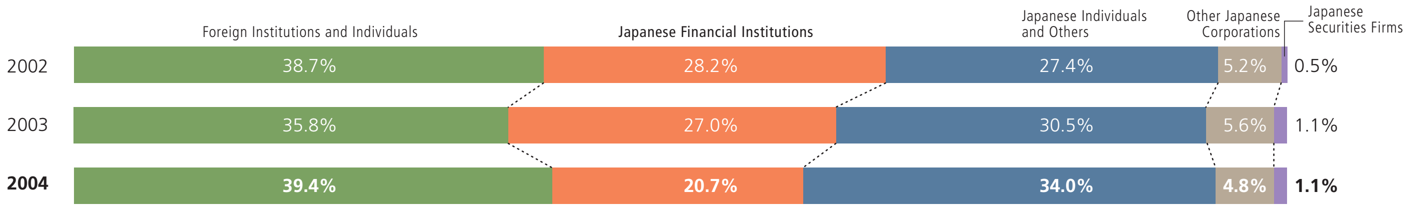
* U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥104=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2004.

Stock Information

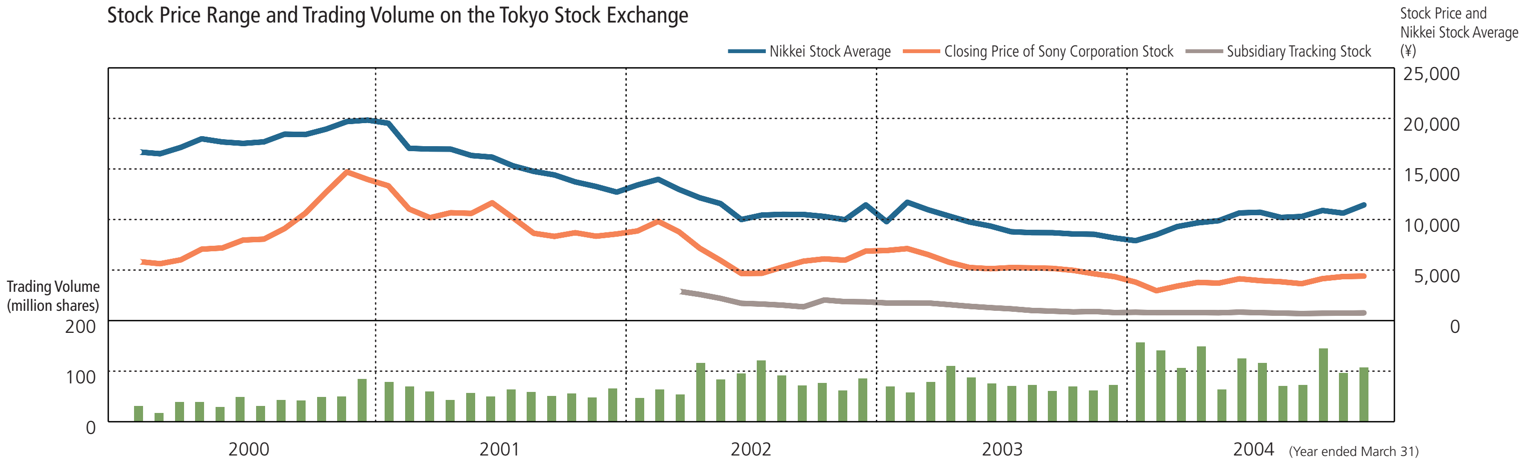
Ownership and Distribution of Shares

(Year ended March 31)

	2002		2003		**2004**	
	Number of Shares Held	Number of Shareholders	Number of Shares Held	Number of Shareholders	Number of Shares Held	Number of Shareholders
Foreign Institutions and Individuals	356,673,842	1,667	331,477,756	1,660	**366,289,954**	**1,444**
Japanese Financial Institutions	260,533,688	485	249,934,658	446	**192,651,120**	**386**
Japanese Individuals and Others	253,033,597	717,141	281,939,398	791,371	**316,428,972**	**823,335**
Other Japanese Corporations	47,924,895	5,755	51,973,659	6,017	**44,113,525**	**5,726**
Japanese Securities Firms	4,650,333	76	10,131,705	121	**10,006,709**	**97**
Total	922,816,355	725,124	925,457,176	799,615	**929,490,280**	**830,988**



Stock Price Range and Trading Volume on the Tokyo Stock Exchange



Notes: 1. This trading volume shows the monthly volume of trade on the Tokyo Stock Exchange. Each fiscal year starts in April and ends in March.
2. Stock prices and the Nikkei Stock Average is based on a simple average of daily closing prices for each day of every month at the Tokyo Stock Exchange.
3. Stock prices have been adjusted to reflect the two-for-one stock split completed on May 19, 2000.
4. On June 20, 2001, Sony issued 3,072,000 shares of Subsidiary Tracking Stock.

(Year ended March 31)

	2000	2001	2002	2003	**2004**
Stock Price (¥)					
At year-end	14,500	8,900	6,700	4,200	**4,360**
High	16,950	15,100	10,340	7,530	**4,670**
Low	5,360	7,510	3,960	4,070	**2,720**
Annual Increase/Decrease	+164.8%	−38.6%	−24.7%	−37.3%	**+3.8%**
Number of Shares Outstanding at Year-end (thousands of shares)	453,639	919,617	919,744	922,385	**926,418**
Market Capitalization at Year-end (trillion ¥)	13.16	8.16	6.16	3.87	**4.04**
Per Share of Common Stock Data (¥)					
Cash Dividends Applicable to the Year	25.0	25.0	25.0	25.0	**25.0**
Net Income (Diluted)	131.70	19.28	16.67	118.21	**90.88**
Stockholders' Equity	2,409.36	2,521.19	2,570.31	2,466.81	**2,563.67**

Note: Stock Prices and Per Share Data have been adjusted to reflect the two-for-one stock split completed on May 19, 2000. However, no adjustment to reflect such stock split has been made to the Number of Shares Outstanding at the year ended March 31, 2000. Stock price data are based on daily closing prices.

Stock Acquisition Rights and Bond Information (As of March 31, 2004)

Stock Acquisition Rights (SARs)

Name	Date of issue (Exercise period)	Total number of SARs to be issued	Exercise price	Outstanding balance	Percentage of SARs exercised (%)
The first series of Common Stock Acquisition Rights	December 9, 2002 (December 8, 2012)	12,004	¥5,396.00	12,004	0
The second series of Subsidiary Tracking Stock Acquisition Rights	December 9, 2002 (December 8, 2012)	455	¥1,008.00	455	0
The third series of Common Stock Acquisition Rights	March 31, 2003 (March 31, 2013)	14,475	U.S.$36.57	14,475	0
The fourth series of Common Stock Acquisition Rights	November 14, 2003 (November 13, 2013)	13,978	¥4,101.00	13,978	0
The fifth series of Subsidiary Tracking Stock Acquisition Rights	November 14, 2003 (November 13, 2013)	455	¥815.00	455	0
The sixth series of Common Stock Acquisition Rights	March 31, 2004 (March 31, 2014)	12,236	U.S.$40.90	12,236	0

(Note) Stock Acquisition Rights number 1 through 6 were issued at no cost for the purpose of granting stock options. The number of shares to be issued upon exercise of each Stock Acquisition Right is 100.

Convertible Bonds

Name	Date of issue	Years	Interest rate (%)	Total amount of issue	Conversion price	Outstanding balance (Percentage of bonds converted)
The fourth series of unsecured convertible bonds	February 14, 1990	15	1.4	¥300,000 million	¥3,995.5	¥287,753 million (4.1%)
Euroyen-denominated notes with convertible bond-type stock acquisition rights and conversion restrictions	December 18, 2003	5	0	¥250,000 million	¥5,605.0	¥250,000 million (0.0%)
U.S. Dollar convertible bonds	April 17, 2000	10	0	U.S.$57,331 thousand	¥13,220.0	U.S.$49,707 thousand (0.0%)
U.S. Dollar convertible bonds	April 16, 2001	10	0	U.S.$77,056 thousand	¥8,814.0	U.S.$60,014 thousand (0.0%)
U.S. Dollar convertible bonds	December 17, 2001	5	0	U.S.$57,307 thousand	¥5,952.23	U.S.$57,134 thousand (0.0%)
U.S. Dollar convertible bonds	April 15, 2002	10	0	U.S.$67,297 thousand	¥6,931.0	U.S.$50,612 thousand (0.0%)

(Notes) 1. The Stock Acquisition Rights of the bonds with Stock Acquisition Rights (principal amount of ¥250 billion) cannot be detached from the bonds, and the exercise of a Stock Acquisition Right causes the corresponding Bond to be cancelled in lieu of a cash payment for purchase of shares. Due to this close interrelation between the bonds and Stock Acquisition Rights, and in consideration of the value of the Stock Acquisition Rights and the economic value obtainable by issuing the bonds with the coupon, issue price and other terms of the issue, the Stock Acquisition Rights are issued at no cost.

2. All U.S. dollar convertible bonds were issued to provide equity-based compensation to certain executives in Sony's U.S. subsidiary companies. All U.S. dollar convertible bonds were issued for distribution to certain executives in Sony Corporation's U.S. subsidiary companies as an equity-based incentive plan. Although the conversion ratio is 0% for all these bonds, the value of bonds issued does not match the outstanding balance of bonds because Sony Corporation purchased and canceled a portion of these warrants that were not used for the incentive plan.

Bonds with Warrants

Name	Date of issue	Years	Interest rate (%)	Total amount of issue	Conversion price	Outstanding balance (Percentage of warrants exercised)
The sixth series of unsecured bonds with warrants	August 17, 1998	6	0.03	¥4,000 million	¥6,263.5	¥3,536 million (11.6%)
The seventh series of unsecured bonds with warrants	August 23, 1999	6	0.1	¥4,000 million	¥7,166.5	¥4,000 million (0%)
The tenth series of unsecured bonds with warrants	October 19, 2000	6	1.55	¥12,000 million	¥12,457.0	¥11,490 million (0%)
The thirteenth series of unsecured bonds with warrants	December 21, 2001	6	0.9	¥7,300 million	¥6,039.0	¥6,920 million (0%)
The fourteenth series of unsecured bonds with warrants for shares of Subsidiary Tracking Stock	December 21, 2001	6	0.9	¥150 million	¥3,300.0	¥150 million (0%)

(Note) All bonds with warrants were issued for distribution to the directors and other executives of Sony Corporation as an equity-based incentive plan. The fourteenth series of unsecured bonds with warrants for shares of Subsidiary Tracking Stock was issued for distribution to the directors and other executives of Sony Communication Network. Regarding the tenth series of unsecured bonds with warrants and the thirteenth series of unsecured bonds with warrants, Sony Corporation canceled a portion of the warrants that were not used for the incentive plan. As a result, although the exercise ratio is 0% for both issues, the value of bonds issued does not match the outstanding balance of warrants.

Straight Bonds

Name	Date of issue	Years	Interest rate (%)	Total amount of issue	Outstanding balance
The sixth (2) series of unsecured bonds	October 23, 1998	7	2.00	¥15,000 million	¥15,000 million
The seventh (2) series of unsecured bonds	July 26, 2000	7	1.99	¥15,000 million	¥15,000 million
The eighth (2) series of unsecured bonds	July 26, 2000	10	(Note 2)	¥5,000 million	¥4,900 million
The eighth series of unsecured bonds	September 13, 2000	5	1.42	¥100,000 million	¥100,000 million
The ninth series of unsecured bonds	September 13, 2000	10	2.04	¥50,000 million	¥50,000 million
The eleventh series of unsecured bonds	September 17, 2001	5	0.64	¥100,000 million	¥100,000 million
The twelfth series of unsecured bonds	September 17, 2001	10	1.52	¥50,000 million	¥50,000 million

(Notes) 1. Sony Corporation assumed responsibility for the sixth (2) series of unsecured bonds, the seventh (2) series of unsecured bonds and the eighth (2) series of unsecured bonds as a result of its merger with AIWA Corporation. Sony Corporation repurchased and canceled one hundred million yen of the eighth (2) series of unsecured bonds.

2. The interest rate of the eighth (2) series of unsecured bonds is calculated by subtracting 2-year interest rate swap from 20-year interest rate swap and then adding 1.00%. (If the result of this calculation is negative, the interest rate is 0%.)

Investor Information

SONY CORPORATION
7-35, Kitashinagawa 6-chome, Shinagawa-ku,
Tokyo 141-0001, Japan
Phone: 81-(0)3-5448-2111
Facsimile: 81-(0)3-5448-2244

INVESTOR RELATIONS OFFICES
If you have any questions or would like a copy of our Form 20-F, filed with the U.S. Securities and Exchange Commission, or Annual Report to shareholders, please direct your request to:

Japan
SONY CORPORATION
IR Office
7-35, Kitashinagawa 6-chome, Shinagawa-ku,
Tokyo 141-0001
Phone: 81-(0)3-5448-2180
Facsimile: 81-(0)3-5448-2183

U.S.A.
SONY CORPORATION OF AMERICA
Investor Relations
550 Madison Avenue, 27th Floor,
New York, NY 10022-3211
Phone: U.S. and Canada 800-556-3411
International 1-402-573-9867
Facsimile: 1-212-833-6938

U.K.
SONY GLOBAL TREASURY SERVICES PLC.
Investor Relations
St. Helens, 1 Undershaft,
London EC3A 8EE
Phone: 44-(0)20-7444-9713
Facsimile: 44-(0)20-7444-9763

SONY ON THE INTERNET
Sony's Investor Relations Home Pages on the World Wide Web offer a wealth of corporate information, including the latest annual report and financial results.
http://www.sony.net/IR/

ORDINARY GENERAL MEETING OF SHAREHOLDERS
The Ordinary General Meeting of Shareholders is held in June in one of the wards of Tokyo or in the city of Yokohama in Kanagawa Prefecture, Japan.

INDEPENDENT ACCOUNTANTS
ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan

DEPOSITARY, TRANSFER AGENT AND REGISTRAR FOR AMERICAN DEPOSITARY RECEIPTS
JPMorgan Chase Bank
270 Park Avenue,
New York, NY 10017-2070

Contact Address:
JPMorgan Service Center
JPMorgan Chase Bank
P.O. Box 43013
Providence, RI 02940-3013
Phone: U.S. 800-360-4522
International 1-781-575-4328

CO-TRANSFER AND CO-REGISTRAR AGENT
CIBC Mellon Trust Company
2001 University Street, 16th Floor,
Montreal, Quebec, H3A 2A6, Canada
Phone: 1-514-285-3600

TRANSFER AGENT OF COMMON SHARES HANDLING OFFICE
UFJ Trust Bank Limited
Corporate Agency Department
10-11, Higashisuna 7-chome, Koto-ku,
Tokyo 137-8081, Japan
Phone: 81-(0)3-5683-5111

OVERSEAS STOCK EXCHANGE LISTINGS
New York, Pacific, Chicago, Toronto, London, Paris, Frankfurt, Düsseldorf, Brussels, Vienna and Swiss stock exchanges

JAPANESE STOCK EXCHANGE LISTINGS
Tokyo, Osaka, Nagoya, Fukuoka and Sapporo stock exchanges

NUMBER OF SHAREHOLDERS
(As of March 31, 2004)
830,988

Information regarding CSR (Corporate Social Responsibility)
Sony's CSR and Environmental Activities Report and information about Sony CSR and environmental activities can be accessed at the following web site.
Japanese: http://www.sony.co.jp/csr/
English: http://www.sony.net/csr/

Inquiries concerning the aforementioned activities can be directed to:
Sony Corporation
Social and Environmental Affairs,
Compliance Office
Phone: 81-(0)3-5448-3533
Facsimile: 81-(0)3-5448-7838

The enclosed CD-ROM contains the following:
- QRIO STORY (a short movie featuring the QRIO biped robot)
- Annual Report 2004 (including "Notes to Consolidated Financial Statements" and "Report of Independent Accountants")

Hybrid CD-ROM for Windows & Macintosh
©2004 Sony Corporation

Printed on 100% recycled paper.
Printed using VOC (volatile organic compound)-free vegetable oil based ink.

Annual Report 2004

Annual Report 2004
Year Ended March 31, 2004
Sony Corporation

Printed in Japan