SONY

Annual Report 2007

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Cover page design concept:
The representation of the energy created through "Sony United"—the collaboration of Sony's many businesses, people and technologies

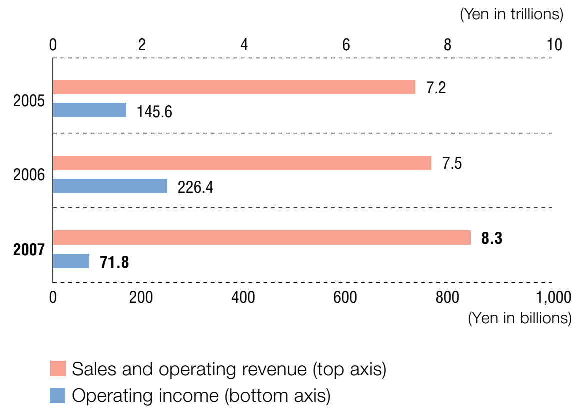
Financial Highlights

Sony Corporation and Consolidated Subsidiaries
Years ended March 31

	Yen in millions except per share amounts and number of employees			Percent change	Dollars in millions* except per share amounts
	2005	2006	**2007**	2007/2006	**2007**
FOR THE YEAR					
Sales and operating revenue	¥7,191,325	¥7,510,597	**¥ 8,295,695**	+10.5%	**$70,303**
Operating income	145,628	226,416	**71,750**	–68.3	**608**
Income before income taxes	157,207	286,329	**102,037**	–64.4	**865**
Income taxes	16,044	176,515	**53,888**	–69.5	**457**
Equity in net income of affiliated companies	29,039	13,176	**78,654**	+496.9	**667**
Net income	163,838	123,616	**126,328**	+2.2	**1,071**
Cash flows from operating activities	646,997	399,858	**561,028**	+40.3	**4,754**
Cash flows from investing activities	(931,172)	(871,264)	**(715,430)**	—	**(6,063)**
Per share data: (Yen, dollars)					
Net income					
—Basic	¥ 175.90	¥ 122.58	**¥ 126.15**	+2.9%	**$ 1.07**
—Diluted	158.07	116.88	**120.29**	+2.9	**1.02**
Cash dividends	25.00	25.00	**25.00**	—	**0.21**
AT YEAR-END					
Stockholders' equity	¥2,870,338	¥ 3,203,852	**¥ 3,370,704**	+5.2%	**$28,565**
Total assets	9,499,100	10,607,753	**11,716,362**	+10.5	**99,291**
Number of employees	151,400	158,500	**163,000**	+2.8	

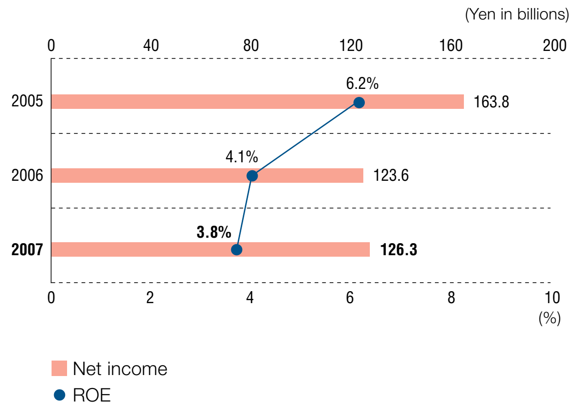
* U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥118=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 30, 2007.

Sales and Operating income



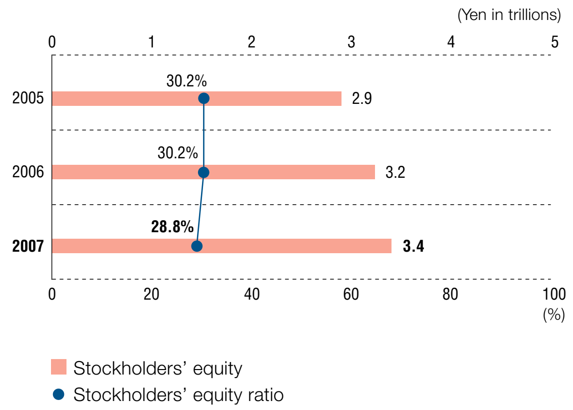
*Years ended March 31

Net income and ROE



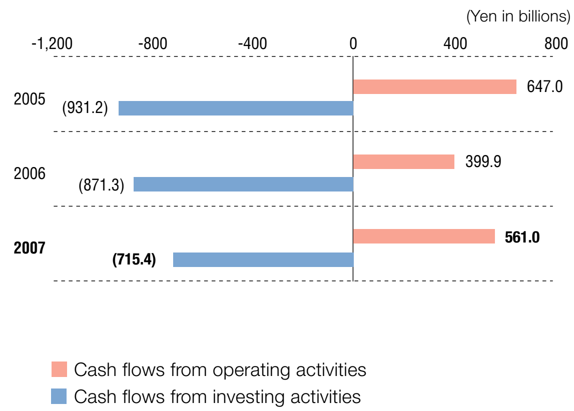
*Years ended March 31

Stockholders' equity and Stockholders' equity ratio



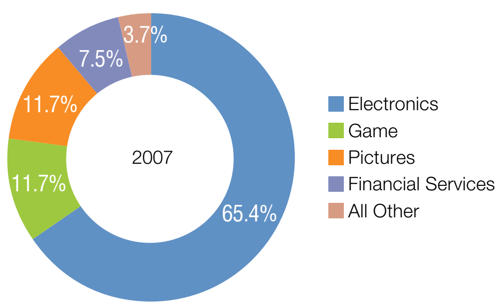
*As of March 31

Cash flows



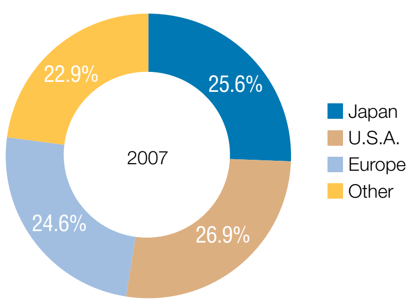
*Years ended March 31

Shares of sales* by business segment



*Year ended March 31
*Percentage of sales and operating revenue to outside customers

Shares of sales* by region



*Year ended March 31
*Percentage of sales and operating revenue to outside customers
*Sales and operating revenue accounted for by customers in each particular region

Letter to Shareholders: A Message from Howard Stringer, CEO

Over the course of fiscal year 2006 (the year ended March 31, 2007), Sony has taken many important and successful steps toward the completion of its revitalization plan announced in September 2005. In the year that lies ahead, we expect to complete the transition from revitalization to enhanced growth and profitability.

During fiscal year 2006, we achieved or exceeded many of the targets we had set for ourselves. First, under Dr. Chubachi's leadership, our key Electronics business recorded an operating margin of over 4% (excluding one-time and restructuring charges[1]) and, in doing so, achieved its goal a full year ahead of our plan. Notable achievements included our Cyber-shot™ digital cameras recording greatly improved profitability and our BRAVIA™ LCD televisions capturing the No. 1 position worldwide[2]. In addition, our Handycam® video cameras continued to perform extremely well. Sony Ericsson Mobile Communications AB, our equity method joint venture with LM Ericsson of Sweden, reported strong growth in profit and increased market share led by the great success of its Walkman® and Cyber-shot mobile phones.

Second, during calendar year 2006 our Pictures division set a number of box office records worldwide, including a record 13 No. 1 opening weekends and record total box office revenue in the U.S. market and our most successful theatrical release year ever in markets outside of the United States. Films such as *The Da Vinci Code*, *Talladega Nights: The Ballad of Ricky Bobby*, *Click* and *The Pursuit of Happyness* were among the significant contributors to this success.

Third, we launched the newest PlayStation® platform, PLAYSTATION®3 (PS3™), and 5.5 million units were shipped by fiscal year-end. The PLAYSTATION®Network (PSN), the online service launched together with PS3, opens up new potential revenue streams for the company from online transactions. The opportunity presented by PS3 is enormous, and we are very excited to have recently completed the worldwide launch.

A number of our restructuring targets were also achieved more than a year ahead of plan. These include our asset disposal and head-count reduction targets. We fully expect to achieve all of the other targets established in September 2005, including a consolidated operating margin of 5% for the year ending March 31, 2008.

While we are proud of what we achieved during the past year, there were also considerable difficulties. In particular, we encountered problems with Sony-manufactured lithium-ion laptop battery cells, which significantly impacted our financial results, and with the cutting-edge technology of blue laser diodes critical to the Blu-ray Disc™ drive in PS3. We have taken aggressive steps to

1 Includes ¥37.4 billion of restructuring charges and a ¥51.2 billion provision for expenses relating to a notebook computer battery pack recall and our voluntary global replacement program

2 DisplaySearch, revenue basis for calendar year 2006

ensure that any product safety or quality problems we identify going forward will be swiftly addressed.

The successes of the past year were achieved by the thousands of Sony employees who work tirelessly to enhance the Sony brand. A number of key appointments were made which contributed to our success. Within the Electronics segment, Dr. Chubachi and I named Executive Deputy President Katsumi Ihara to the position of Officer in charge of the Consumer Product Group and promoted Executive Vice President Yutaka Nakagawa to the position of Executive Deputy President, Officer in charge of the Semiconductor and Component Business Group. In the Game segment, we announced the promotion of Kaz Hirai from President and CEO of Sony Computer Entertainment America Inc. to President and Group CEO at Sony Computer Entertainment Inc. These individuals are but a few examples of superior executives assuming broader responsibilities in our growing company, and interviews with each of them are included in this annual report.

As we look forward to the year ahead, there are many initiatives under way. First and foremost, we must achieve all of the goals we outlined in September 2005 for completion by the end of fiscal year 2007. Sony's executives and employees are united in this effort.

Second, we will continue to champion those products and services most in demand by the consumer and most likely to drive shareholder returns. Future investments will be weighed cautiously to be certain that they are focused on high return opportunities, and we will continue our stringent focus on product quality and innovation.

Third, having nearly accomplished our revitalization plan, we must focus again on profitable growth. Sony has many competitive advantages that we must harness. For example, Sony is the only company to participate in the entire high definition (HD) value chain, from the lens to the screen. From capturing images with our professional cameras, digital cameras, single lens reflex cameras or video cameras to editing images on our VAIO™ computers or displaying the images on our BRAVIA televisions or digital 4K projectors for movie theaters, no company offers as many Full HD products as Sony. Complementing these products are our Blu-ray Disc players (both stand-alone and in PS3) and all of the HD content we possess in Sony Pictures Entertainment Inc. As content and technology converge, Sony is uniquely positioned to capitalize on this trend and to create innovative new products and services. Our software and hardware engineers, together with the managers of all of our digital content are united in this effort as well.

The current fiscal year will be important for our Game division. In addition to our hardware engineers bringing down the cost of the cutting-edge technologies inside PS3, we have plans in motion for the PSN to serve as a portal for game, movie and music content as well as a free, global network for interactive gamers. We will also significantly expand our lineup of software for the platform, and we have already announced the creation of PLAYSTATION®Home, an online community where PS3 players can meet and interact in a virtual world. This virtual world will present an exciting opportunity for Sony and its partners.

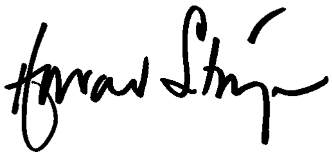
Sony has also launched a global marketing partnership with FIFA (Fédération Internationale de Football Association) as an official sponsor of more than 40 FIFA events, including the FIFA World Cup™ due to be held in South Africa in 2010 and South America in 2014. The FIFA partnership is a marketing platform with truly global reach and a unique opportunity to showcase all that Sony has to offer to consumers worldwide.

Despite the challenges we faced over the past year, Sony's brand remains strong in the hearts and minds of consumers. In the United States, we were No. 1 in the Harris Interactive® poll of brands for the seventh consecutive year. In addition, AlixPartners LLP, in its survey of consumers across all demographics in the United States, ranked Sony as the No. 1 most powerful brand in its Brand Power Index. The strength of the Sony brand is not just a source of great products, but also a distinct competitive advantage and one we work hard every day to maintain.

As we complete the transition from revitalization to driving long-term growth, we believe that dawn is breaking on a new day at Sony. We serve large and growing markets with an array of products and services most in demand by consumers. Our varied businesses complement each other and present opportunities to create shareholder value that are unique to Sony.

On behalf of all of the employees at Sony, I would like to express our thanks for your continued support of the company.

May 15, 2007



Howard Stringer
Chairman and CEO
Representative Corporate Executive Officer

Howard Stringer
Chairman and CEO, Representative Corporate Executive Officer
Originally from the United Kingdom, Howard Stringer was a director and producer at CBS (one of the top four TV networks in the United States) before becoming president of CBS News in 1986 and president of CBS Broadcast Group, CBS Inc. in 1988. After joining Sony Corporation of America in 1997, he became its Chairman and CEO the following year, as well as becoming Sony's COO in charge of the Entertainment division, where he brought the Pictures and Music businesses to new heights. In 1999, he received the title of Knight Bachelor from Her Majesty Queen Elizabeth II in recognition of his contribution to the broadcast industry. He became Chairman and CEO of Sony Corporation in June of 2005.

Ryoji Chubachi
President and Electronics CEO, Representative Corporate Executive Officer
Ryoji Chubachi entered Sony Corporation after obtaining his Ph.D. in Resource Engineering in 1977. He was involved in developing recording media, and in 1989 was transferred to Sony Magnetic Products Inc. of America. Upon returning to Japan in 1992, he was placed in charge of the recording media business, including magnetic tapes and optical discs. In 2002, he was given command of the entire device/component business. The following year, he became NC President of the Micro Systems Network Company. In 2004, he was promoted to Executive Deputy President and COO (in charge of the Device Business and Production Strategy). He became Electronics CEO in April 2005, and subsequently President of Sony Corporation in June, and currently serves in these two capacities.

Sony United

Where Sony's Revolution Begins

“Sony United”

“Sony United” was introduced as an internal slogan in Sony’s mid-term corporate strategy announced in September 2005. Since then, we have implemented a variety of measures aimed at “uniting” Sony, including promoting teamwork, cooperation and the marriage of key resources.

In this year’s special feature, we take a look at some of these measures in interviews with key members of Sony’s management team.

Sony’s extensive portfolio includes a diverse range of businesses, including electronics, games, motion pictures and music. We invite you to share in what will become as we “unite” our various businesses, people, content and hardware, and technology and services and transform into a new Sony.

People

Sony employs approximately 160,000 people worldwide, including in the Americas, Europe, Japan and elsewhere in Asia. Cooperation and the active exchange of ideas among people in all areas, from engineering and manufacturing to marketing, make it possible for us to deliver quality products and services every single day and always from the customer's perspective.






Content and Hardware

In addition to hardware, Sony boasts a vast range of content, including games, motion pictures and music. By seamlessly integrating such content with our hardware, we make it possible to enjoy motion pictures, music, games and other entertainment content on products like LCD televisions, Blu-ray Disc players, audio players and PLAYSTATION®3 (PS3), thereby creating innovative products and services that offer new ways to excite and amuse.





Technology

Sony's hardware includes semiconductors, image sensors, displays and other key devices that we have developed in-house. Our increasingly differentiated products are underpinned by our ability to develop such key devices. By further strengthening our software technologies, we will create new products and services for the "network age," thereby positioning us for future growth.





Sony United Electronics: A Discussion among Top Management

From revitalization to growth: Sony's electronics business is advancing from a structural reform phase to a growth phase. In these pages, Electronics CEO Ryoji Chubachi and Executive Deputy Presidents Katsumi Ihara and Yutaka Nakagawa discuss their vision for the electronics business going forward, addressing issues ranging from business strategies to organizational changes, cooperation within the Sony Group, R&D and development of human resources.

A sharp improvement in sales and profit as revitalization gives way to a new growth trajectory

Chubachi Looking back at the electronics business in fiscal year 2006 (the year ended March 31, 2007), on the product front we brought together a powerful lineup centered on BRAVIA LCD televisions and made significant advances toward realizing the "HD World"—a world of high definition, high-resolution product networks, created by Sony. The electronics business also registered significant improvement in profitability, achieving—a year ahead of schedule—the target set under our mid-term corporate strategy of an operating margin of 4% (before restructuring and one-time charges) for the fiscal year ending March 31, 2008, underscoring my view that revitalization has given way to a new growth trajectory.

On the organizational front, in October 2006 we created the Consumer Products Group, under the leadership of Katsumi Ihara, and the Semiconductor & Component Group, under the management of Yutaka Nakagawa, within the electronics business. The Consumer Products Group reflects our belief in the need to centralize management of products including televisions, digital cameras, video cameras and PCs, to strengthen product appeal and promote better linking of products. In contrast, the Semiconductor & Component Group is tasked with developing and supplying devices that enable the creation of distinctive finished products and, as a profit center, with contributing to the electronics business's performance through sales of Sony devices to third parties.

You two are charged with implementing management strategies that focus on achieving success as we confront today's challenges. My job is to implement management strategies that are designed to ensure we continue to prevail in the future. With the aim of reinforcing R&D—the underpinning of such forward-looking strategies—in October 2006 we revamped our R&D organization. In addition to the Consumer Products Group and the Semiconductor & Component Group, in April 2007 we established the B2B Solutions Business Group, in charge of broadcast equipment and other professional-use products and services. This new business group will enable us to take a twofold approach, emphasizing the development of differentiating technologies to facilitate the creation of appealing products, and the cultivation of new businesses to support growth of the electronics business going forward.

Making advances toward achieving the "HD World"—a world of high definition, high-resolution product networks

Chubachi One of the tasks you are addressing is to develop a single, coherent "HD World" concept by reinforcing product links. How is this effort progressing?

Ihara We are promoting the "HD World" concept across the globe. Better product links means you can shoot footage using your camera, save it, edit it on a PC and view it on your television—in other words, there is horizontal linkage across our product line. In the fiscal year ending March 31, 2008, we expect 75% of Sony electronics products to be HD-compatible. This is what I mean by "networks" of products, and it is an idea that has really begun to take shape. Products that have the capacity to function as a network carry greater value and, as a result, will be more accessible to consumers.

Chubachi So, by strengthening individual products and businesses and combining these with the added value of product networks, you will further enhance product linkage. From that perspective, how do you evaluate the period under review?

Ihara I really feel that we were successful in creating a foundation for future growth in fiscal year 2006. BRAVIA LCD televisions achieved market penetration worldwide,

Sony United

earning the top global market share*. Among digital cameras, the Cyber-shot series achieved firm sales in Europe, North America and Asia, while our new α™ ("Alpha") line of digital single-lens reflex (SLR) cameras made a spectacular debut. In the camcorder business, we strengthened our selection of high definition-compatible models. At the end of 2006, we realized a long-cherished ambition by rolling out Blu-ray Disc players and recorders, evidence that the "HD World"—until now largely conceptual in nature—is becoming a reality.

* DisplaySearch, revenue basis for calendar year 2006

Reinforcing product quality control systems and focusing on the image sensors business

Chubachi During the period under review, a quality issue arose involving Sony-manufactured battery cells used in certain notebook computers that caused considerable inconvenience to customers. Mr. Nakagawa, what response followed and what is the current situation?

Nakagawa Regarding the battery issue, we have enacted front-line reforms to address this problem from every conceivable angle, enabling us to ensure consistent improvements in quality and safety. Also, the launch of PLAYSTATION®3 (PS3) was postponed in Europe as a result of a delay in the ramp-up of production of blue-violet lasers for PS3. However, we have since recovered lost ground and have secured a sufficient supply.

Chubachi How do you assess the performance of the semiconductor business in fiscal year 2006? Can you also tell us about your new "Asset Light" strategy?

Nakagawa The semiconductor business recorded a sharp increase in sales and an improvement in profit, owing to the sale of semiconductors for PS3 to the Game division. In the image sensor business, sales of charge-coupled devices (CCDs) were particularly strong, bolstered by demand, chiefly for use in digital cameras. The CMOS sensor business also expanded, primarily for use in mobile phones and video cameras.

Our new "Asset Light" strategy aims to increase investment efficiency by achieving a sound balance between investments and returns. We will carefully select our capital investments, and focus on image sensors and other areas in which we enjoy a competitive advantage and which offer growth potential.

Katsumi Ihara
Representative Corporate Executive Officer, Executive Deputy President, Officer in charge of the Consumer Products Group
Katsumi Ihara joined Sony Corporation in 1981. In 1996, he became President of the Home A&V Products Company, where he was in charge of such businesses as home video and home audio. He subsequently served in several positions, including NC President of the Personal IT Network Company and NC President of the Digital Telecommunications Network Company. In 2001, he took office as President of Sony Ericsson Mobile Communications AB, and was involved with the start-up of that company. In 2004, he returned to Sony Corporation as Corporate Executive Officer, Executive Deputy President and Group CSO & CFO, while the following year he was named NC President of the Home Electronics Network Company. In June 2005, he became Representative Corporate Executive Officer and Executive Deputy President and later also became Officer in charge of the TV & Video Business Group, in which capacity he oversaw the launch of Sony's LCD television business. He became Officer in charge of the Consumer Products Group in October 2006.

Strengthening the competitiveness of product networks and proposing new lifestyle options

Chubachi What measures have you formulated for the Consumer Products Group and what do you see as the principal tasks facing you?

Ihara Among individual products, we aim to grow televisions into a highly profitable business by strengthening our lineup, focusing on large-screen, high definition models. In the fiscal year ending March 31, 2008, we expect to carry out our eagerly awaited plan to commercialize our first television employing an organic light-emitting diode (OLED) display. Ensuring the success of this television will be an important task for us.

For product networks, we strive to sharpen our competitive edge both in terms of the enjoyment and convenience provided by networks composed of Sony products. Rather than simply augmenting our lineup of applications for linking products, we are planning an innovative marketing approach that involves staging easy-to-follow demonstrations worldwide, to better communicate the appeal of these networks.

Chubachi How will the linking of products change living rooms at home? What changes will we see in kids' rooms, bedrooms and studies?

Ihara To give you an example, you will be able to operate your television and your video and audio equipment with one touch and one remote control. The Sony RoomLink™ function will allow you to operate equipment and access content from anywhere in the house, no matter what room you are in. Moreover, televisions themselves will evolve and be able to view Web-based video content and use Internet applications while watching television.

In terms of connecting with mobile electronics products, we are offering consumers new ways to view photographs taken on a digital camera on their televisions. What we'd like to see is people enjoying high-resolution output from their high definition-compatible digital cameras, Blu-ray Disc players and video cameras on their BRAVIA televisions. Enhancing linkage between products such as these is another way we are reinforcing the "Sony United" initiative within the group.

Ryoji Chubachi
President and Electronics CEO, Representative Corporate Executive Officer
Ryoji Chubachi entered Sony Corporation after obtaining his Ph.D. in Resource Engineering in 1977. He was involved in developing recording media, and in 1989 was transferred to Sony Magnetic Products Inc. of America. Upon returning to Japan in 1992, he was placed in charge of the recording media business, including magnetic tapes and optical discs. In 2002, he was given command of the entire device/component business. The following year, he became NC President of the Micro Systems Network Company. In 2004, he was promoted to Executive Deputy President and COO (in charge of the Device Business and Production Strategy). He became Electronics CEO in April 2005, and subsequently President of Sony Corporation in June, and currently serves in these two capacities.

Yutaka Nakagawa
Corporate Executive Officer, Executive Deputy President, Officer in charge of the Semiconductor & Component Group
Yutaka Nakagawa entered Sony Corporation in 1968. After serving in various capacities in the television, camcorder and other businesses, in 1998 he became President of the Personal & Mobile Communication Company. He was appointed to several posts over the next several years, including President of the Storage & Device Company and President of the Energy Company, and in 2005 he was named NC President of the Personal Audio Visual Network Company. In June of the same year, he was named EVP and Corporate Executive Officer. After heading up the Digital Imaging Business Group and the Audio Group, among others, in October 2006 he became Corporate Executive Officer, Executive Deputy President and Officer in charge of the Semiconductor & Component Group.

Sony United

Develop distinctive devices—and be the first to commercialize them—through "Sony United"

Chubachi Can you tell us what sort of "Sony United" benefits we can expect from your group, Mr. Nakagawa—including, of course, efforts involving Mr. Ihara's group?

Nakagawa We believe that our mission is to work with Mr. Ihara's group to develop devices that contribute to the greater differentiation of products. Specifically, we will offer devices that enhance product appeal, such as image sensors for digital cameras and video cameras, in an effort to promote vertical integration.

Ihara To date, our ability to incorporate devices developed in-house into products and promptly bring those products to market has been the reason Sony has triumphed over its competitors. We look forward to Mr. Nakagawa's group providing us with devices that feature finely-honed performance and technological features.

Chubachi Expectations are high to link businesses across our business portfolio, including games, movies, music and joint ventures. I'm interested to know what kind of plans and concepts the two of you have in place. Mr. Ihara, based on your experience at Sony Ericsson Mobile Communications AB (Sony Ericsson), what do you feel is the key to making joint endeavors among related Sony businesses work?

Ihara I think it would have to be the ability to maximize the strengths of the respective brands involved to offer new ideas for entertainment. Collaboration with Sony Ericsson is a good example of the "Sony United" initiative at work. It has already resulted in Walkman® and Cyber-shot mobile phones, and plans are in place to launch a BRAVIA mobile phone in the future.

As another example, in collaboration with the Pictures business we developed "Cinema Mode" for BRAVIA LCD televisions, suitable for movie viewing, and are actively conducting joint promotions for movies and electronics products.

Going forward, we will reinforce efforts to link with other parts of the group to make movies, music and other content available via BRAVIA's IP television function.

Chubachi Mr. Nakagawa, you have also played a key role in realizing market penetration for mobile phones and the PlayStation® platforms from the perspective of components. How do you see your business evolving from here?

Nakagawa We are responsible for supplying key devices used in the PlayStation® platforms, including the semiconductors as well as the blue-violet laser used in the Blu-ray Disc drive and, as such, we share the same destiny. Going forward, we will continue to supply top-quality semiconductors, power sources, batteries and other devices with the aim of making the maximum possible contribution. We also plan to strengthen our large-scale integration (LSI) circuits for use in televisions and mobile phones.

Chubachi In the area of business-to-business solutions, to date we have focused primarily on professional-use products, particularly for customers in the broadcasting industry. I would like to build this into another key pillar of the electronics business. In particular, I want to expand this business by concentrating on certain fields, including security, commercial displays, medicine, and sports-related products and services. Cutting-edge device technologies will be essential to this. I also think that by first applying these technologies in professional-use products, and then taking steps to reduce costs, we will also be able to use them in consumer electronics products. Accordingly, I also look forward to further collaboration between your two groups on this front.

Reinforcing Sony's software development structure by implementing strategies that cross business lines

Chubachi As I mentioned at the beginning of our discussion, in 2006 we introduced a new development organization based on three development divisions and four research centers. Our objectives here were to accelerate the commercialization of research results and to further reinforce our R&D structure. What are your hopes and expectations for R&D in the future?

Ihara My biggest hopes for corporate R&D focus on displays and related areas. When we first launched LCD televisions, we consigned production of panels to outside manufacturers, but the launch of S-LCD Corporation—our joint venture with Samsung Electronics Co., Ltd.—enabled us to develop our own in-house production of LCD panels in a very short time. In the future, I look forward to working with our R&D teams to cultivate technologies and realize significant growth for the display business.

Nakagawa Rather than immediate commercialization through use in consumer products, in most cases R&D achievements must first be incorporated into devices and semiconductors. As the unit responsible for this, my group will do its best to address this challenge. Our current focus is OLEDs, but we are also pursuing other promising R&D initiatives. Going forward, we will collaborate with group companies and cooperate in the implementation of cross-business R&D strategies.

Chubachi On the development front, we are concentrating investment of resources on specific products that show promise for commercialization within three to five years. Other initiatives include introducing new development approaches—entailing creating a forum for software engineering leaders from different divisions to gather and confer, in an effort to strengthen our software—and modifying development processes. What are your views on software development?

Ihara The Consumer Products Group has reviewed its business group-based software development organization. The centralization of resources that were previously dispersed among different business groups has reinforced development capabilities.

Nakagawa In the area of device sales, beating the competition requires marketing solutions that include IC chips. Recognizing the importance of software, we will take steps to strengthen our software development capabilities going forward.

Promoting mobility for human resources to create a powerful corporate organization

Chubachi Linking our human resources worldwide is an essential task. What are the two of you doing to promote mobility and otherwise address human resources issues?

Ihara Unlike in the past, when our business was expanding rapidly, both in terms of the breadth of its business categories and its geographical reach, Sony today is an established, comprehensive organization with global operations. Having reached this stage in development, there is a tendency for jobs and organizations to become static. To enhance the vitality of our organization going forward, we must implement effective job rotations and nurture the capabilities of employees. In our group, our aim is to maintain a 5% annual mobility rate and we are implementing specific actions to achieve this. Almost everyone who has gone through a rotation has described the experience as stimulating and fulfilling. In the future, we will continue our efforts to ensure the effective deployment of young employees.

Nakagawa I agree completely. Employee training and other such efforts are important, but acquiring varied, firsthand experience is extremely important. An overseas posting at one of Sony's offices around the world is certainly a significant experience for any employee. I like people in my group to have experience in both devices and consumer products. We also offer personnel exchanges with research facilities and other schemes that enable employees to gain new experiences in a different workplace.

Chubachi Mr. Ihara spent time at Sony Ericsson during his career at Sony, while Mr. Nakagawa spent the first half of fiscal year 2006 in the digital imaging business, and in the second half took over responsibility for the devices business. I think mobility for management is also important to invigorating businesses. I look forward to implementing broad-based efforts to create revitalized workplaces, including management transfers.

Reinforcing stepping stones to growth and striving to make Sony a company that is respected by society

Chubachi In closing, I'd like to ask you both to convey to our shareholders what the phrase "uniquely Sony" means to you.

Ihara I think that society, as well as our shareholders, counts on Sony to be a company that responds to the times faster than any other. I will try to have my antenna up at all times and be highly receptive to changes as they happen. I will endeavor to be sensitive to what is new, not just in Japan but also in Europe, North America and elsewhere in the world.

Nakagawa Sony is an organization whose lifeblood is forward-looking R&D. Every day we add to our store of innovative seeds reflecting strategies that look a few or even many years into the future. Accordingly, it is my hope that shareholders will take a long-term view of Sony and help us grow.

Chubachi I can't put my interpretation into just a few words, but I think it means Sony's unique corporate culture. In addition to this, my vision of Sony, as I'd like it to be, is of a company that is respected by society. To earn that respect, we must fulfill four conditions.

The first condition is a reputation for innovative technologies. We must create groundbreaking products from the customer's perspective that enrich lifestyles and cultures. The second condition is product and service quality. We must incorporate new technologies in products and deliver quality products and services. The third is motivated employees, that is, employees who are proud to work for Sony. And the fourth is social contribution. If Sony can fulfill all four conditions, it can expect to be respected by society. Co-founder Masaru Ibuka incorporated these concepts in Sony's founding prospectus.

Sony must change with the times. The strategy for prevailing now lies in our business units. Our strategy for succeeding in the future focuses on R&D, as well as on the establishment of a solid management foundation capable of supporting future growth. My intention is to implement both strategies simultaneously. Sony's Electronics business is on the verge of entering a new phase of growth. As we move forward, we will work together to once again fulfill Sony's reputation as a global brand and a technological leader by providing products and services that are "uniquely Sony."

Game: An Interview with Top Management

The worldwide launch of PLAYSTATION®3 (PS3), along with the success of LCD televisions and digital cameras, has once again demonstrated Sony's vitality and strength in the global market. In this section, Kaz Hirai, who is in charge of Sony's Game business, summarizes the Game business's performance during the fiscal year ended March 31, 2007, and talks about PS3's potential in the network era, as well as discussing growth strategies going forward.

PS3 rewrites sales records for consumer game systems in Europe

The fiscal year ended March 31, 2007, marked the debut of PS3. Can you give us an overview of PS3 during the period?

We introduced PS3 in Japan, North America and certain Asian countries in November 2006 and then in Europe in March 2007. By fiscal year-end, cumulative shipments had reached 5.5 million units, and the platform continues to expand steadily. In Europe, more than 500,000 units were sold on the first day, which set a new sales record for consumer game consoles in that market.

We have also seen remarkable progress in the expansion of our software lineup for PS3. In the six months to June 2007, approximately 100 titles were released for sale around the world. A steady stream of hit titles has been released, including SCE World Wide Studios (SCE WWS) titles, some of which have sold over 1 million units. Moreover, as of June 2007, more than 1.8 million PS3 users had registered for PLAYSTATION®Network (PSN), to enjoy a wide array of game software available through this online service, and, as a result, over 17 million units were downloaded.

In addition, "Game Archives," where legacy PlayStation titles can be downloaded to be enjoyed on PS3 and PSP® (PlayStation®Portable), has also gained strong support from PS3 users.

Kazuo (Kaz) Hirai
President and Group CEO, Sony Computer Entertainment Inc.
Kaz Hirai joined CBS/Sony Inc. (currently Sony Music Entertainment Inc.) in 1984. Initially, he worked on contracts and external affairs and helped support the marketing of Japanese artists overseas. In 1995, he moved to Sony Computer Entertainment America (SCEA), becoming President and COO in 1999. With responsibility for the operational management of Sony's game business in North America, he oversaw the launch of the PlayStation® platform there. In 2003, he was named Corporate Executive and COO of Sony Computer Entertainment Inc. (SCE), and in December 2006 he assumed the position of Representative Director, President and Group COO of SCE. He became its Group CEO in June 2007.

Sony United

We will further enhance PS3's software lineup, while offering new services and forms of entertainment, including game software downloads via the network and online communities.

PlayStation®2 (PS2) and PSP® performed well

How did the PS2 and PSP® businesses perform?

Although eight years have passed since the launch of PS2, it continues to perform extremely well around the world. We have shipped PlayStation hardware worldwide for about 10 years now, but we anticipate an even longer life span for PS2. We plan for a production shipment of over 10 million units in the fiscal year ending March 31, 2008, and believe that the PS2 platform could continue to grow through further cost reduction measures, reinforcement of its software lineup and market expansion.

PSP® recorded its first million-seller hit title in the Japanese market, MONSTER HUNTER PORTABLE 2nd by CAPCOM Co., Ltd., which was released in February 2007, and market penetration for the platform continues to accelerate. A wide range of color variations and special limited-edition models have also been well received in Japan.

In addition, the PSP® platform generated million-seller hit titles in the European and North American markets. Thanks to a variety of attractive software titles and sales promotion plans, the PSP® platform has been enjoying favorable sales in these markets. We plan to release many new software titles from SCE WWS and third-party developers in the fiscal year ending March 31, 2008. We will continue promoting the PSP® platform by enhancing linkage with PS3 as well as collaborating with retailers and Sony Group companies.

PS3: A symbol of Sony United

Can you give us concrete examples of the Sony Group's "Sony United" initiatives as they are being implemented in your business?

I think that PS3 symbolizes Sony United. PS3 was created through the cooperative efforts of more than 50 departments throughout the Sony Group. It represents the coming together of state-of-the-art technologies and know-how. Let me give you a few examples of successful collaborations.

- Supply of key devices
  PS3 contains more than 20 key devices employing leading-edge Sony technologies. These include the main chips for PS3, including Cell Broadband Engine™ (Cell/B.E.) and RSX™, as well as Blu-ray Disc pickups.
- Coordination of retail displays
  As one of Sony's "HD World" products, PS3 is on display not only in the gaming section of retail stores, but also in BRAVIA LCD television sections, together with other consumer electronics products such as Cyber-shot digital cameras.
- Market penetration of the Blu-ray Disc format
  SCE is also conducting cross-promotions with other Sony Group companies, including Sony Pictures Entertainment Inc. (SPE), in order to expand the Blu-ray Disc format. For instance, when PS3 was launched in North America and Europe, we distributed *Talladega Nights: The Ballad of Ricky Bobby* and *Casino Royale* on Blu-ray Disc to purchasers of PS3 and registrants on PSN.
- Promotional marketing
  Collaboration with SONY BMG MUSIC ENTERTAINMENT made artists' latest songs and promotional videos available for download to PS3 via PSN. High-quality movie trailers offered online by SPE can also be downloaded.
- Development of PSN
  Collaboration with SPE subsidiary Sony Online Entertainment facilitated the development of the backbone of PS3's network business infrastructure, including an electronic payment system.

As these examples illustrate, the PlayStation business will continue to evolve through collaboration with Sony Group companies worldwide based on "United" electronics technology and content.

Accelerate cost reductions and market expansion for PS3

Can you touch upon your plans to ensure profitability and expand the market for PS3? What are your medium-term growth strategies?

We set a strategic price point for PS3 that was lower than its production cost during the introductory period, in order to promote the rapid establishment of the PS3 platform. We are making every effort—not only within SCE but also with the Sony Group—to achieve cost reductions as quickly as possible.

The key to our growth is to accelerate the expansion of the PS3 platform. To achieve this, enhancing our lineup of attractive game software will be crucial. In the fiscal year ending March 31, 2008, in addition to the existing global lineup of approximately 100 packaged game titles, we plan to release over 200 packaged game titles and more than 180 downloadable titles.

Moreover, users will also be able to download approximately 250 additional titles from "Game Archives" to enjoy them on their PSPs and PS3s.

To facilitate the enhancement of our software lineup, we will provide even greater support to software creators and programmers. We have already organized specialized teams in Japan, North America and Europe, and plan to further expand our support to make the game development process run more smoothly.

A wide variety of downloadable new game demos and trailers are available at PSN for promotional purposes. We are also increasing demonstration spaces at storefronts, where PS3 game software can be played on large-screen televisions.

As a developer of this platform, SCE will accelerate the expansion of the PS3 platform by enriching the software titles library and pursuing its own promotional activities as well as collaborating with Sony Group companies.

Interactive entertainment creates new businesses

Can you tell us about further potential of PS3 that will drive future growth?

PS3 features an advanced computer system and a top-quality AV system. The overwhelming performance of PS3's Cell/B.E. enables users to enjoy HD digital content in addition to game software, all in real time.

PS3 will also support game software development into the future, allowing developers to fully exercise their creativity.

The most important feature of PS3, however, is that it delivers truly interactive entertainment thanks to network capabilities, which means that users are not limited to enjoying content, but can, for example, participate in online communities. Users from around the world can gather over the network to exchange information, play trial versions of new games and express their opinions and ideas. In other words, PS3 enables users to play a role in game development itself. We look forward to building new business models (income streams) around the many possibilities inherent in PS3.

Sony United

Creating a lifestyle brand combining both hardware and software

As a company, what does Sony represent to you? How do you see the Sony Group developing over the next 10 years?

My grandfather was a great Sony fan and so there has always been an abundance of Sony products, like tape recorders and radios, around me since I was a child. I was always amazed and delighted, thinking, “Wow, this product can do *that*!” In 10 years’ time, I would like Sony to be a company that is still able to generate such amazement and delight in people.

Particularly in the United States, Sony is also becoming known as a lifestyle brand with both hardware and software that have tremendous public appeal. Through initiatives such as Sony United, which I mentioned earlier, I think that over time our games, movies, music and other software/content will come to symbolize Sony as much as our electronics technologies.

Generating new business models to drive future growth

Lastly, do you have anything you’d like to say to the shareholders?

I believe that the Game business will not only contribute to the overall performance of the Sony Group, but that it will serve as an engine for future growth. We are advancing from an era in which games were enjoyed on disc to the network era, in which an incredible variety of digital content can be viewed and enjoyed online in real time.

I view my mission as contributing to the Sony Group through the PlayStation business. So I am focusing on building businesses that unleash the potential of the network era. I don’t intend to rest on the laurels of our existing businesses and believe it is important to continually think up new businesses. Merely reacting to changes in the marketplace is not enough. We have to seek to be the first mover.

As I mentioned earlier, PSN’s registered users now number more than 1.8 million. I think there may be a major transformation when this number doubles, triples or multiplies tenfold. The immense virtual space that this represents will not limit the potential to simply advertising revenue streams—I think we may even see companies emerge that want to transact business within these communities.

As this takes place, I am resolved to do my utmost to develop such next-generation business scenarios and raise Game business profitability, thereby responding to the expectations of stakeholders.

Sony United Pictures: An Interview with Top Management

Sony Pictures Entertainment Inc. (SPE) has achieved great success with numerous motion pictures, including the *Spider-Man* series, *The Da Vinci Code* and *Casino Royale*, as well as with television programming around the world, and other businesses. Michael Lynton, Chairman and CEO of SPE, gives his view on earnings for the fiscal year ended March 31, 2007, as well as business strategies going forward.

Hit movies and popular programs led to strong performance in both the motion picture and television businesses

Obviously the fiscal year was fantastic for the studio. Could you elaborate on this success?

First of all, it's worth noting that we did really well without *Spider-Man*, which demonstrates the power and viability of our diverse film slate, though we have the good fortune of releasing *Spider-Man 3* this year.

Thanks to the efforts of my co-chairman, Amy Pascal, and many others in our Motion Picture Group, there were many movies that performed extremely well and contributed to the bottom line. *The Da Vinci Code* was obviously a big success for us. *Click* also did very well, as did *Casino Royale*. *The Pursuit of Happyness* was very gratifying because it succeeded in both the U.S. and international box offices, which is not common for a U.S.-based drama. We also launched Sony Pictures Animation's debut film, *Open Season*, and it did quite nicely in a market where there's strong competition.

Michael Lynton
Chairman and CEO
Sony Pictures Entertainment Inc.
Michael Lynton joined The Walt Disney Company in 1987, where he created Disney Publishing Company and served as its President. From 1992–1996, he was President of Hollywood Pictures, a division of The Walt Disney Company, after which he joined the international media company Pearson plc, where he was Chairman and CEO of Pearson's Penguin Group from 1996–2000. Between 2000 and 2004, he served in several positions, including President of Time Warner International, President of AOL International and CEO of AOL Europe. He became Chairman and CEO of Sony Pictures Entertainment Inc. (SPE) in January 2004 and currently manages SPE's overall global operations, which include motion picture, television and digital content production and distribution, worldwide television channel investments and the development of new entertainment products, services and technologies.

Sony United

Can you talk a little bit about the growing importance of the international market?

Under the leadership of Jeff Blake, Chairman of the Columbia TriStar Motion Picture Group (a division of SPE), Worldwide Marketing & Distribution, we have brought in new country managers and streamlined the whole international theatrical marketing and distribution network. We are also making more pictures with global appeal. Two movies that really stood out this past year were *The Da Vinci Code* and *Casino Royale*, both of which did about two and a half times as well internationally as they did in the U.S. That was gratifying evidence of the success of our global strategy.

We've also seen certain markets grow significantly in the last several years that hadn't been real players in the past, such as Russia and Korea. We have also had more of our films being shown in the Chinese market. In addition, we stepped up our investment in international motion picture production in recognition of the growing popularity of "local language" films in markets around the world.

Let's talk about the Home Entertainment division.

Home Entertainment performed well on two fronts. The first is catalog product, which are films and television shows in our library that have been previously released. The second front is new releases, which also did extremely well. For example, *Casino Royale* broke first week records with 1.6 million units sold when it came out on DVD in the U.K.

How about your television business results?

The television business in the U.S. has done very well. Besides selling our films to television and cable networks, we produce shows and had recent success with comedies in the U.S., including *'til Death* and *RULES OF ENGAGEMENT*. We continue to have the best game shows and soap operas in the U.S., and did a tremendous job in having a number of pilots picked up by U.S. broadcast and cable networks. The division also has a vibrant advertising sales business and is now overseeing domestic digital distribution.

Our international television division had a great year as well. We had considerable success not only in selling films and television shows to TV networks, mobile phones and digital outlets around the world, but also by producing local language programs in places like Russia and Germany, where we are among the leading providers of TV programming.

Let's talk about digital distribution of content. As we look at the next few years, what are the key opportunities?

The big opportunity is for people to be able to digitally download movies to a portable device. It's clear that people are willing to buy movies in a digital format as long as they have a device they feel comfortable storing them on. There are some obstacles to deal with, namely rights management, price and other market issues, but this is a huge opportunity for the future.

Strengthening collaboration with the Electronics and Game divisions through "Sony United"

Let's turn our attention to "Sony United." What are your views on the Sony United initiatives?

Sony United is a vision of the company that has wide support up and down the line within Sony.

Here's one example of Sony United in action. When PS3 was launched in the U.S., the first 500,000 buyers received a free copy of our movie *Talladega Nights: The Ballad of Ricky Bobby* on Blu-ray Disc weeks before it was made available to the general public. We also made *Casino Royale* on Blu-ray Disc available for free to the first 500,000 buyers of PS3 in Europe who registered on the PLAYSTATION®Network. That couldn't have happened without people across the company being committed to the idea of Sony United. And it paid off. When we polled PS3 customers in May 2007, we discovered that nearly 90% intend to purchase at least one Blu-ray Disc movie in the next 12 months, and the average respondent already owns at least four movies on Blu-ray Disc.

We also worked closely with other Sony divisions on the latest installment of the James Bond franchise. *Casino Royale* featured such Sony products as VAIO PCs, BRAVIA televisions and Sony Ericsson mobile phones. In addition, the Electronics division was extremely helpful in helping us market the picture around the world. This cooperation demonstrates both the viability and the promise of Sony United.

Can you give me some more examples of SPE working with the Electronics and Game divisions?

Sony Online Entertainment (SOE) helped develop the PLAYSTATION®Networks' infrastructure. SOE is a part of Sony Pictures with a lot of technical expertise, especially when it comes to building the backbone for multiplayer game systems. So Sony Computer Entertainment turned to the folks at SOE to help them out in this area, and this arrangement proved to be highly successful.

Sony United also comes into play when Sony has a new product like a professional-use camera or a digital projector. We reach out to filmmakers and theater owners to help explain how it can benefit their business to use Sony equipment.

Utilizing the Sony Group's technological strength and global competitive edge

Does being part of Sony give Sony Pictures a unique competitive advantage?

Yes, in two important ways. First, we can respond more quickly to opportunities presented by technological advances because we are part of one of the world's great technology companies. That's why we're leading the way in digital cinema and the introduction of Blu-ray Disc technology. It's also evident in the success of our Imageworks studio, which is producing some of the best visual effects right now, as everyone can see in *Spider-Man 3*. Sony represents the perfect blend of content and technology, creating something great.

The second big advantage is that Sony is a truly worldwide business, and that helps us recognize growth opportunities in the international marketplace, especially in terms of our international television and motion picture businesses. We think *and* act globally.

Sony United

What are your thoughts on the Sony brand?

When I think of the Sony brand, what immediately comes to mind is superior quality, innovation and style. Most important, it's a brand I can trust. Sony is also unique, because it brings together hardware and content, technology and entertainment.

Aiming to produce the best movies and television shows while delivering consistent financial results

Please give us your vision of your mid- to long-term goals.

Over the mid-term, we want to be a consistent performer financially, and we have made great strides in reaching that goal. At the same time, while watching our bottom line, we must also make every effort to produce the best possible movies and television shows around the world. There is no substitute for quality.

Over the long-term, we intend to keep building our business on a global scale, and we also want to ensure that we have a balanced and diverse portfolio of assets. We are well along that path with our excellent motion picture business, where we expect to be producing more family entertainment films, which is why we're building up our animation business.

What should people know about your business that perhaps they are not aware of today?

What I'd like people to know is the breadth of the businesses that make up Sony Pictures. When most people think about us, they think of motion pictures. Some may even know about our domestic television business. But very few realize the extent of our expertise in visual effects, ad sales, games and online entertainment, or how much work we are doing internationally.

Of course movies like *Spider-Man* and *The Da Vinci Code* are going to get the headlines and that's definitely warranted, but Sony Pictures stands for a truly broad range of exceptional entertainment. As the vision and values of our company make clear, we take pride in trying new things. We believe that profits come from creativity and out-of-the-box thinking. And we believe the people of Sony Pictures, and their passion, help us produce, market and distribute great entertainment to audiences around the world.

Experiencing P!NK on your pink PSP®: SONY BMG and Sony Computer Entertainment demonstrate "Sony United"

Constantly evolving and always original, P!NK is a SONY BMG MUSIC ENTERTAINMENT artist whose music is outrageous but genuine, opinionated but honest, beautiful and feminine but never vulnerable. Capitalizing on P!NK's universal appeal, Sony Computer Entertainment Europe launched a limited edition P!NK PSP® Value Pack in October 2006. The Pack contained exclusive UMD™ Video featuring P!NK's latest and best music videos: *Stupid Girls*, *Who Knew* and *U + Ur Hand*. This unique collaboration with the popular artist also made it possible for P!NK PSP® owners registered at yourpsp.com/pink to download exclusive content such as P!NK's video diary of her tour across Europe. The collaboration created a unique entertainment experience, expanding the PSP® lineup and P!NK's fan base. In doing so, it demonstrated the true power of Sony United.

P!NK PSP®

SMEJ and Sony Ericsson: Collaborating to Discover New Music

Sony Music Entertainment (Japan) Inc. (SMEJ), which enjoys a well-established reputation for fostering the development of new artists, is collaborating with Sony Ericsson Mobile Communications Japan, Inc. to audition up-and-coming musical talent with the aim of developing a new song for use in a television advertisement for the W51S, a new mobile phone model developed by Sony Ericsson for KDDI CORPORATION's au-branded mobile phone service for the Japanese market. The public was invited to vote on contestants in the second round of the auditions via the Internet or mobile phone. The response was outstanding, with more than a million votes collected in only one month.

This collaboration between two Sony Group companies is an example of the benefits to be gained from maximizing "Sony United" synergies: SMEJ benefited because the audition attracted artists from a broader range of genres than are usually represented at SMEJ auditions. For Sony Ericsson, the effort facilitated an innovative sales promotion.

Voting site for ad song audition

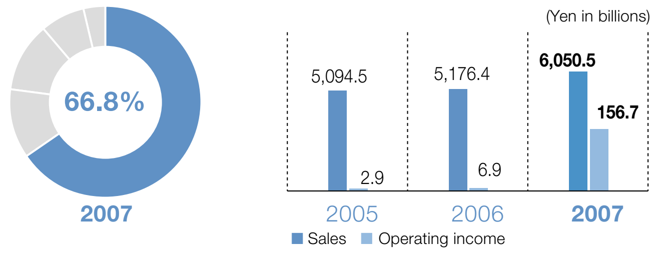
Business Overview

Sales and Operating Income

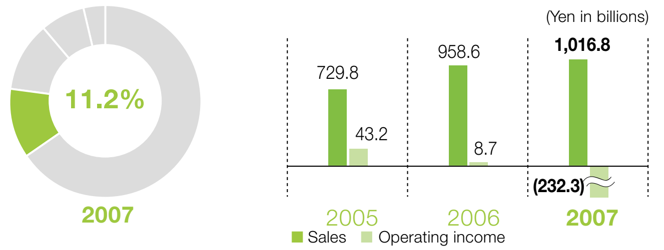
(Years ended March 31)

(Pie charts indicate percentage of sales (including intersegment transactions) and operating revenue.)

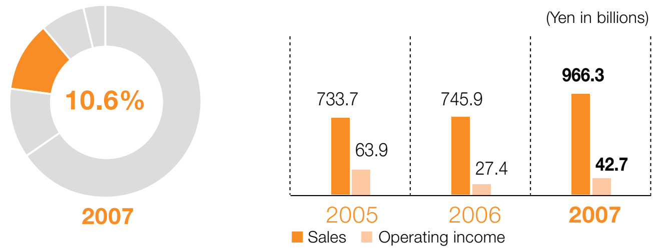
Electronics



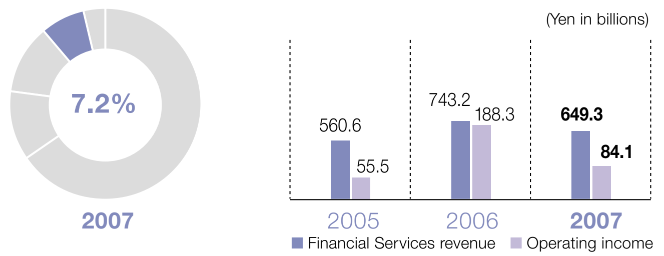
Game



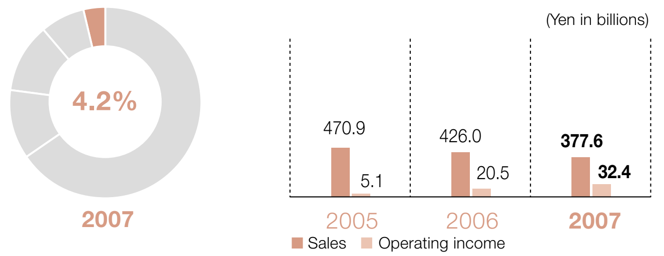
Pictures



Financial Services



All Other



Financial Highlights by Business

(Years ended March 31)

Notes: 1. Sales = Sales and operating revenue
2. Operating margin = Operating income/Sales and operating revenue
3. Includes intersegment transactions

Fiscal Year in Review

(Yen in billions)	2005	2006	**2007**	2007/2006 (Percent change)
Sales	¥5,094.5	¥5,176.4	**¥6,050.5**	+16.9%
Operating income	2.9	6.9	**156.7**	+2,167.4%
Operating margin (%)	0.1	0.1	**2.6**	

- Sales in the Electronics business rose 16.9%.
- Products contributing to the increase in segment sales included BRAVIA liquid crystal display (LCD) televisions, which registered brisk sales in all geographic regions; VAIO PCs, which saw favorable sales outside of Japan; and Cyber-shot digital cameras, which saw increased sales worldwide.
- Operating income increased ¥149.8 billion.
- Despite a ¥51.2 billion provision for charges related to recalls of certain notebook computer battery packs and the subsequent global replacement program in the second quarter of the fiscal year ended March 31, 2007, the positive impact of higher sales to outside customers and depreciation of the yen against the U.S. dollar and the euro drove the significant increase in operating income.

(Yen in billions)	2005	2006	**2007**	2007/2006 (Percent change)
Sales	¥729.8	¥958.6	**¥1,016.8**	+6.1%
Operating income (loss)	43.2	8.7	**(232.3)**	—
Operating margin (%)	5.9	0.9	**—**	

- Sales in the Game business increased 6.1%.
- Overall hardware sales were up, buoyed by the launch of PLAYSTATION®3 (PS3™) in Japan, the United States and Europe. Despite an increase in sales of PSP® (PlayStation®Portable) software and contributions from sales of PS3 software, overall software sales decreased due to lower sales of PlayStation®2 (PS2) software.
- An operating loss of ¥232.3 billion was recorded.
- The operating loss was primarily a consequence of losses arising from the sale of PS3 at strategic prices below production costs during the product's introductory period, as well as the recording of other charges associated with preparation for the launch of the PS3 platform.

(Yen in billions)	2005	2006	**2007**	2007/2006 (Percent change)
Sales	¥733.7	¥745.9	**¥966.3**	+29.5%
Operating income	63.9	27.4	**42.7**	+55.7%
Operating margin (%)	8.7	3.7	**4.4**	

- Sales in the Pictures business increased 29.5%.
- *The Da Vinci Code*, *Casino Royale*, *Click* and other films released during the period under review contributed to significant increases in both theatrical and home entertainment revenues worldwide.
- Substantially higher revenues on feature films released during the period also led to a 55.7% increase in operating income.

(Yen in billions)	2005	2006	**2007**	2007/2006 (Percent change)
Financial services revenue	¥560.6	¥743.2	**¥649.3**	–12.6%
Operating income	55.5	188.3	**84.1**	–55.3%
Operating margin (%)	9.9	25.3	**13.0**	

- Revenue in the Financial Services business fell 12.6%.
- Sony Life recorded a decline in revenue, mainly as a consequence of decreased valuation gains in its general and separate accounts from the previous fiscal year, during which the Japanese stock market rose considerably.
- Operating income fell 55.3%, due to such factors as a decline in valuation gains on investments in the general account, including those on convertible bonds, prompted by conditions in the Japanese stock market.

(Yen in billions)	2005	2006	**2007**	2007/2006 (Percent change)
Sales	¥470.9	¥426.0	**¥377.6**	–11.4%
Operating income	5.1	20.5	**32.4**	+57.9%
Operating margin (%)	1.1	4.8	**8.6**	

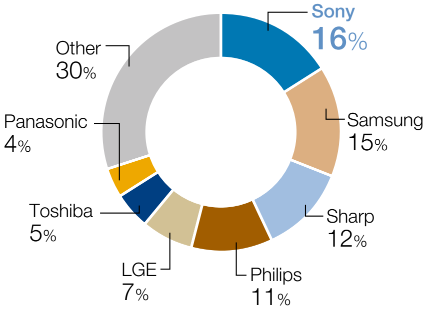
- Aggregate sales of businesses in this category decreased 11.4%.
- The decline in sales is largely attributable to the deconsolidation of StylingLife Holdings Inc., a holding company comprised of six of Sony's retail businesses, following the sale of a majority interest in the company in the first quarter of the period under review.
- Operating income climbed 57.9%. This primarily reflected the impact of an asset impairment write-down in the previous period associated with the sale of a U.S. entertainment complex.

Electronics

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

The Electronics business is comprised of televisions, video, audio, information and communications equipment, components, semiconductors and other products. To achieve future growth and to reinforce competitiveness and profitability, Sony is concentrating investment of its Electronics business resources in development and commercialization in the areas of high definition (HD) products, mobile electronics and semiconductors and other devices, all of which are crucial to the differentiation of Sony's products.

No. 1 in the Global Market for LCD Televisions
(revenue basis for calendar year 2006)



Source: DisplaySearch

LCD television
KDL-46X2500

Review of Operations

In the fiscal year ended March 31, 2007, the global market for liquid crystal display (LCD) televisions totaled approximately 51.5 million units, 2.5 times its size in the previous year. Although competition in the operating environment for the flat panel television industry was harsh overall, efforts to heighten the appeal of our BRAVIA line of LCD televisions by focusing on key strategic product features—namely larger screen sizes and Full HD (1920 x 1080-pixel) resolution—supported brisk sales worldwide, pushing shipments of BRAVIA televisions up 2.3 times, to approximately 6.3 million units, and earning us the top global market share*.

* Source: DisplaySearch, revenue basis for calendar year 2006

This achievement reflected the development and incorporation of proprietary technologies designed to achieve outstanding image quality and a wide color gamut, including the BRAVIA Engine digital processor and the Live Color Creation backlight system, which enable these televisions to deliver color and images of overwhelming beauty. Another factor was that we were able to secure a stable supply of LCD panels from S-LCD Corporation (S-LCD), our joint venture with Samsung Electronics Co., Ltd., that produces amorphous thin-film transistor (TFT) LCD panels. S-LCD currently produces seventh-generation panels on a fabrication line with a monthly capacity of 90,000 panels. In the summer of 2007, S-LCD plans to commence mass production on an eighth-generation line, with a monthly capacity of 50,000 panels. The eighth-generation panels have a glass substrate size of 2200mm x 2500mm, which will enable S-LCD to further reduce costs.

With the aim of creating a stronger supply structure in Europe, where rapid growth in the market for LCD televisions is expected, we are building a new BRAVIA LCD TV plant in Nitra, Slovakia, which is scheduled to come online in the summer of 2007 and will give us an annual production capacity of 3 million units in Europe.

In addition to ensuring a stable supply structure, we will continue to leverage our advanced technologies and performance features and superior design capabilities to expand our LCD television business and ensure our position as the world's leading LCD television brand.


BRAVIA
BRAVIA
SONY

Digital single-lens reflex camera
DSLR-A100

Despite harsh competition in the market for LCD rear-projection televisions, we maintained a high market share, particularly in the United States, the leading market for these products. We will focus our lineup of LCD rear-projection televisions on models mounted with the Silicon X-tal (“crystal”) Reflective Display (SXRD™) device, which offers superb contrast and response time in Full HD resolution.

The digital camera market continued to grow in the fiscal year ended March 31, 2007, climbing 22%, to around 79 million units, reflecting robust replacement demand in Europe and North America. In this environment, Sony recorded brisk sales worldwide thanks to products that responded to market needs, including the affordably priced Cyber-shot W series and S series in Europe and North America and the slim-design Cyber-shot T series in Asia. As a consequence, shipments of Sony digital cameras increased 26%, to approximately 17 million units.

In July 2006, we launched the α100, the first model in our “α (alpha)” line of digital single-lens reflex (SLR) cameras based on the α mount system. The α100 is the fruit of our efforts to combine Konica Minolta Photo Imaging, Inc.’s image stabilization technology, as well as its image quality engineering and optical technologies, with Sony’s imager, battery, LCD and other device technologies, as well as its high-density mounting and digital signal processing technologies. Believing that the digital SLR market will continue to expand, we are striving to offer attractive new products that deliver unlimited photographic fun and further grow this business.

Digital HD camcorder
HDR-SR1

For the fiscal year ended March 31, 2007, the global market for video cameras remained level at about 18 million units, of which Sony accounted for approximately 7.45 million units, a slight decline from the previous fiscal year. From 8mm video, the industry format for consumer-use video cameras, to digital video (DV) and high definition video (HDV), which enables users to record and replay HD video, we have led the industry by striving constantly to commercialize Handycam® camcorders that deliver improved image quality and convenience. In the period under review, we launched the first consumer-use video camera based on the AVCHD HD video recorder format, which enables recording and storing of HD video on random-access media. Beginning with the introduction of digital terrestrial broadcasting in Japan, HD broadcasting is expanding globally. This trend is expected to encourage greater market penetration of HD-compatible televisions, thereby creating an environment for consumer-use equipment that will facilitate the enjoyment of HD in the home. We will continue to enhance our lineup of HD camcorders and promote the conversion of personal video content to HD.

In the period under review, we rolled out Blu-ray Disc players in the U.S. market while in Japan we launched two Blu-ray Disc recorder models. Capable of recording full-resolution content from HD broadcasting and HD video cameras, Blu-ray Disc recorders can also play motion pictures and other content released in Blu-ray Disc format, as well as support digital slide shows and playback applications, thereby increasing the enjoyment to be gained from HD technology.


Blu-ray Disc recorder
BDZ-V9

In the portable audio category, we continued to enhance our lineup of Walkman® digital music players. These players exhibit superb sound clarity, thereby fulfilling the quintessential objective of any piece of audio equipment—to produce superior sound that enhances the music listening experience. We also launched a top-of-the-line Walkman® series that delivers


Cyber-shot
SONY

Walkman® A series
NW-A808

Cyber-shot mobile phone
K810

outstanding sound quality and high-resolution video playback in a small, lightweight package featuring simple operability that takes advantage of the large screen.

In the home audio area, we launched the latest NET JUKE™ hard disk component stereo system. Consumers can download music from CDs and MDs, radio, online music download services and analog sources and store it on the NET JUKE's hard drive, listen to this music at high-fidelity levels and transfer it at a high speed to a Walkman® or other portable music player, making it possible for consumers to take their music wherever they go.

Reflecting robust sales of VAIO computers, particularly in Europe, computer shipments rose 8%, to approximately 4 million units, in the fiscal year ended March 31, 2007. During the period, we launched the VGX-TP1 Living Room PC, which can be connected to a television using a single High Definition Multimedia Interface (HDMI) cable, offering a whole new approach to video entertainment. Installed next to a television, this unit enables users to access the Internet and enjoy photographs and other video content stored on their computer with an easy-to-use remote control. Going forward, Sony will strive to ready itself for the time when every person has their own PC by responding to increasingly diverse customer needs with new VAIO models that are a joy to own.

Sony Ericsson

Sony Ericsson Mobile Communications AB, established in October 2001 as a 50–50 joint venture between Sony Corporation and LM Ericsson, achieved record-high shipments, sales and net income in the fiscal year ended December 31, 2006, reflecting brisk sales of Cyber-shot- and Walkman®-branded mobile phones.

Efforts to respond to the increasingly varied needs and lifestyles of its customers by expanding its product portfolio, particularly by introducing attractive new mid-tier models, enabled Sony Ericsson to grow its business in Europe, as well as in emerging markets in Latin America and the Asia Pacific region. Total shipments of mobile phones amounted to 74.8 million units, including 17 million Walkman®-branded music-enabled units. Sony Ericsson's goal is to become one of the top three players in the industry, and believes the momentum it established in the period under review makes this an achievable ambition.

Ad from Sony Marketing (Japan)

Game

http://www.playstation.com/

Sony's Game business centers on consumer game consoles and software offered by Sony Computer Entertainment Inc. (SCE). Following the launch of the first-generation PlayStation® (PS) in 1994, SCE developed and launched the advanced computer entertainment systems known as PlayStation®2 (PS2) and PSP® (PlayStation®Portable). In addition, in the fiscal year ended March 31, 2007, PLAYSTATION®3 (PS3) was launched in markets around the world, and is expanding the realm of computer entertainment, including network services and other capabilities.

PLAYSTATION®3 Launched Worldwide

Launched in Japan on November 11, 2006, then successively in North America and some Asian countries on November 17, 2006, and in Europe on March 23, 2007, the PS3 platform is expanding. Despite the impact of a production delay for a key PS3 component, SCE succeeded in shipping a total of 5.5 million units worldwide during the fiscal year. For the European launch, SCE took advantage of the four months following the Japanese/North American launches to assemble an initial hardware shipment of 1 million units and approximately 30 software titles, thereby transforming PS3 into its most successful platform launch yet in Europe.

PLAYSTATION®3

To date, approximately 100 titles have been introduced for the PS3 worldwide, including hits like MotorStorm™ by SCE World Wide Studios (SCE WWS), which has sold more than 1 million copies. Reinforcing SCE WWS's software development capabilities has helped to create a steady stream of first-party titles that are driving sales of the PS3 platform.

Network capabilities have added another dimension to the PS3 franchise. More than 1.8 million PS3 users have registered for PLAYSTATION®Network (PSN), an online service providing access to a wide variety of content. PSN not only allows basic messaging and video chat services but also provides online gaming, additional PS3 game titles and a Game Archives download service that enables users to enjoy legacy PlayStation® titles on both PSP® and PS3. We are continuing to expand the ways in which the network-enabled PS3 can be enjoyed by enhancing software offerings and providing a wide range of other content and services.

MotorStorm™

PLAYSTATION®3 software titles*

*Some titles are yet to be released.

Gran Turismo™ HD Concept

Heavenly Sword™

Hot Shots Golf® 5

Lair

LittleBigPlanet™

Ratchet & Clank® Future: Tools of Destruction™

SingStar®

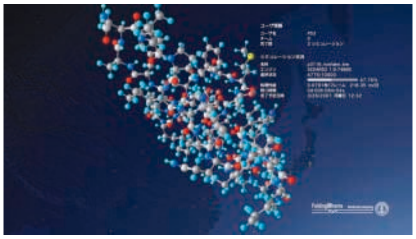
THE EYE OF JUDGMENT™ Biolith Rebellion

Uncharted: Drake's Fortune™

PS3 Potential: Folding@home™

Thanks to its formidable computing power, PS3 is also attracting attention as an engine that can be used beyond the realm of games and entertainment, and be applied to the betterment of humankind and society. In March 2007, SCE began providing PS3 owners with an application that supports Folding@home™, a distributed computing project established by Stanford University. This project, which requires massive computing capacity, studies protein folding with the aim of casting light on related diseases, including Alzheimer's and cancer. This project with Stanford is a new effort for SCE that aims to use computing capacity to develop treatments for disease, thereby contributing to society. PS3 users can participate in the project simply by launching the application from the XMB™ (XrossMediaBar). Once the application is launched, PS3 automatically receives data from Stanford University, which it uses to run simulations.

More than 400,000 PS3 users from about 80 countries and territories are already participating in the project, with up to 10,000 PS3s working online at any one time. These PS3s, which are backed by the tremendous calculating capacity of the Cell Broadband Engine™ (Cell/B.E.), constitute one of the largest distributed computing networks in the world, delivering computing power to the Folding@home™ project in a way never before seen.



Folding@home™

Accelerating Market Penetration for the PS3 Platform

The PS3 platform allows games and all other digital content to be enjoyed in a high definition (HD) environment. Not limited to enjoying content in various forms, users can also enjoy PS3 as a forum for self-expression and communication. Moreover, PS3 can offer new ways of enjoying entertainment through the combination of the Cell/B.E.'s power and PS3's network capabilities. SCE will sharply accelerate the market penetration of the PS3 platform.

Adding to the lineup of outstanding software titles is critical to capitalizing on this accelerated market penetration. In addition to an enhanced lineup of first-party titles from SCE WWS, SCE is further enhancing technical support to third-party developers to help them develop attractive titles. In the fiscal year ending March 31, 2008, more than 200 titles are slated for release on disc, and over 180 new titles available over the network. In addition, approximately 250 titles will be added to the Game Archives on PSN.

Furthermore, we are expanding the world of entertainment with services and content delivered over the network, such as SCE's online community service, PLAYSTATION®Home, which SCE plans to launch worldwide. PLAYSTATION®Home establishes an innovative online user community where 3D avatars operate in real time in a virtual world with 3D realism. PS3 users around the world can engage in real-time communication and enjoy shopping and games in this novel space on the network.

PLAYSTATION®Home

Expanding the PlayStation®2 and PSP® (PlayStation®Portable) Businesses

In the fiscal year ending March 31, 2008, SCE will place emphasis on expanding its PS2 and PSP® businesses, as well as on accelerating market penetration of PS3. Since PS2's release more than eight years ago, cumulative shipments worldwide have surpassed 120 million, topping the record set by the first-generation PS. Last fiscal year (the year ended March 31, 2007), PS2 shipments exceeded initial forecasts, totaling approximately 14.2 million units, while shipments of PS2 software reached 193 million units, making PS2 the top home console platform for the period in terms of annual shipments. Sales have remained brisk into the current fiscal year, particularly in Europe and North America, leading SCE to anticipate that PS2's life span will exceed that of the original PS. In addition to enhancing its lineup of PS2 software titles, SCE will market PS2 with new titles from SCE WWS and third-party developers, thereby promoting even broader market acceptance.

More than two years have passed since the December 2004 launch of PSP®. As of March 31, 2007, SCE had shipped a cumulative total of 25 million units worldwide, while cumulative shipments of PSP® software exceeded 100 million units. In Japan, the platform's growth was accelerated through such efforts as introducing new color variations and expanding its software lineup. The platform also recorded its first software title to sell over 1 million units. In North America and Europe, a remarkable software lineup helped to maintain solid sales even after the end of the year-end shopping season, and sales were further enhanced by a price reduction in April 2007. Factors such as these have led to the steady growth of the PSP® platform worldwide. In the fiscal year ending March 31, 2008, SCE plans to cultivate new markets for PSP® by expanding its software lineup and offering new ways to interact with PS3.

Going forward, SCE will continue to expand and enhance its PS2, PSP® and PS3 platforms by offering new experiences in computer entertainment that integrate games, music and movies.

PlayStation®2

PSP® (PlayStation®Portable)

Entertainment

In the Entertainment business, Sony is primarily engaged in motion picture and television production and distribution, music recording and music publishing. Enjoying leading industry positions in many of its businesses, Sony Pictures Entertainment Inc. (SPE) is comprised of its motion pictures, television programming, home entertainment and digital entertainment businesses. Sony Music Entertainment (Japan) Inc. (SMEJ) and SONY BMG MUSIC ENTERTAINMENT, a joint venture with Bertelsmann AG, are engaged in the music recording and distribution businesses, producing many hit songs and award-winning artists. Sony/ATV Music Publishing is engaged in the acquisition and exploitation of musical copyrights.

PICTURES

http://www.sonypictures.net/

With a focus on financial discipline, content diversity, technology and global growth, Sony Pictures Entertainment Inc. (SPE) experienced substantial success in the fiscal year ended March 31, 2007, with sharp increases in both revenue and operating income.

The motion picture division had its best year ever in calendar year 2006, with more than $1.7 billion in ticket sales in North America, making it No. 1 in Hollywood[1] and breaking the all-time industry box office record. The studio also had its best year ever internationally, with more than $1.6 billion in ticket sales.

The studio's diverse slate of successful films included *The Da Vinci Code*, *Casino Royale*, *Talladega Nights: The Ballad of Ricky Bobby*, *The Pursuit of Happyness* and *Click*. SPE had an industry record of 13 films opening No. 1 in North America.

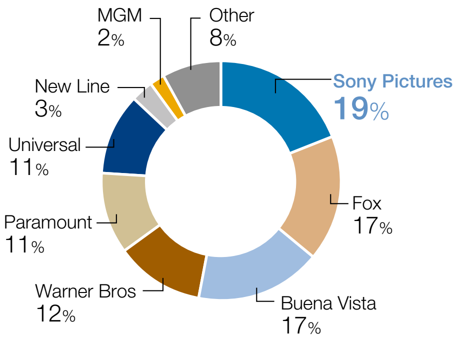
Sony Pictures Television (SPT) continued to have the No. 1 and No. 2 U.S. daytime television dramas and syndicated game shows[2], and remained the No. 1 producer of original scripted series for U.S. basic cable.[3] *The King of Queens*, *The Shield* and *Rescue Me* entered their 9th, 7th and 4th seasons, respectively, in the fiscal year ended March 31, 2007. The division also produced made-for-television movies, including *Broken Trail* for American Movie Classics, which became that network's highest-rated movie ever and garnered three Golden Globe® nominations.

SPT won contracts to produce 11 pilots for U.S. cable and broadcast networks for the 2007–2008 season, and during the 2006–2007 season launched two promising new comedies: *RULES OF ENGAGEMENT* on CBS and *'til Death* on FOX. SPT also expanded its advertiser sales business and began providing Internet advertising services for SPE and SONY BMG in the fiscal year ended March 31, 2007.

Sony Pictures Television International remains a leader among Hollywood studios in the international distribution of current and classic films and television programs as well as the production of local language programming, and continues to grow its international channels business, which now includes 40 cable and satellite networks, broadcasting in 19 languages into more than 130 countries.

North America Theatrical Box Office Revenue Market Share

(Calendar Year 2006)



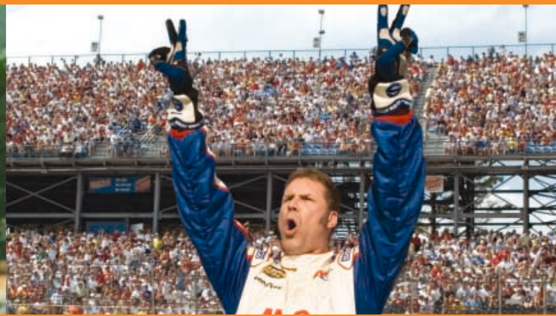
Pictures

The Da Vinci Code

From director Ron Howard and producer Brian Grazer comes the film version of Dan Brown's *The Da Vinci Code,* one of the most popular and talked about novels of our time, with a cast headed by two-time Academy Award® winner Tom Hanks, Audrey Tautou, Sir Ian McKellen, Alfred Molina, Paul Bettany and Jean Reno.

Casino Royale

In *Casino Royale*, Daniel Craig stars as "007" James Bond, the smoothest, sexiest, most lethal agent in Her Majesty's Secret Service. Based on the first Bond book written by Ian Fleming, the story, which has never been told on film until now, recounts the making of the world's greatest secret agent.



Talladega Nights: The Ballad of Ricky Bobby

All Ricky Bobby (Will Ferrell) ever wanted to do was go fast, real fast. Columbia Pictures' comedy *Talladega Nights: The Ballad of Ricky Bobby* tells the story of a dreamer who can only count to No. 1. After winning and losing it all, Ricky Bobby must claw his way back to the top the only way he knows how—the hard way.

The Pursuit of Happyness

In Columbia Pictures' *The Pursuit of Happyness*, Chris Gardner (Will Smith) is a marginally employed salesman. Struggling to make ends meet, Gardner finds himself and his five-year-old son being evicted with nowhere to go. When Gardner lands an internship at a prestigious stock brokerage firm, he and his son endure many hardships in pursuit of his dream of a better life for the two of them.

Open Season

In Columbia Pictures' new action-adventure comedy *Open Season*, the first feature-length animated motion picture from Sony Pictures Animation, Boog (Martin Lawrence), a grizzly bear with no survival skills, has his perfect world turned upside down when he meets Elliot (Ashton Kutcher), a scrawny, fast-talking wild mule deer.

Click

In Columbia Pictures/Revolution Studios' comedy *Click*, Michael Newman (Adam Sandler), a busy architect who is trying to get ahead in the world, purchases a remote control that seems to not only let him control his TV, but his entire life. Soon the technologically sophisticated device is controlling Michael in ways he never imagined possible.

'til Death

'til Death (FOX) is a half-hour comedy series that looks at married life from two very different perspectives: newlyweds vs. a long-married couple. The series stars Brad Garrett, Joely Fisher, Kat Foster and Eddie Kaye Thomas.

Damages

Damages (FX) is a new legal thriller that follows the turbulent lives of Patty Hewes (Glenn Close), the nation's most revered and reviled high-stakes litigator, and her bright, ambitious young protégé Ellen Parsons (Rose Byrne). Ted Danson and Tate Donovan also star.

RULES OF ENGAGEMENT

RULES OF ENGAGEMENT (CBS) is a comedy examining the lives of two couples and a single friend as they navigate through dating, engagement and marriage. Series stars Patrick Warburton, Oliver Hudson, David Spade, Bianca Kajlich and Megyn Price.

Casino Royale on Blu-ray Disc

For Sony Pictures Home Entertainment (SPHE), the fiscal year ended March 31, 2007 was the year of Blu-ray, with the release of 42 titles on Blu-ray Disc. During the first quarter of calendar year 2007, Blu-ray's share of the high definition disc market in the U.S. was 70%, compared to 30% for HD-DVD.[4] SPHE's traditional DVD business also grew in the fiscal year ended March 31, 2007, led by its success with such titles as *The Da Vinci Code*, *Talladega Nights: The Ballad of Ricky Bobby* and *Casino Royale*.

During the fiscal year ended March 31, 2007, Sony Pictures Digital (SPD) successfully launched Sony Pictures Animation's first full-length feature, *Open Season*, which took in nearly $190 million in ticket sales worldwide. SPD's premier visual effects studio, Sony Pictures Imageworks, shared an Academy Award® nomination for its work on *Superman Returns* and did the visual effects for *Monster House*, which was nominated for an Academy Award® for Best Animated Feature.

SPD's Sony Online Entertainment (SOE) business launched the new "massively multiplayer online game" Vanguard: Saga of Heroes in January 2007, which joins other successful SOE games like EverQuest and Star Wars Galaxies. SOE continued to produce popular games for online, PC and mobile phone users and in November 2006 released Untold Legends: Dark Kingdom, a game for PLAYSTATION®3 (PS3).

During the fiscal year ended March 31, 2007, SPE launched its new digital distribution business with outlets including CinemaNow, GUBA, AOL and Amazon. SPE also acquired the user-generated video website Grouper in August 2006.

SPE has also grown its worldwide acquisitions business, which includes the development of direct-to-DVD films and theatrical releases, and is doing more work in worldwide motion picture production, making local language films in such countries as Russia, China, Mexico, France and Spain.

Also during the fiscal year ended March 31, 2007, Sony Pictures worked closely with other Sony businesses in the spirit of "Sony United." These efforts have resulted in marketing partnerships for *Casino Royale*; a forthcoming Grouper channel on the BRAVIA Internet Video Link; SOE's contribution to the infrastructure for the PLAYSTATION®Network (PSN); and the inclusion of *Talladega Nights: The Ballad of Ricky Bobby* on Blu-ray Disc with the first 500,000 PS3s sold in the United States, and making *Casino Royale* available for free to the first 500,000 PS3 purchasers in Europe who registered with the PSN. In all these ways and many more, Sony Pictures is demonstrating the spirit of "Sony United" and the power of merging content and hardware in the digital age.

[1] Daily Variety, January 4, 2007
[2] Nielsen, September 2006–May 2007
[3] SPE-generated based on 2006–2007 cable programming
[4] Nielsen VideoScan, April 1, 2007

Music

Christina Aguilera

One of the most accomplished performers of the last decade, Christina Aguilera has sold well over 25 million albums worldwide. Her most recent release, *Back to Basics*, debuted at No. 1 on four of Billboard's music charts in the United States, and hit No. 1 in 15 countries around the world. The album also earned a GRAMMY® award for Best Female Pop Vocal Performance, making it her third GRAMMY® to date.

Carrie Underwood

Carrie Underwood repeatedly topped the charts in both airplay and sales of her debut album, *Some Hearts*. She earned two GRAMMY® Awards, including Best New Artist, two Academy of Country Music trophies and honors from the People's Choice Awards, American Music Awards and the Country Music Association.

The Fray

Grammy-nominated Denver band The Fray has sold almost 2.5 million units worldwide of their debut album, *How To Save A Life*, which iTunes named the most downloaded album of 2006.

Justin Timberlake

Justin Timberlake's *FutureSex/LoveSounds* has sold close to six million units worldwide. During the year under review, Timberlake became the first male artist in history to score three straight No. 1 hits on R&R's CHR/Top 40 chart, as well as three straight No. 1s from a single album, with the songs "SexyBack," "My Love" and "What Goes Around...Comes Around."

Dixie Chicks

The Dixie Chicks swept the major categories at the GRAMMY® ceremony, winning a total of five awards, including Record Of The Year, Album Of The Year and Song Of The Year, in the process of becoming the first female group in history to take home all three GRAMMY® honors. Their most recent release, *Taking The Long Way* has sold over three million copies worldwide.

Beyonce

During the year Beyonce earned numerous awards and nominations, including the GRAMMY® for Best Contemporary R&B Album. She also became the first non-model, non-athlete to appear on the cover of the *Sports Illustrated Swimsuit Issue*, and the second African-American in history to achieve this honor.

YUI

Every one of the singles released by YUI in the fiscal year ended March 31, 2007, debuted near the top of the Japanese music charts. These songs were included in the artist's second album, *CAN'T BUY MY LOVE*, which came out in April 2007 and continues to see record-breaking sales. YUI is currently one of the most popular singer-songwriters among Japan's youth.

ORANGE RANGE

Okinawa-bred rock band ORANGE RANGE has emerged as one of Japan's biggest bands in the four years since its debut in 2003. Much more success is expected from the band going forward, including key releases scheduled in 2007.

Angela Aki

Angela Aki's debut album, *Home*, released in June 2006, and *MY KEYS 2006 in Budokan*, a DVD of a 2006 year-end solo live concert, accompanying herself on the piano—the first such concert ever performed at the Budokan—registered robust sales. The artist is currently one of Japan's most promising singer-songwriters.

Sony/ATV Music Publishing

Sony/ATV Music Publishing (Sony/ATV) was established in 1995 as a joint venture between Sony and Michael Jackson.[1]

Headquartered in New York and with offices in close to 30 countries, Sony/ATV is engaged in the acquisition and exploitation of musical copyrights in a wide and ever-expanding variety of ways. Sony/ATV owns or administers over 500,000 copyrights by such artists as The Beatles, Beck, Brooks & Dunn, Leonard Cohen, Neil Diamond, Bob Dylan, The Everly Brothers, Fall Out Boy, Jimi Hendrix, Joni Mitchell, Graham Nash, Willie Nelson, Roy Orbison, Richie Sambora, Stephen Stills, KT Tunstall and Hank Williams, among many others.

The Company operates like a boutique—with intimate, personal attention given to writers, music supervisors and advertisers—but with the infrastructure of a major music publishing company. Other key competitive advantages include breadth of catalog, global presence and an industry-leading administration department.

The fiscal year ended March 31, 2007 was a defining year for Sony/ATV. In addition to reaching the highest revenue and profitability levels in its history, Sony/ATV also had many strong creative successes highlighted by its writers recently winning several top Academy of Country Music Awards. The company also benefited from the hit Cirque du Soleil show "Love" in Las Vegas, which features the music of The Beatles. At the end of the fiscal year, Sony/ATV acquired the catalog of legendary American pop songwriters Jerry Leiber and Mike Stoller, including the standards "Stand By Me," "Jailhouse Rock," "Kansas City," "Love Potion #9" and "Is That All There Is?"

Sony/ATV also recently hired Martin Bandier as Chairman and CEO. Mr. Bandier previously ran EMI's Music Publishing division—leading it to the industry's No. 1 position—and is widely considered the music publishing industry's top executive.

[1] Sony/ATV is not part of the SONY BMG joint venture.

MUSIC

SONY BMG MUSIC ENTERTAINMENT

http://www.sonybmg.com/

During the fiscal year ended March 31, 2007, the SONY BMG MUSIC ENTERTAINMENT (SONY BMG) joint venture focused on identifying and developing the best new artists, expanding the fan base for its established and superstar artists, and identifying new distribution opportunities in the digital realm.

The joint venture earned a total of 36 GRAMMY® awards during the 2007 ceremony, and released multimillion-selling albums from artists representing a wide-range of genres, including Justin Timberlake, Beyonce, Il Divo, Christina Aguilera, Dixie Chicks and P!NK. Artist development success stories included Carrie Underwood, Daughtry and The Fray.

The company also continued its multiyear campaign to expand beyond traditional physical delivery platforms such as the CD to develop multiple products that can be delivered over a broad array of channels, particularly in the digital area. The company enjoyed significant success in selling digital products relating to the mobile phone, including ringtones, ringback tones and full track mobile downloads, as well as online products such as downloads and music subscriptions.

SONY BMG also continued to aggressively monetize an asset that was previously promotional in nature—its vast video catalog. Building on its existing online and mobile distribution deals for video, the company signed advertising-driven deals with both YouTube, Inc. and Google, Inc. and launched a series of advertising-driven online video players that are deployed across its network of artist and label websites.

Sony Music Entertainment (Japan)

http://www.sonymusic.co.jp (Japanese only)

Sony Music Entertainment (Japan) Inc. (SMEJ) is engaged in not only the production of music recordings but also artist management, music publishing, and other operations. In the period under review, such best-selling SMEJ artists as CHEMISTRY, ORANGE RANGE, YUKI, PORNO GRAFFITI and Mika Nakashima made substantial contributions to sales and income. Efforts to foster the development of new artists, a top priority for the company, yielded solid results, with promising newcomers including Yuna Ito, Angela Aki, Aqua Timez and YUI, all of whom recorded brisk sales.

At The 21st Japan Gold Disc Award 2007, four SMEJ artists were acknowledged in the Best 10 New Artists category, which recognizes outstanding performances by new artists, while the SMEJ release of *Orchestra de Nodame Live* was named Classic Album of the Year. This award honors the top-selling classical album in 2006, sparking a resurgence of interest in classical music in Japan.

Financial Services

Sony's financial services business is comprised of Sony Life Insurance Co., Ltd. (Sony Life), Sony Assurance Inc. (Sony Assurance) and Sony Bank Inc. (Sony Bank), as well as Sony Financial Holdings Inc. (SFH), the holding company for these operating companies. The Financial Services segment also includes the operations of Sony Finance International, Inc., which include credit cards and leasing operations.

Sony Financial Holdings

http://www.sonyfh.co.jp/english/

Sony Financial Holdings (SFH) is the financial holding company of the SFH Group, which includes operating companies Sony Life, Sony Assurance and Sony Bank. This arrangement strengthens ties among these companies and facilitates the joint provision of products and services. For example, Sony Life's Lifeplanner[1] life insurance professionals sell Sony Assurance's automobile insurance products and introduce Sony Bank's mortgage loans to their customers. Similarly, Sony Bank sells Sony Life's individual annuities to its customers and offers group credit life insurance products underwritten by Sony Life and fire insurance products underwritten by Sony Assurance to its mortgage holders. These ties continue to support the expansion of the SFH Group's business. In the fiscal year ended March 31, 2007, Sony Life's Lifeplanner sales force generated approximately 10% of the new automobile insurance policies at Sony Assurance.

Sony Life

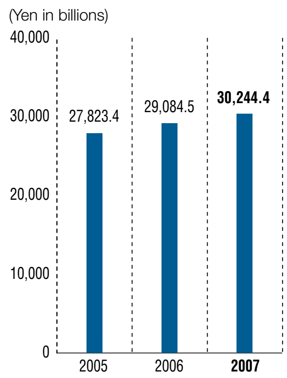
http://www.sonylife.co.jp/ (Japanese only)

Through its highly trained Lifeplanner life insurance professionals and Partners (independent agencies), Sony Life provides individualized security and reassurance to its customers with detailed consultation and follow-up services, enabling it to maintain a high persistency rate[2] and a favorable lapse and surrender rate[2].

Despite the fact that the total values of insurance in force and new insurance sales in the Japanese life insurance industry are shrinking, Sony Life continues to see solid growth in insurance in force[2] (individual life insurance and individual annuities). As of March 31, 2007, the total value of Sony Life's insurance in force was ¥30,244.4 billion, up 4.0% from a year earlier. New insurance sales, which reflected brisk sales of nursing care insurance and other new products, supported an increase in Embedded Value (EV)[2], a key indicator used to evaluate a life insurance company's corporate value. As of March 31, 2007, Sony Life's solvency margin ratio[2] was 1,852.0%, indicative of its highly sound financial position.

In addition to reinforcing its mainstay business, death protection products, Sony Life is stepping up efforts to respond to the increasingly broad needs of its customers by strengthening its offerings in the nursing care protection business and individual annuities business. In September 2006, Sony Life entered an alliance with Watami Co., Ltd., to collaborate in the nursing care business. In January 2007, Sony Life and AEGON N.V. of the

Sony Life's Insurance in Force
(Individual Life Insurance and Individual Annuities)



*As of March 31

Netherlands announced their intention to establish a joint venture life insurance company in Japan that will develop and sell individual annuity products.

[1] "Lifeplanner" is a registered trademark of Sony Life Insurance Co., Ltd.
[2] Sony Life's insurance in force, persistency rate, lapse and surrender rate, solvency margin ratio and EV figures are calculated and disclosed on the basis of Japanese statutory accounting standards.

Sony Assurance's customer communication website

Sony Assurance
http://www.sonysonpo.co.jp/ (Japanese only)

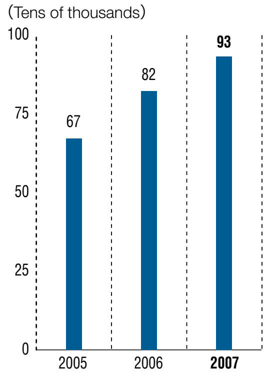
Sony Assurance, which has adopted the direct insurance business model, delivers practical, high-quality services through direct dialogue with customers via the Internet and telephone channels. Its main products are automobile insurance as well as medical and cancer insurance.

In April 2006, Sony Assurance launched a new customer communication website that puts it directly in touch with its customers. The website offers various content, including customer evaluations of Sony Assurance's accident resolution services, results of customer opinion surveys and the progress of Sony Assurance's efforts to eliminate customer dissatisfaction. In October 2006, Sony Assurance enhanced its accident resolution services for all automobile insurance policyholders by promising that the staff member assigned to handle accident resolution will respond to the customer within three hours[3] upon receiving an accident report.

The cost competitiveness of Sony Assurance's direct insurance business model and the high quality of its services continue to boost the number of new policies and strengthen support from policyholders. As of March 31, 2007, the combined number of automobile and medical and cancer insurance policies in force exceeded 900,000, an increase of approximately 13% from the previous fiscal year-end. Going forward, Sony Assurance will continue to grow its business with the aim of enhancing its presence as a leader in the direct insurance industry.

[3] This commitment is for all accidents reported during normal business hours.

Sony Assurance's Number of Policies in Force



*As of March 31

Sony Bank
http://sonybank.net/ (Japanese only)

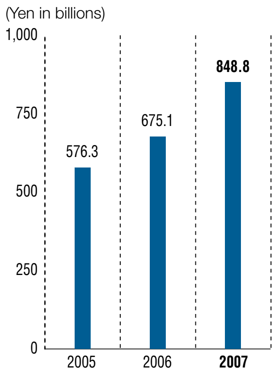
Sony Bank is an Internet bank that targets retail banking customers with a variety of highly convenient, high-quality financial products and services. In June 2006, Sony Bank launched a mobile banking service, which allows customers to conduct bank transactions from mobile phones, further enhancing the convenience of banking transactions. In October 2006, Sony Bank launched a new "card loan" service in an alliance with GE Consumer Finance Co., Ltd. December 2006 saw the start of an ATM affiliation with Seven Bank, Ltd., that generally enables Sony Bank customers to use Seven Bank ATMs installed in 7-Eleven stores and other locations throughout Japan 24 hours a day, and no service fees.

With the expansion of Sony Bank's services and products, deposited assets[4] (the total of deposits and investment trusts) increased 26%, to ¥848.8 billion, while loans outstanding[4] rose 19%, to ¥284.7 billion. The number of accounts as of March 31, 2007, totaled approximately 490,000, up nearly 14%, or roughly 60,000, from the previous fiscal year-end.

In the fiscal year ending March 31, 2008, Sony Bank expects to introduce full-scale securities intermediary services, and continue to expand its lineup of other banking products and services, with the aim of further enhancing customer satisfaction.

[4] Sony Bank's deposited assets and loans outstanding are calculated and disclosed on the basis of Japanese statutory accounting standards.

Sony Bank's Deposited Assets
(Deposits and Investment Trusts)



*As of March 31

Research and Development

R&D Expenses

R&D expenses for the period increased ¥12.1 billion, or 2.3%, to ¥543.9 billion from the prior fiscal year. This is equivalent to 7.1% of net sales and operating revenue, excluding the Financial Services segment, which was down from 7.8% a year earlier.

R&D expenses in the Electronics segment increased ¥22.3 billion, or 5.3%, to ¥440.4 billion, while expenses in the Game segment decreased ¥10.8 billion, or 9.9%, to ¥97.9 billion.

Key Technological Fields and Concrete Strategies

Based on a firm belief that R&D is essential to growing our business, we are pursuing efforts to develop a broad range of technologies, including those intended to support existing products and services and those that will create new markets.

We have identified four key technological fields for Sony going forward. One is platforms for home and mobile electronics, and the remaining three are semiconductor, device and software technologies, from which Sony products derive their distinctive, value-added features.

To strengthen platforms for home and mobile electronics, we are focusing on high definition (HD)-related technologies. In particular, we are endeavoring to accelerate product development by leveraging such core components as advanced video codec high definition (AVCHD) encoders and other system large-scale integrated circuits (LSIs).

In semiconductors, we are developing technologies to enable the application of elemental technologies used in Cell, our high-performance processor, in electronics products. We are also reinforcing our technological capabilities in complementary metal oxide semiconductor (CMOS) image sensors, for which applications are expected to expand significantly, and in charged-coupled device (CCD) image sensors, for which we enjoy a market-leading position.

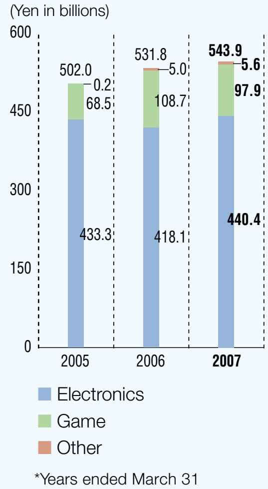
R&D in the area of device technologies focuses on touch-screen and other high-performance technologies for small liquid crystal displays (LCDs) used in mobile devices and organic light-emitting diodes (OLEDs[1]), much anticipated for use in next-generation displays.

In the software realm, we bolstered our development capabilities for middleware that offers better user interfaces and facilitates home networks, as well as for application programs, codecs (coders/decoders) and digital rights management (DRM) software. Of particular note, we established a company-wide, cross-business software organization with the aim of enhancing our software engineering capabilities. We continue to implement measures aimed at bolstering engineer training and software quality assurance systems, including reinforcing our systems architect qualification and personnel exchange programs.

In April 2007, we established the B2B Solutions Business Group in a bid to generate new opportunities by enhancing our business-to-business operations.

[1] With an OLED, the electric current flow through an organic material causes the material to generate electroluminescent light.

R&D Expenses



R&D Highlights for the Fiscal Year Ended March 31, 2007

New Agreements

Sony joined an alliance of industry-leading consumer electronics and telecommunications companies from Japan, Korea, Europe and North America in March 2007 to establish the Open IPTV[2] Forum. The organization will set a single global standard for Internet protocol television (IPTV) technologies to deliver video content via networks. In this forum, the alliance members will develop technology to offer consumers easy access to the content and services offered by various providers via mobile and home electronics.

[2] A system in which television programming, movies and other content are delivered via a network using Internet protocols

R&D Achievements

Full-color OLED display using thin-film transistors mounted on a plastic substrate

At the 2007 International CES (Consumer Electronics Show), held in January 2007 in Las Vegas, we unveiled two next-generation television prototypes employing OLED displays—a 27-inch Full HD model and an 11-inch wide super video graphics array (SVGA) model. The displays in these models achieve a high contrast ratio of 1,000,000:1, peak luminescence above 600 candelas per square meter and a performance second to none among existing technologies. The 27-inch display panels are only 10 millimeters at the thinnest point and the 11-inch displays are only three millimeters. Going forward, we will ramp up this technology for mass production of panels for medium-sized and large televisions.

At a technology conference in May 2007, we announced the world's first full-color OLED display using organic thin-film transistors mounted on a plastic substrate. This technology will pave the way for flexible displays. Going forward, this technology and others like it will also allow us to develop groundbreaking new products.

Against the backdrop of ever-widening distribution of digital content, such as music and movies, we developed a new proprietary encryption algorithm called CLEFIA as an enabling technology for copyright protection and personal authentication processes. This algorithm achieves higher levels of security using fewer computations than existing algorithms, making it suitable for use with smart cards or mobile devices with hardware mounting constraints. We are preparing to use CLEFIA in various products, providing consumers with the greater peace of mind that comes with enhanced security features.

Intellectual Property Supports Sony's Technologies and Products

Since its establishment, Sony has sought to ensure the proper protection of its intellectual property rights[3]—R&D accomplishments that are essential to sustaining its growth strategies—and to utilize such intellectual property rights to strengthen the competitive advantage of its businesses. Sony's intellectual property strategy is forged in close alliance with its R&D and business strategies, and all three are implemented in an integrated manner.

The intellectual property process starts with obtaining intellectual property rights, such as patents, on inventions and concepts generated through our R&D and other activities. Analysis and evaluation of the structure and content of intellectual property portfolios play a critical role in the rights obtaining process.

The Intellectual Property Division works closely with the business groups, analyzing and studying intellectual property portfolios in accordance with R&D and business strategies for individual fields as well as the entire Sony Group, providing input into decisions about future R&D directions and strategy for obtaining intellectual property rights. For example, we began in-house R&D in the area of OLED displays early on, fostering technologies necessary for commercialization and related intellectual property, enabling us to apply for numerous patents for crucial technologies and strengthen this portfolio.

Consideration is given to both the operating environment of the relevant business and the state of its intellectual property portfolio in determining the most effective use of intellectual property rights. Based on the business's operating environment, the decision is made to keep intellectual property in-house, license it to third parties or enter cross-licensing agreements to ensure business flexibility.

In the digital network age, ever-increasing numbers of standardized technologies and their patents owned by various companies are being incorporated into products. To provide broad, rational accessibility to such technologies within the industry, we are participating and cooperating actively in the development of structures for patent pools, agreements between companies to aggregate their patents relating to particular technologies and licenses in response to requests from interested third parties with reasonable licensing terms.

In addition to in-house efforts, we are also entering strategic joint development alliances with other companies based on the results of intellectual property portfolio analysis, to accelerate R&D and the commercialization of new products and services.

[3] Intellectual property rights include patents, designs, trademarks, copyrights and proprietary information, among others.

Corporate Governance/New Directors and Corporate Executive Officers

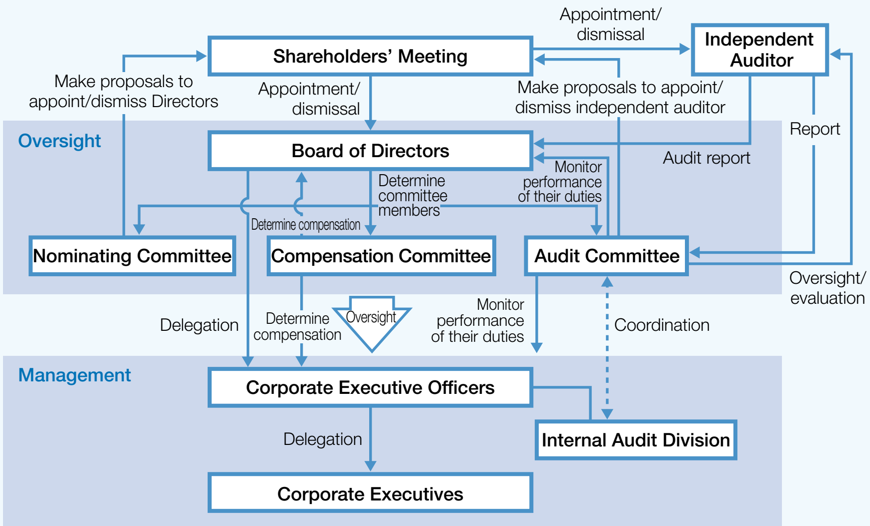
Basic Framework

Sony is committed to strong corporate governance. As a part of this effort, Sony adopted a "Company with Committees" corporate governance system under the Japanese Company Law. In addition to complying with the requirements of laws and regulations, Sony also has introduced its own mechanisms to help make its governance system even more sound and transparent, including strengthening the separation of the Directors' function from that of management and advancing the proper functioning of the statutory committees. Under this system, the Board of Directors defines the respective areas for which each Corporate Executive Officer is responsible and delegates to them decision-making authority to manage the business, thereby promoting the prompt and efficient management of the Sony Group.

Governance Structure

Sony Corporation's statutory entities are comprised of the Board of Directors, which is appointed by resolution at the shareholders' meeting; three committees (the Nominating Committee, Audit Committee and Compensation Committee), consisting of directors named by the Board of Directors; and the Corporate Executive Officers, who are appointed by resolution of the Board of Directors. In addition to these statutory entities, Sony has Corporate Executives who carry out business operations within designated areas.

Corporate Governance Structure



Sony Initiatives

To strengthen its governance structure beyond legal requirements, Sony Corporation has added several provisions to its Charter of the Board of Directors to ensure the separation of the Board of Directors from the execution of business, and to advance the proper functioning of the statutory committees. The main provisions are as follows:

- separating the roles of the Board chairperson/vice chairperson and Representative Corporate Executive Officers;
- limiting the number of terms of outside Directors and rotating committee memberships;
- appointing chairs of statutory committees from the ranks of outside Directors;
- setting forth qualifications for Directors for the purpose of eliminating conflicts of interest and ensuring independence;
- raising the minimum number of Nominating Committee members (five or more) and requiring that at least two Directors of the Committee shall be Corporate Executive Officers;
- suggesting that, as a general rule, at least one Director of the Compensation Committee shall be a Corporate Executive Officer, while prohibiting the appointment of the CEO or COO of the Sony Group (or persons at any equivalent position) to serve on the Committee; and
- discouraging the concurrent appointment of Audit Committee members to other committees.

Meeting Record

During the fiscal year ended March 31, 2007 (fiscal year 2006), the Board of Directors convened eight times. The Nominating Committee met five times, the Audit Committee met 14 times and the Compensation Committee met six times. In fiscal year 2006, no incumbent Director attended less than 75% of the aggregate number of meetings of the Board and Committees on which he/she served (during the period that he/she served).

Cooperation of the Audit Committee and the Internal Audit Division

Sony Corporation has an internal audit division, which coordinates closely with the internal audit departments of major subsidiaries around the world to promote Sony Group's internal audit activities on a global basis. The Sony Corporation internal audit division makes periodic presentations and submits monthly reports to the Audit Committee. To help assure its independence, the appointment and dismissal of the person in charge of the Sony Corporation internal audit division is subject to the prior approval of the Audit Committee.

Board of Directors’ Determination Regarding Internal Control and Governance Framework

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

URL

- Charter of the Board of Directors:
  http://www.sony.net/SonyInfo/IR/qfhh7c000009vi0u-att/board_of_directors_E.pdf
- Basic policy regarding remuneration for Directors and Corporate Executive Officers:
  http://www.sony.net/SonyInfo/IR/stock/qfhh7c000009cmtik-att/nts90.pdf (P18–19)
- Board of Directors’ determination regarding internal control and governance framework pursuant to the Japanese Company Law:
  http://www.sony.net/SonyInfo/IR/library/control.html
- Significant differences between the New York Stock Exchange’s corporate governance standards and Sony’s corporate governance practices (including the explanation of “outside Directors”):
  http://www.sony.net/SonyInfo/IR/NYSEGovernance.html

Governance Related to the U.S. Sarbanes–Oxley Act

The United States adopted the Sarbanes–Oxley Act (SOX) in 2002 in response to a series of corporate financial scandals and corporate governance abuse. SOX applies to Sony because it is a foreign private issuer of equity securities registered with the U.S. Securities and Exchange Commission (SEC) and subject to SEC reporting requirements.

Among other requirements, SOX requires the CEO and the CFO of Sony Corporation to sign certain certifications to accompany the Sony Corporation Form 20-F, an annual report filed with the SEC, relating to the integrity of the financial statements, to disclosure controls and procedures, and to internal control over financial reporting.

Sony has established “Disclosure Controls and Procedures,” through which potentially material information is reported from important business units, subsidiaries, affiliated companies and corporate divisions and is reviewed and considered for disclosure in light of its materiality to the Sony Group. An advisory body, the “Disclosure Committee,” comprised of officers and senior management of the Sony Group who oversee investor relations, accounting, legal, corporate communications, finance, internal audit and human resources, assists the CEO, the President and the CFO in the establishment and implementation of the system and also in assuring the accuracy of financial reporting.

Beginning in the fiscal year ended March 31, 2007, SOX also requires a management report on the company’s internal control over financial reporting to be included in the Form 20-F. In order to ensure compliance with the requirement, Sony formed a cross-functional steering committee comprised of headquarters management to monitor necessary actions including documentation, testing and evaluation of controls and to perform oversight and assessment of the global evaluation. Based on the evaluation, management has concluded that Sony maintained effective internal control over financial reporting as of March 31, 2007.

Structure of Sony Corporate Governance System

Supervision

Board of Directors

- Determines the fundamental management policies of the Sony Group.
- Oversees the management of Sony Group's business operations.
- Appoints and dismisses the statutory committee members.
- Appoints and dismisses Corporate Executive Officers.

Chairman of the Board: Yotaro Kobayashi*
Vice Chairman of the Board: Hirobumi Kawano*

Sir Howard Stringer	Sony Corporation Chairman and Chief Executive Officer
Ryoji Chubachi	Sony Corporation President and Electronics CEO
Katsumi Ihara	Sony Corporation Executive Deputy President, Officer in charge of Consumer Product Group
Akishige Okada*	Advisor, Sumitomo Mitsui Banking Corporation
Hirobumi Kawano*	Senior Vice President, JFE Steel Corporation
Yotaro Kobayashi*	Chief Corporate Advisor, Fuji Xerox Co., Ltd.
Sakie T. Fukushima*	Representative Director & Regional Managing Director–Japan, Korn/Ferry International Member of the Board, Korn/Ferry International, U.S.A.
Yoshihiko Miyauchi*	Director, Representative Executive Officer, Chairman and Chief Executive Officer, ORIX Corporation
Yoshiaki Yamauchi*	Director, Sumitomo Mitsui Financial Group, Inc.
Sir Peter Bonfield*	Member of the Board, Telefonaktiebolaget LM Ericsson
Fueo Sumita*	Chief of Sumita Accounting Office
Fujio Cho*	Chairman, Toyota Motor Corporation
Ned Lautenbach*	Operating Partner, Clayton, Dubilier & Rice, Inc.
Ryuji Yasuda*	Professor, Graduate School of International Corporate Strategy, Hitotsubashi University

Nominating Committee

- Determines the content of proposals regarding the appointment/dismissal of Directors.

Yotaro Kobayashi* (Chairman)
Hirobumi Kawano*
Sir Peter Bonfield*
Fujio Cho*
Sir Howard Stringer
Ryoji Chubachi

Audit Committee

- Monitors the performance of duties by Directors and Corporate Executive Officers (with regard to the preparation process of financial statements, disclosure controls and procedures, internal controls, compliance structure, risk management structure, internal audit structure, internal hotline system, and other matters).
- Determines the content of proposals regarding the appointment/dismissal or non-reappointment of, approves the compensation of, and oversees and evaluates the work of Sony's independent auditors.
- Reviews with Sony's independent auditors the scope and results of their audit including their evaluation of Sony's internal controls, compatibility with generally accepted accounting principles in the U.S., and the overall quality of financial reporting.

Yoshiaki Yamauchi* (Chairman)
Fueo Sumita*
Ryuji Yasuda*

Compensation Committee

- Sets policy on the contents of individual compensation for Directors, Corporate Executive Officers, Corporate Executives and Group Executives and determines the amount and content of individual compensation of Directors and Corporate Executive Officers in accordance with the policy.

Akishige Okada* (Chairman)
Yoshihiko Miyauchi*
Sakie T. Fukushima*

* An outside director who satisfies the requirements under Item 15, Article 2 of the Japanese Company Law

Execution

Corporate Executive Officers

- Make decisions regarding the execution of Sony Group business activities within the scope of the authority delegated to them by the Board of Directors.

Sir Howard Stringer**	Chairman and Chief Executive Officer
Ryoji Chubachi**	President and Electronics CEO
Katsumi Ihara**	Executive Deputy President, Officer in charge of Consumer Product Group
Yutaka Nakagawa	Executive Deputy President, Officer in charge of Semiconductor & Component Group
Nobuyuki Oneda	Executive Vice President and Chief Financial Officer
Keiji Kimura	Executive Vice President, Officer in charge of Technology Strategies, Intellectual Property and Electronics Business Strategies
Nicole Seligman	Executive Vice President and General Counsel

** Representative Corporate Executive Officer concurrently serving as Director

Corporate Executives

- Carry out business operations within designated areas, including business units, research and development, and/or headquarters functions, in accordance with the fundamental policies determined by the Board of Directors and the Corporate Executive Officers.

(Names and positions of new Directors and Corporate Executive Officers as of June 21, 2007)

Corporate Social Responsibility

Sony CSR Report 2007
http://www.sony.net/csr/
Please refer to the Sony CSR Report 2007 for full details of our CSR activities.

Sony CSR Policy

The core responsibility of the Sony Group is to pursue enhancement of corporate value through technological innovation and sound business practices. We recognize, however, that our businesses have direct and indirect impact on the societies in which we operate. Sound business practices require that business decisions give due consideration to the interests of our stakeholders, including shareholders, customers, employees, parts and raw materials suppliers, business partners, local communities and other organizations.

To fulfill our commitment to CSR, we are pursuing group-wide initiatives on a number of fronts, including strengthening our corporate governance, compliance and quality control structures; maintaining sound employment practices and a healthy work environment; conserving the environment (through global warming countermeasures, efficient resource utilization, chemical substance management and protection of the natural environment); and contributing to our communities through social contribution programs.

Sony and Socially Responsible Investing (SRI) Indices

SRI indices and funds have emerged around the world in recent years to reflect the need to analyze and rate corporate activities from the perspective of social, ethical and environmental performance, as well as by using traditional financial indicators.

Sony is recognized around the world for the excellence of its CSR activities, reflected by its inclusion in the key SRI indices shown to the left (as of April 1, 2007).

Dow Jones Sustainability Indexes
Member 2006/07

"Dow Jones Sustainability Index"
Developed jointly by Dow Jones Indices (United States), STOXX Limited (Switzerland) and the SAM Group (Switzerland)

FTSE4Good

"FTSE4Good Global 100 Index"
Developed by the FTSE Group, a joint venture between the Financial Times Ltd. (United Kingdom) and the London Stock Exchange plc

Compliance

We believe that ethical business conduct and compliance with applicable laws and regulations are fundamental aspects of Sony's corporate culture. Sony has established and maintains a compliance system, through which we repeatedly communicate the importance of corporate ethics throughout the Sony Group.

As a part of this system, we have adopted the "Sony Group Code of Conduct," which sets the basic internal standards to be observed by all directors, officers and employees of the Sony Group, and have established and maintained other important internal policies and rules to be commonly applied across the Sony Group. The Code of Conduct sets out, in addition to legal and compliance standards, the Sony Group's basic policies concerning ethical business practices and activities, including respect for human rights, safety of products and services, environmental conservation and information disclosure.

We have also established and maintain the "Sony Group Compliance Hotline," an internal hotline system implemented throughout the Sony Group that encourages employees to report concerns or raise questions about possible violations of laws or internal rules.

In order to promote such activities, Sony Corporation's compliance division and regional compliance divisions established in the Americas, Europe, Japan, East Asia and Pan-Asia have been cooperating with each other to ensure a comprehensive global compliance structure.

Improving Product Quality

Sony strives to enhance its customers' trust, confidence and satisfaction by improving product and service quality from the customer's perspective. We see it as our ultimate goal, as well as our obligation, to be a highly trusted partner on whom our customers can rely. To instill this philosophy more firmly, in January 2007 we formulated the Sony Pledge of Quality, which lays out basic policy on product and service quality in the Electronics business, and we are implementing measures aimed at enhancing customer satisfaction.

Quality Assurance Initiatives

We endeavor to incorporate product quality improvement considerations into all processes, from development, planning, design and manufacturing to sales and service activities. Such measures include:

- establishing the position of Corporate Executive in charge of Product Quality and Safety, with responsibility for managing and overseeing efforts to improve product and service quality and respond to quality and safety issues;
- appointing personnel within each product and business group who are ultimately responsible for quality to spearhead initiatives in the areas for which they are responsible; and
- holding regular Quality Strategy Meetings, which are composed of Sony's president as well as top management from each Electronics business group and manufacturing and marketing executives, to discuss and set policies, strategies and key measures relating to product quality.

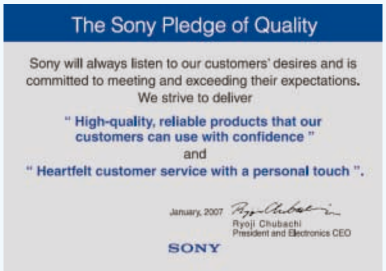
In addition to the above, through our Customer Information Center, where customers report product malfunctions and express opinions after purchase, we are able to promptly and accurately identify problems with planning, design and other groups and also work with them to make appropriate improvements. Also, we have established the Product Quality Information Channel, through which we gather product quality-related information and opinions from Sony Group employees, enabling us to detect problems early and prevent them from developing into serious issues.

Responses to Quality Issues

Sony recognizes ensuring its customers' trust, confidence and satisfaction as a crucial management task. Accordingly, we respond swiftly when a problem arises by investigating the facts, disclosing information to customers and taking the appropriate measures to deal with the problem.

In the fiscal year ended March 31, 2007, Sony launched a global replacement program for certain notebook computer battery packs using Sony-manufactured lithium-ion battery cells. Sony initiated this program as a measure of its commitment to ensuring customer satisfaction and alleviating any consumer concern which may have arisen as a result of voluntary recalls by certain computer manufacturers in the fiscal year ended March 31, 2007 of notebook batteries containing Sony cells that, under certain rare conditions, may overheat. As part of its ongoing effort to improve battery cell quality, Sony made several improvements that had an additional safety benefit to the battery design and manufacturing process of covered battery cells, most of which had been implemented before the replacement program.

In September 2006, we introduced rules within Sony's worldwide operations that specify any information that we receive concerning product incidents that affect customer safety be directed promptly to the executive in charge of product quality and safety. The executive uses this information to investigate as appropriate and address the issues with the related operating groups.


The Sony Pledge of Quality

Sony will always listen to our customers' desires and is committed to meeting and exceeding their expectations.
We strive to deliver
" High-quality, reliable products that our customers can use with confidence "
and
" Heartfelt customer service with a personal touch ".

January, 2007
Ryoji Chubachi
President and Electronics CEO
SONY

The Sony Pledge of Quality

Climate Savers Program
signatory ceremony

Environmental Activities

With the aim of making a meaningful contribution to the creation of a sustainable society, we formulated the Sony Group Environmental Vision and are promoting environmental management activities group-wide. By establishing a unified environmental management system, based on ISO 14001 standards, for our operations worldwide, we have created an effective means of monitoring and managing our progress toward globally consistent environmental objectives.

Global Warming Countermeasures

Sony continues to implement measures to reduce emissions of the greenhouse gases credited with causing global warming. As one of these initiatives, in July 2006 we joined the Climate Savers Program, a program organized by the World Wide Fund for Nature (WWF), an international nongovernmental organization (NGO). We have concluded agreements with the WWF that commit us to global targets for absolute greenhouse gas reductions and are promoting related efforts.

BRAVIA™ X series LCD television
(KDL-46X2500 model)

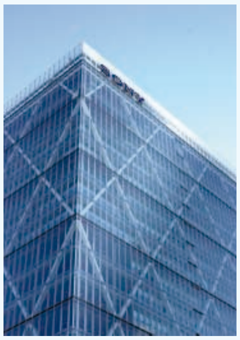
Environmentally Conscious Products

We are endeavoring to lower the environmental impact of our products by reducing resource utilization and operating and standby power consumption, as well as managing chemical substance content.

Our BRAVIA™ LCD televisions, for example, feature Live Color Creation™, a wide color gamut backlight system[1] that reproduces high-purity spectral colors, which not only achieve more realistic colors but also substantially lower power consumption. In the BRAVIA X series, the KDL-46X2500 model reduces annual electric consumption by approximately 25%[2] by automatically modulating backlight and screen brightness to match image and background brightness.

These efforts have not gone unrecognized. In February 2007, we were the first consumer electronics and entertainment company awarded the Sustainable Energy Europe Award by the European Commission.

[1] Not applicable to some models
[2] Comparison with the 46-inch KDL-46X1000 model



New Sony headquarters
in Tokyo

Reducing the Environmental Impact of Sony Facilities

We are making progress in reducing energy consumption and ensuring more efficient resource use at our business facilities. Our new headquarters building, completed in October 2006, utilizes a high-efficiency heating system developed and introduced jointly with a specialized manufacturer of such systems for industrial use, as well as efficient application of unused energy. In addition to planning for carbon dioxide (CO_2) emission reductions directly from the construction stage, we have worked to reduce energy consumption since moving into the building. Consequently, we expect the building to produce 40%[3] fewer CO_2 emissions than conventional buildings.

[3] Based on Sony data

Social Contributions

The Sony Group has a policy of contributing its expertise to local communities in regions around the world where it operates according to the needs of the times and the communities themselves. We make effective use of our technologies, products and business activities and the talents and efforts of employees in the service of these communities.

Sony Group companies and offices and Sony-supported charitable foundations in Japan, the United States, Europe, Canada and Australia sponsor a range of educational, science, music, digital film and photography programs suited to the host region. We also provide opportunities for individual employees to participate in volunteer activities that benefit their communities. In the period under review, approximately 23,000 Sony Group employees participated in these activities.

"Someone Needs You,"
Sony's employee volunteer initiative

For the Next Generation

We continue to undertake a variety of programs under the banner "For the Next Generation," which strives to provide youth with educational opportunities and contribute to the creation of a sustainable society. During the fiscal year ended March 31, 2007, the Sony Foundation for Education sponsored the "Wellspring of Science Inspiration—Children's Schoolhouse of Dreams" program led by Dr. Hideki Shirakawa, who was awarded the Nobel Prize in Chemistry. The program encourages children to learn through nature. In the arts realm, the Sony Music Foundation supported a program to cultivate appreciation for world-class music in young people. It sponsored performances of *Les Paladins*, billed as an "opera *fantastique*," and organized related youth-oriented workshops that coincided with these performances.

In other parts of Asia, we launched the Sony Student Project Abroad (China) to help foster a cultural understanding of Japan among Chinese high school students. During the period, we invited 20 high school students from Beijing and Shanghai to visit Tokyo, stay in Sony employee homes and interact with their Japanese counterparts under the theme "Raising Environmental Awareness."

Sony Student Project Abroad (China)

To complement our prior emphasis on educational activities, during the period under review, we also collaborated with international institutions and NGOs in developing nations to conduct activities designed to raise awareness among the general population of the actual state of poverty and disease epidemics in some developing nations, in line with the idea that understanding real conditions is the first step toward helping improve those conditions. For example, we supplied digital cameras and peripheral equipment to the children participating in a UNICEF-organized digital photo project in earthquake-devastated areas of Pakistan. The project allowed children to document their lives from their own perspectives, and was undertaken with the aim of contributing to rebuilding efforts, while at the same time fostering creativity. Photographs from the project were exhibited at UNICEF's headquarters in New York and in Pakistan's capital, Islamabad, as well as at the Sony Building and Sony mediage in Tokyo.

UNICEF children's digital photo project

Financial Section

Contents

For the notes to Sony's consolidated financial statements for the fiscal year ended March 31, 2007, visit Sony's website: http://www.sony.net/SonyInfo/IR/financial/ar/2007/

A Message from the CFO

In the fiscal year ended March 31, 2007, Sony's consolidated sales and operating revenue increased approximately 10%, to a record high. Despite a substantial increase in operating income in the Electronics segment due to brisk sales of digital cameras, LCD televisions and camcorders, consolidated operating income decreased approximately 68%, owing primarily to an operating loss in the Game segment as a consequence of losses associated with the launch of PLAYSTATION®3 (PS3) and a reduction in operating income in the Financial Services segment, owing to a decrease in valuation gains from convertible bonds. Nonetheless, net income increased approximately 2%, reflecting an increase in equity in net income from equity affiliate Sony Ericsson Mobile Communications AB, attributable to significant contributions from such hit products as Cyber-shot- and Walkman®-branded mobile phones.

The fiscal year ending March 31, 2008, the final year in Sony's bid to achieve its target of a 5% consolidated operating income margin, is of tremendous importance to Sony. In addition to focusing on achieving continued improvements in operating income in the Electronics segment, expanding the PS3 platform and improving profitability in the Game segment, as well as enhancing our overall cash flow and financial position, Sony will make concerted efforts to strengthen and promote cooperation among its core Electronics, Game and Entertainment businesses, enabling it to shift from "revitalization" to "profitable growth."

Nobuyuki Oneda
Corporate Executive Officer, Executive Vice President and CFO

TREND INFORMATION

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

ISSUES FACING SONY AND MANAGEMENT'S RESPONSE TO THOSE ISSUES

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

In response to these challenges, Sony has been undertaking initiatives to improve its competitiveness and strengthen the quality of its management, such as a reduction in the number of business categories and the number of models, a rationalization of manufacturing sites and the creation of a more efficient administrative structure, as well as the sale of non-core assets (refer to "Restructuring" in "*Operating Results*" for more detailed information about restructuring). This plan, developed in consultation with Sony's stakeholders both inside and outside the company, moved to strengthen Sony's competitiveness in three core sectors—Electronics, Game and Entertainment—through a balanced mix of restructuring and growth initiatives combined with a new organizational structure. In particular, it is the revitalization of Electronics that management regards as the most pressing issue confronting Sony today. As well as reorganizing its Electronics business to place centralized decision-making authority over key areas under the Electronics CEO, Sony is implementing reorganization initiatives to strengthen horizontal coordination in the key areas of product planning, technology, procurement, manufacturing, and sales and marketing. For Sony's growth strategy in Electronics, resources will be focused on the development and commercialization of high-definition products, mobile products and advanced semiconductors and other key devices that can further differentiate these products, targeting enhanced competitiveness and improved profitability. In the Game segment, Sony intends to expand the PLAYSTATION®3 ("PS3") platform while developing its PlayStation®2 ("PS2") and PSP® (PlayStation®Portable) ("PSP") businesses.

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

■ ELECTRONICS

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

In the area of semiconductors, in the fiscal years ended March 31, 2006 and 2007, Sony carried out 140 billion yen and 150 billion yen, respectively, of capital expenditures mainly on system large scale integrations ("LSI") and charged coupled devices ("CCDs"). These totals also include Sony's investment in semiconductor fabrication equipment built at the 65 nanometer process technology level. Chips that will be manufactured using this equipment will be some of the most highly advanced on the market, and will include system LSI, in particular the Cell Broadband Engine™ ("Cell/B.E.") microprocessor for the broadband era, which is already used in the computer entertainment system, PS3, and is anticipated for use in digital consumer electronics products. Over the last five years, Sony Corporation, Sony Computer Entertainment Inc. ("SCE"), IBM Corporation ("IBM") and Toshiba Corporation ("Toshiba") have carried out joint development focused on 90 and 65 nanometer process technology for utilization in the design and manufacturing of the Cell/B.E. Moreover, in 2006 Sony Corporation, IBM, and Toshiba concluded a new joint development agreement and an alliance for the research and development of advanced semiconductor technology has begun.

Sony has reconsidered its investment policy in the semiconductor business. In the future, Sony will carefully select investments and adopt a strategy to more clearly focus on the CCD and CMOS image sensor, television- and video-related, and Game-related businesses.

In the area of other key devices, S-LCD Corporation ("S-LCD"), Sony's joint venture with Samsung Electronics Co., Ltd. ("Samsung"), which is based in South Korea, started production of 7th generation amorphous thin-film transistor ("TFT") liquid crystal display ("LCD") panel (glass panel size: 1,870mm x 2,200mm) in April 2005 and since October 2005 has been producing 60,000 sheets a month. In July 2006, S-LCD increased its production capacity to 75,000 sheets a month and further increased its production capacity to 90,000 sheets in January 2007.

In July 2006, Sony Corporation and Samsung signed the final contract regarding the manufacturing of 8th generation TFT LCD panels (glass panel size: 2,200mm x 2,500mm) at the S-LCD joint venture. The total amount of the investment is expected to be approximately 200 billion yen (approximately 50 percent of which will be borne by Sony Corporation), the major part of which has already been completed. The start of mass production is targeted for summer 2007 with production capacity expected to be 50,000 sheets a month.

■ GAME

In the Game segment, for the PS2, which is in its eighth year since release, Sony estimated a decrease in production shipment volume, including hardware and software, for the fiscal year ended March 31, 2007. However, as the PS2 platform is still recording favorable sales around the world, Sony will continue to try to maintain the scale of this business. Sony is strongly promoting the PSP platform by offering new ways to enjoy it, such as by increasing interconnectivity with the PS3, along with expanding the lineup of software unique to the PSP. Sony expects a significant reduction in the operating loss of the PS3 business with the rollout of an exciting software lineup, in addition to seeking rapid cost reductions, mainly by shrinking the size of semiconductor chips and reducing the number of parts in the console.

■ PICTURES

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

■ FINANCIAL SERVICES

In the Financial Services segment, the value of assets accumulated by the businesses in the segment has grown continuously over the past several years, resulting in a large portion (approximately 42 percent as of March 31, 2007) 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. ("SFH") in April 2004. SFH functions as a holding company overseeing Sony Life Insurance Co., Ltd. ("Sony Life"), Sony Assurance Inc. ("Sony Assurance") and Sony Bank Inc. ("Sony Bank"), with the aim of increasing the synergies among these businesses.

With respect to the environment in the financial services industry, Sony expects increasingly intense competition as it confronts changes in its business environment. In particular, Sony expects competition to result from the deregulation and liberalization of additional insurance premiums, postal privatization and the complete lifting of the ban on the sale of insurance products at banks, as well as changes in the macroeconomic environment brought about by Japan's declining population, low birthrate and growing proportion of elderly citizens. In response to this changing environment, each of Sony's financial services businesses, which are latecomers to the life insurance, property and casualty insurance and banking industries, make use of distinctive, individual industry-specific business models and plan to achieve further business expansion and even higher levels of customer satisfaction.

OPERATING RESULTS

Operating Results for the Fiscal Year Ended March 31, 2007 compared with the Fiscal Year Ended March 31, 2006

OVERVIEW

Sony's sales and operating revenue ("sales") for the fiscal year ended March 31, 2007 increased 10.5 percent compared with the previous fiscal year. Sales within the Electronics segment, the Game segment and the Pictures segment increased while Financial Services revenue decreased. In the Electronics segment, although there was a decline in sales of such products as cathode ray tube ("CRT") televisions, sales to outside customers increased 13.4 percent compared with the previous fiscal year mainly due to an increase in sales of LCD televisions. Sales within the Game segment increased 6.1 percent compared to the previous fiscal year as a result of the launch of the PS3 in Japan, North America and Europe. In the Pictures segment, sales increased 29.5 percent compared to the previous fiscal year due to higher worldwide theatrical and home entertainment revenue from films released in the fiscal year ended March 31, 2007 as compared to those released in the previous fiscal year. Revenues decreased 12.6 percent within the Financial Services segment primarily due to lower valuation gains in the general account and the separate account at Sony Life, compared to the previous fiscal year, when there was a significant increase in the Japanese stock market.

Operating income decreased 68.3 percent compared with the previous fiscal year. The operating income for the previous fiscal year included a one time net gain of 73.5 billion yen resulting from the transfer to the Japanese government of the substitutional portion of Sony's Employee Pension Fund, of which 64.5 billion yen was recorded within the Electronics segment. During the fiscal year ended March 31, 2007, Sony recorded a 51.2 billion yen provision that relates to the recalls by Dell Inc. ("Dell"), Apple Inc. ("Apple") and Lenovo, Inc. ("Lenovo") of notebook computer battery packs that use lithium-ion battery cells manufactured by Sony and the subsequent global replacement program initiated by Sony for certain notebook computer battery packs used by Sony and several other notebook computer manufacturers that use lithium-ion battery cells manufactured by Sony. Despite the recording of this provision, operating income within the Electronics segment increased 2,167.4 percent mainly as a result of an increase in sales to outside customers and a positive impact from the depreciation of the yen versus the U.S. dollar and the Euro. In the Game segment, an operating loss was recorded in the fiscal year ended March 31, 2007 as a result of the sale of the PS3 at strategic price points lower than its production cost during the introductory period. In the Pictures segment, operating income increased 55.7 percent compared with the previous fiscal year due to strong worldwide theatrical and home entertainment revenue on feature films released in the current fiscal year. In the Financial Services segment, operating income decreased 55.3 percent compared with the previous fiscal year as a result of decreased valuation gains from investments in the general account, including valuation gains from convertible bonds at Sony Life.

Operating income in the fiscal year ended March 31, 2007 included a gain on the sale of a portion of the site of Sony's former headquarters in the amount of 21.7 billion yen, of which 2.6 billion yen was recorded within All Other and the remaining amount was recorded in "Corporate." Operating income related to an additional gain on sale for the remaining portion of the site under contract, which is expected to be recognized in the fiscal year ending March 31, 2008 is estimated to be approximately 59.0 billion yen, and this entire amount will be recorded in "Corporate."

Operating income for the fiscal year ended March 31, 2007 was negatively affected by the recording of certain provisions for outstanding legal proceedings including the European Commission's investigation in connection with professional videotape claims, partially offset by the reversal of a portion of provisions related to the resolution of certain patent claims recorded in prior periods.

RESTRUCTURING

In the fiscal year ended March 31, 2007, Sony recorded restructuring charges of 38.8 billion yen, a decrease from the 138.7 billion yen recorded in the previous fiscal year. The primary restructuring activities were in the Electronics segment.

Of the total 38.8 billion yen, Sony recorded 10.8 billion yen in personnel-related costs including early retirement programs.

■ ELECTRONICS

Restructuring charges in the Electronics segment for the fiscal year ended March 31, 2007 were 37.4 billion yen, compared to 125.8 billion yen in the previous fiscal year.

Due to the worldwide market shrinkage as a result of demand shift from CRT televisions to LCD and plasma televisions, Sony has been implementing a worldwide plan to rationalize CRT and CRT television production facilities and has been downsizing its business over several years. As a part of this restructuring program, in the fiscal year ended March 31, 2007 Sony recorded a non-cash impairment charge of 1.7 billion yen for CRT television manufacturing facilities located in the U.S. The impairment charge was calculated as the difference between the carrying value of the asset and the present value of estimated future cash flows. The charge was recorded in loss on sale, disposal or impairment of assets, net in the consolidated statements of income. While continuing to manufacture and sell CRT televisions in countries and territories where demand remains, Sony is actively shifting its focus in those areas to LCD televisions. As a result, Sony plans to cease manufacturing CRTs by March 2008, after it has stockpiled a sufficient quantity for future use.

As a result of the contraction of the European rear-projection television market, Sony has decided to discontinue the production of LCD rear-projection televisions in Europe. In association with this action, Sony has recorded inventory write-downs and charges for supplier claims of 3.8 billion yen for the fiscal year ended March 31, 2007, with most of these expenses being recorded as cost of sales in the consolidated statements of income.

In addition to the above restructuring efforts, Sony undertook headcount reduction programs to further reduce operating costs in the Electronics segment. As a result of these programs, Sony recorded restructuring charges of 9.7 billion yen for the fiscal year ended March 31, 2007, and these charges were included in selling, general and administrative expenses in the consolidated statements of income. The remaining liability balance as of March 31, 2007 was 7.2 billion yen and will be paid through the fiscal year ending March 31, 2008.

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

OPERATING PERFORMANCE

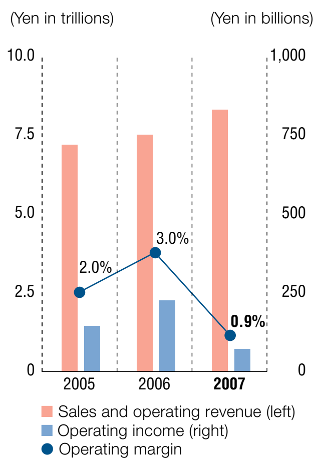
	Yen in billions		Percent change
Years ended March 31	2006	**2007**	2007/2006
Sales and operating revenue . .	7,510.6	**8,295.7**	+10.5%
Operating income	226.4	**71.8**	–68.3
Income before income taxes . .	286.3	**102.0**	–64.4
Equity in net income of affiliated companies	13.2	**78.7**	+496.9
Net income	123.6	**126.3**	+2.2

SALES

Sales for the fiscal year ended March 31, 2007 increased by 785.1 billion yen, or 10.5 percent, to 8,295.7 billion yen compared with the previous fiscal year. A further breakdown of sales figures is presented under "*Operating Performance by Business Segment*" below.

"Sales" in this analysis of the ratio of cost of sales, including research and development costs, and 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. The calculations of all ratios below that pertain to business segments include intersegment transactions.

Sales and operating revenue and operating income



*Years ended March 31

COST OF SALES AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Cost of sales for the fiscal year ended March 31, 2007 increased by 738.2 billion yen, or 14.3 percent, to 5,889.6 billion yen compared with the previous fiscal year, and increased from 75.9 percent to 76.8 percent as a percentage of sales. Year on year, the cost of sales ratio decreased from 80.6 percent to 78.8 percent in the Electronics segment, increased from 80.4 percent to 102.8 percent in the Game segment, and increased from 60.2 percent to 60.3 percent in the Pictures segment.

In the Electronics segment, there was an improvement in the cost of sales ratio for several products, in particular digital cameras, LCD televisions and video cameras. In the Game segment, there was a deterioration in the cost of sales ratio. This deterioration was primarily the result of the loss arising from the sale of the PS3 at strategic price points lower than its production cost during the introductory period, as well as the recording of other charges in association with preparation for the launch of the PS3 platform. In the Pictures segment, operating income increased due to substantially higher revenue. However, the cost of sales ratio was flat compared to the previous fiscal year due to the recording of production expenses associated with several new network television shows in the television business in the current fiscal year and the absence of a licensing agreement extension for *Wheel of Fortune*, which was recognized in the previous fiscal year.

The personnel-related costs included in cost of sales were 457.3 billion yen, an increase of 1.0 billion yen, primarily recorded within the Electronics segment.

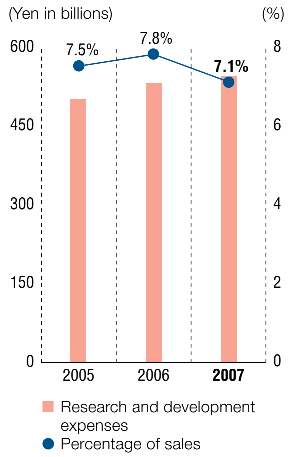
Research and development costs (all research and development costs are included within cost of sales) for the fiscal year ended March 31, 2007 increased by 12.1 billion yen to 543.9 billion yen compared with the previous fiscal year. The ratio of research and development costs to sales was 7.1 percent compared to 7.8 percent in the previous fiscal year.

Selling, general and administrative expenses for the fiscal year ended March 31, 2007 increased by 261.4 billion yen, or 17.1 percent, to 1,788.4 billion yen compared with the previous fiscal year. The ratio of selling, general and administrative expenses to sales increased from 22.5 percent in the previous fiscal year to 23.3 percent. Year on year, the ratio of selling, general and administrative expenses to sales increased from 18.0 percent to 18.2 percent in the Electronics segment and from 18.7 percent to 20.0 percent in the Game segment. On the other hand, the ratio of selling, general and administrative expenses to sales decreased from 36.0 percent to 35.2 percent in the Pictures segment.

Personnel-related costs in selling, general and administrative expenses increased by 54.4 billion yen compared with the previous fiscal year mainly due to the recording of a gain resulting from the transfer to the Japanese government of the substitutional portion of Sony's employee pension fund in the previous fiscal year. In addition, advertising and publicity expenses for the fiscal year increased by 86.0 billion yen compared with the previous fiscal year primarily due to increased advertising and publicity expenses within the Pictures segment.

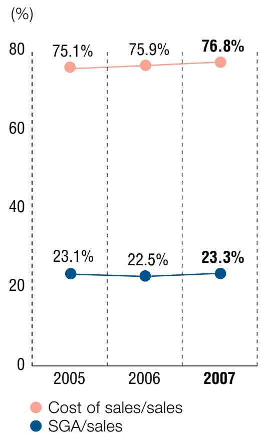
Loss on sale, disposal or impairment of assets, net was 5.8 billion yen, compared with 73.9 billion yen in the previous fiscal year. This decrease was mainly due to losses on the sale, disposal and impairment of CRT and CRT television production equipment in the Electronics segment, as well as an asset impairment write-down associated with the sale of the Metreon, a U.S. entertainment complex, in the previous fiscal year.

Research and development expenses and as a percentage of sales



*Years ended March 31
*Excluding the Financial Services segment

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



*Years ended March 31
*Excluding the Financial Services segment

OPERATING INCOME

Operating income for the fiscal year ended March 31, 2007 decreased by 154.7 billion yen, or 68.3 percent, to 71.8 billion yen compared with the previous fiscal year. The operating income margin decreased from 3.0 percent to 0.9 percent. In descending order by amount of financial impact, the Electronics segment, Financial Services segment, the Pictures segment and All Other contributed to operating income. On the other hand, an operating loss was recorded within the Game segment primarily due to a loss arising from the sale of the PS3 at strategic price points lower than its production cost during the introductory period, as well as the recording of other charges in association with preparation for the launch of the PS3 platform. For a further breakdown of operating income (loss) for each segment, please refer to "*Operating Performance by Business Segment*" below.

OTHER INCOME AND EXPENSES

For the fiscal year ended March 31, 2007, other income decreased by 23.3 billion yen, or 19.6 percent, to 95.2 billion yen, while other expenses increased by 6.4 billion yen, or 10.9 percent, to 64.9 billion yen, compared with the previous fiscal year. The net amount of other income and other expenses was net other income of 30.3 billion yen, a decrease of 29.6 billion yen, compared with the previous fiscal year.

The gain on change in interest in subsidiaries and equity investees decreased by 29.3 billion yen, or 48.2 percent compared to the previous fiscal year, to 31.5 billion yen. During the fiscal year ended March 31, 2007, there was a gain recorded on the sale of a portion of the stock held in StylingLife Holdings Inc. ("StylingLife"). However, the total gain on change in ownership interests declined as Sony recorded a gain on change in interest of 60.8 billion yen in the previous fiscal year resulting from the initial public offering of So-net Entertainment Corporation ("So-net"), and the sale of a portion of the stock held in both Monex Beans Holdings, Inc., and So-net M3 Inc., a consolidated subsidiary of So-net.

Interest and dividends in other income of 28.2 billion yen was recorded in the fiscal year ended March 31, 2007, an increase of 3.3 billion yen, or 13.2 percent, compared with the previous year. For the fiscal year ended March 31, 2007, interest expense totaling 27.3 billion yen was recorded, a decrease of 1.7 billion yen, or 5.9 percent, compared with the previous year.

In addition, a net foreign exchange loss of 18.8 billion yen was recorded in the fiscal year ended March 31, 2007, an increase of 15.8 billon yen from the previous fiscal year. The net foreign exchange loss was recorded because the value of the yen, especially during the second through fourth quarters of the fiscal year ended March 31, 2007, was lower than the value of the yen at the time that Sony entered into foreign exchange forward contracts and foreign currency option contracts. These contracts are entered into by Sony to mitigate the foreign exchange rate risk to cash flows that arises from settlements of foreign currency denominated accounts receivable and accounts payable, as well as foreign currency denominated transactions between consolidated subsidiaries.

INCOME BEFORE INCOME TAXES

Income before income taxes for the fiscal year ended March 31, 2007 decreased 184.3 billion yen, or 64.4 percent, to 102.0 billion yen compared with the previous fiscal year, as a result of the decrease in operating income and the decrease in the net amount of other income and other expenses mentioned above.

INCOME TAXES

During the fiscal year ended March 31, 2007, Sony recorded 53.9 billion yen of income taxes at an effective tax rate of 52.8 percent. This effective tax rate exceeded the Japanese statutory tax rate as a result of the recording of losses by certain overseas subsidiaries with tax rates that are lower than the rate in Japan. The effective tax rate was 61.6 percent in the previous fiscal year and exceeded the Japanese statutory tax rate due to the recording of additional valuation allowances against deferred tax assets by Sony Corporation and several of Sony's Japanese and overseas consolidated subsidiaries due to continued losses recorded by these entities and the recording of an additional tax provision for the undistributed earnings of overseas subsidiaries.

RESULTS OF AFFILIATED COMPANIES ACCOUNTED FOR UNDER THE EQUITY METHOD

Equity in net income of affiliated companies during the fiscal year ended March 31, 2007 was 78.7 billion yen, an increase of 65.5 billion yen, or 496.9 percent compared to the previous fiscal year. Equity in net income of affiliated companies reported for Sony Ericsson Mobile Communications AB ("Sony Ericsson") was 85.3 billion yen, an increase of 56.3 billion yen compared to the previous fiscal year, due to the increase in sales of hit models such as "Walkman®" and "Cyber-shot" phones. Sony recorded equity in net income of 5.0 billion yen for SONY BMG MUSIC ENTERTAINMENT ("SONY BMG"), a decrease of 0.8 billion yen compared to the previous fiscal year. Although there was a favorable impact due to an industry-related legal settlement, a year-on-year reduction in restructuring charges, and reductions in overhead costs from continued restructuring, sales declined due to the accelerated decline in the worldwide physical music market. Sony recorded equity in net income of 6.4 billion yen (before the elimination of unrealized intercompany profits of 1.4 billion yen), a 13.6 billion yen improvement compared to the prior fiscal year, for S-LCD, a joint venture with Samsung for the manufacture of amorphous TFT LCD panels. Sony recorded equity in net loss of 18.9 billion yen for Metro-Goldwyn-Mayer Inc. ("MGM"), an increase in the amount of equity in net loss of 2.0 billion yen compared to the previous fiscal year. The equity in net loss for MGM includes non-cash interest expense of 9.6 billion yen on cumulative preferred stock compared to the 6.0 billion yen of non-cash interest expense on cumulative preferred stock recorded in the previous fiscal year. With respect to equity in net income of affiliated companies, MGM is expected to have no effect on equity in net income or loss during the fiscal year ending March 31, 2008, due to the fact that Sony no longer has any book basis in MGM as of March 31, 2007.

MINORITY INTEREST IN INCOME (LOSS) OF CONSOLIDATED SUBSIDIARIES

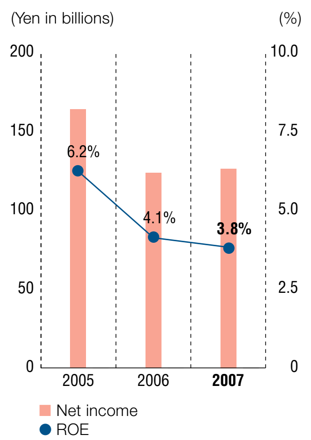
In the fiscal year ended March 31, 2007, minority interest in income of consolidated subsidiaries of 0.5 billion yen was recorded compared to minority interest in loss of 0.6 billion yen in the previous year.

NET INCOME

Net income for the fiscal year ended March 31, 2007 increased by 2.7 billion yen, or 2.2 percent, to 126.3 billion yen compared with the previous fiscal year. Despite the decrease in income before income taxes, net income increased mainly due to the decrease of income taxes and increase in equity in net income of affiliated companies. As a percentage of sales, net income decreased from 1.6 percent to 1.5 percent. Return on stockholders' equity decreased from 4.1 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, 2007.)

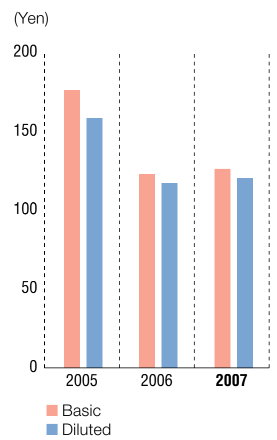
Basic net income per share was 126.15 yen compared with 122.58 yen in the previous fiscal year, and diluted net income per share was 120.29 yen compared with 116.88 yen in the previous fiscal year. Refer to Notes 2 and 21 of Notes to Consolidated Financial Statements.

Net income and ROE



*Years ended March 31

Net income per share of common stock



*Years ended March 31

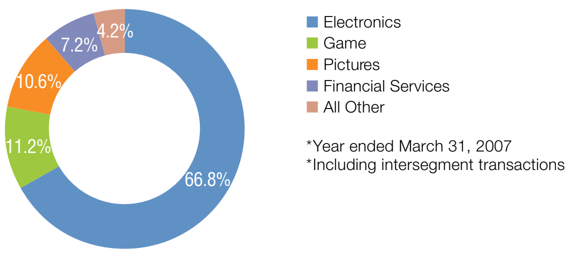
OPERATING PERFORMANCE BY BUSINESS SEGMENT

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		Percent change
Years ended March 31	2006	**2007**	2007/2006
Sales and operating revenue			
Electronics	5,176.4	**6,050.5**	+16.9%
Game	958.6	**1,016.8**	+6.1
Pictures	745.9	**966.3**	+29.5
Financial Services	743.2	**649.3**	–12.6
All Other	426.0	**377.6**	–11.4
Elimination	(539.5)	**(764.8)**	—
Consolidated	7,510.6	**8,295.7**	+10.5
Operating income (loss)			
Electronics	6.9	**156.7**	+2,167.4%
Game	8.7	**(232.3)**	—
Pictures	27.4	**42.7**	+55.7
Financial Services	188.3	**84.1**	–55.3
All Other	20.5	**32.4**	+57.9
Sub-Total	251.9	**83.7**	–66.8
Elimination and unallocated corporate expenses	(25.5)	**(11.9)**	—
Consolidated	226.4	**71.8**	–68.3

Shares of sales and operating revenue by business segment

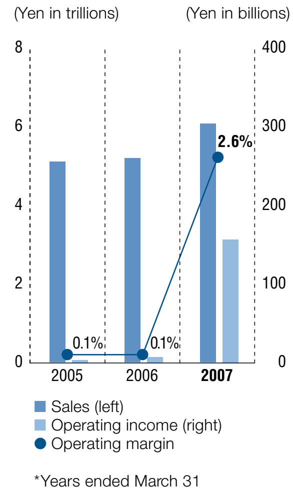


■ ELECTRONICS

Sales and operating revenue for the fiscal year ended March 31, 2007 increased 874.1 billion yen, or 16.9 percent, to 6,050.5 billion yen compared with the previous fiscal year. Operating income increased by 149.8 billion yen, or 2,167.4 percent, to 156.7 billion yen compared with the previous fiscal year and the operating income to sales ratio increased from 0.1 percent to 2.6 percent. Sales to outside customers on a yen basis increased 13.5 percent compared to the previous fiscal year. Regarding sales to outside customers by geographical area, sales increased by 7 percent in Japan, by 9 percent in the U.S., by 24 percent in Europe, and by 14 percent in non-Japan Asia and other geographic areas ("Other Areas").

In Japan, there was a significant increase in the sales of mobile phones, principally to Sony Ericsson, and LCD televisions, while sales decreased for DVD recorders, personal computers ("PCs") and CRT televisions. In the U.S., sales of LCD televisions significantly increased, while sales decreased for LCD rear-projection and CRT televisions. In Europe, sales increased for LCD televisions and PCs, while sales declined for CRT televisions and home-use video cameras. In Other Areas, sales of LCD televisions and digital cameras increased, while sales of mobile phones, primarily to Sony Ericsson, and CRT televisions decreased. The decrease in sales of mobile phones was due to the impact of the deconsolidation resulting from the transfer to Sony Ericsson in the previous fiscal year of the stock of a Chinese subsidiary that mainly assembled mobile phones.

Sales and operating income in the Electronics segment



● Performance by Product Category

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

"Audio" sales decreased by 13.3 billion yen, or 2.5 percent, to 522.9 billion yen. Sales of flash memory and hard drive digital audio players decreased due to a change in model mix, as unit shipments of approximately 4.5 million units were flat compared to the previous fiscal year. On the other hand, there was a significant decrease in sales of both CD and MiniDisc ("MD") format headphone stereos due to a shift in market demand. However, car audio and home audio sales increased.

"Video" sales increased by 121.8 billion yen, or 11.9 percent, to 1,143.1 billion yen. Sales of digital cameras increased in Japan, the U.S. and Europe. Worldwide shipments of digital cameras increased by approximately 3.5 million units to approximately

17.0 million units. Sales of DVD recorders decreased as worldwide shipments decreased by approximately 150,000 units to approximately 1.85 million units. Worldwide shipments of home-use video cameras decreased by approximately 150,000 units to approximately 7.45 million units. DVD player unit shipments decreased by approximately 100,000 units to approximately 7.9 million units.

"Televisions" sales increased by 299.2 billion yen, or 32.2 percent, to 1,227.0 billion yen. There was a significant increase in worldwide sales of LCD televisions, as worldwide shipments of LCD televisions increased by approximately 3.5 million units, to approximately 6.3 million units. Sales of LCD rear-projection televisions decreased significantly as a result of declining sales prices, despite an increase in worldwide shipments of approximately 50,000 units, as compared to the previous fiscal year, to approximately 1.10 million units. There was also a significant decrease in worldwide sales of CRT televisions, primarily as a result of a decrease in worldwide shipments of CRT televisions by approximately 2.1 million units to approximately 4.7 million units.

"Information and Communications" sales increased by 107.9 billion yen, or 12.8 percent, to 950.5 billion yen. Sales of PCs increased due to strong sales in Europe and Other Areas, and overall sales of PCs increased. Worldwide unit shipments of PCs increased approximately 300,000 units to approximately 4.0 million units. Sales of broadcast- and professional-use products increased as a result of favorable sales of high-definition related products.

"Semiconductors" sales increased by 33.5 billion yen, or 19.5 percent, to 205.8 billion yen. The increase was due to an increase in sales of CCDs and CMOS image sensors.

"Components" sales increased by 52.3 billion yen, or 6.5 percent, to 853.0 billion yen. This increase was primarily due to an increase in sales of lithium-ion batteries, primarily for use in PCs and power tools, and Memory Stick™. On the other hand, sales of CD-R/RW drives and optical pickups declined, primarily as a result of significant unit price declines. Sales of DVD+/-R/RW drives increased, despite a deterioration in unit selling prices, as a result of a significant growth in units sold in association with the expansion of the market.

"Other" sales increased by 37.8 billion yen, or 7.9 percent, to 519.2 billion yen. This increase was the result of an increase in sales of mobile phones, primarily to Sony Ericsson.

In the Electronics segment, cost of sales for the fiscal year ended March 31, 2007 increased by 594.4 billion yen, or 14.2 percent, to 4,769.0 billion yen compared with the previous fiscal year. The cost of sales ratio improved by 1.8 percentage points to 78.8 percent compared to 80.6 percent in the previous fiscal year. There was also an improvement in the cost of sales ratio for such products as digital cameras, LCD televisions and home-use video cameras, although the cost of sales ratio deteriorated for products such as LCD rear-projection televisions due to sales price reductions associated with severe sales competition in North America. Restructuring charges recorded in cost of sales amounted to 12.6 billion yen, a decrease of 11.2 billion yen compared with the 23.8 billion yen recorded in the previous fiscal year. Research and development costs increased 22.2 billion yen, or 5.3 percent, from 418.1 billion yen in the previous fiscal year to 440.4 billion yen.

Selling, general and administrative expenses increased by 170.6 billion yen, or 18.3 percent, to 1,101.7 billion yen compared with the previous fiscal year. A provision of 51.2 billion yen was recorded for the fiscal year ended March 31, 2007 for recalls by Dell, Apple and Lenovo of notebook computer battery packs that use lithium-ion batteries manufactured by Sony, as well as the subsequent global replacement program initiated by Sony for certain notebook computer battery packs used by Sony and several other notebook computer manufacturers that use lithium-ion battery cells manufactured by Sony. Also, an additional provision was recorded due to the expansion of models subject to free repairs and an extension of the repair period for Sony products and the products of other companies that are equipped with Sony CCDs. Results for the Electronics segment were also negatively impacted by an adjustment to reflect a more accurate method of calculating the provision for free repairs of Sony CCDs, which had the effect of further increasing the provision. Although there was a reversal of a portion of provisions related to the resolution of certain patent claims recorded in prior periods, this reversal was more than offset by the negative impact of the recording of certain provisions for outstanding legal proceedings including the European Commission's investigation in connection with professional videotape claims. Finally, a 64.5 billion yen gain recorded as a result of the transfer to the Japanese government of the substitutional portion of Sony's Employee Pension Fund was included in the previous fiscal year. Total selling, general and administrative expenses increased because the cumulative impact of the above-mentioned items exceeded the decrease in restructuring charges that were recorded in selling, general and administrative expenses for the fiscal year ended March 31, 2007. Of the restructuring charges recorded in the Electronics segment, the amount recorded in selling, general and administrative expenses decreased by 35.5 billion yen from 49.5 billion yen in the previous fiscal year to 14.0 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 9.7 billion yen, a decrease of 35.4 billion yen compared with the previous fiscal year. The ratio of selling, general and administrative expenses to sales increased 0.2 percentage points from the 18.0 percent recorded in the previous fiscal year to 18.2 percent.

Loss on sale, disposal or impairment of assets, net decreased 12.3 billion yen to 10.8 billion yen compared with the previous fiscal year. This amount includes 10.8 billion yen of restructuring charges, including 5.2 billion yen of restructuring charges related to the recording of an impairment loss for goodwill for a CRT television glass manufacturing subsidiary in the U.S. The amount of restructuring charges included in loss on sale, disposal or impairment, net in the previous fiscal year was 52.5 billion yen.

The amount of operating income recorded in the Electronics segment for the fiscal year ended March 31, 2007 increased significantly due to an increase in sales to outside customers and the positive impact of the depreciation of the yen. This result is in spite of the above-mentioned recording by Sony of a 51.2 billion yen provision that relates to recalls of notebook computer battery packs and the subsequent global replacement program and the recording of an additional provision related to free repairs of Sony CCDs. The operating income from the previous year included a 64.5 billion yen gain that was recorded as a result of the transfer to the Japanese government of the substitutional portion of Sony's Employee Pension Fund. Regarding profit performance by product, excluding restructuring charges and the impact of the net gain resulting from the transfer to the Japanese government of the substitutional portion of Sony's Employee Pension Fund, digital cameras and LCD televisions, which experienced favorable sales, and video cameras, which experienced an increase in sales of high-value-added models, contributed to the increase in the operating income of the segment.

● Manufacturing by Geographic Area

Slightly more than 50 percent of the Electronics segment's total annual production during the fiscal year ended March 31, 2007 took place in Japan, including the production of digital cameras, video cameras, flat panel televisions, PCs, semiconductors and components such as batteries and Memory Stick. Approximately 60 percent of the annual production in Japan was destined for other regions. China accounted for slightly more than 10 percent of total annual production, approximately 80 percent of which was destined for other regions. Asia, excluding Japan and China, accounted for approximately 10 percent of total annual production, with approximately 60 percent destined for Japan, the U.S. and Europe. The Americas and Europe together accounted for the remaining balance of approximately 25 percent of total annual production, most of which was destined for local distribution and sale.

■ GAME

Sales for the fiscal year ended March 31, 2007 increased by 58.2 billion yen, or 6.1 percent, to 1,016.8 billion yen compared with the previous fiscal year. An operating loss of 232.3 billion yen was recorded for the fiscal year ended March 31, 2007, which was a deterioration of 241.1 billion yen from the fiscal year ended March 31, 2006.

By region, although sales decreased slightly in Japan, there was a significant increase in sales in North America and Europe.

Overall hardware sales increased as a result of the launch of the PS3 in Japan, North America and Europe. However, the sales of the PS2 and PSP® declined due to lower unit sales compared with the previous fiscal year, and also because of a price reduction of the PS2. On the other hand, overall software sales decreased as a result of lower PS2 software sales, despite an increase in PSP® software sales, as well as the contribution from PS3 software sales, compared to the previous fiscal year.

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

Worldwide hardware production shipments (decrease compared to the previous fiscal year):*		
PS2 . . .	14.20 million units	(a decrease of 2.02 million units)
PSP®. . .	8.36 million units	(a decrease of 5.70 million units)
PS3 . . .	5.50 million units	
Worldwide software production shipments (increase/decrease compared to the previous fiscal year):*/**		
PS2 . . .	193 million units	(a decrease of 30 million units)
PSP®. . .	54.1 million units	(an increase of 12.5 million units)
PS3 . . .	13.2 million units	

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

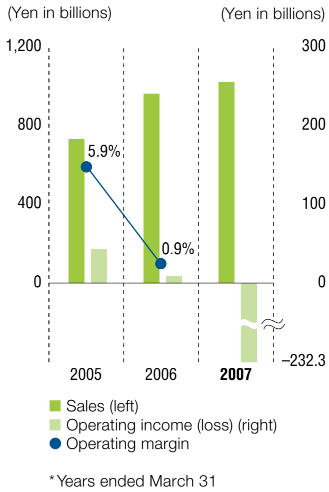
** Including those both from Sony and third parties under Sony licenses.

Operating performance deteriorated significantly compared with the previous fiscal year. This deterioration was primarily the result of the loss arising from the sale of the PS3 at strategic price points lower than its production cost during the introductory period, as well as the recording of other charges in association with the preparation for the launch of the PS3 platform. Operating income for the PS2 business decreased due to a decrease in software sales while operating income in the PSP® business increased primarily due to continued cost reductions in hardware production. A write-down of PS3-related inventory of 81.4 billion yen was recorded in the fiscal year ended March 31, 2007 compared with a write-down of 25.0 billion yen recorded in the previous fiscal year.

The cost of sales to sales ratio deteriorated 22.4 percentage points, from 80.4 percent in the previous fiscal year, to 102.8 percent and the ratio of selling, general and administrative expenses to sales increased 1.3 percentage points from 18.7 percent in the previous fiscal year, to 20.0 percent for the reasons mentioned for the decrease in operating income above.

A significant reduction in the operating loss is expected in the fiscal year ending March 31, 2008 due to rapid reductions in hardware production costs and an enhanced lineup of software titles in the PS3 business.

Sales and operating income (loss) in the Game segment



■ PICTURES

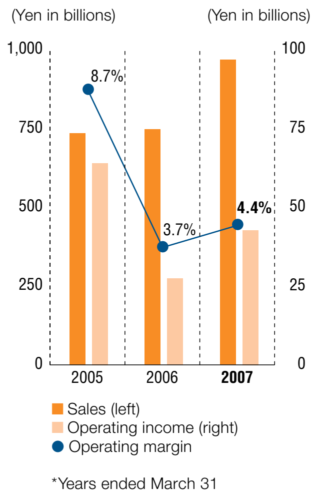
Sales for the fiscal year ended March 31, 2007 increased by 220.4 billion yen, or 29.5 percent, to 966.3 billion yen compared to the previous fiscal year. Operating income increased by 15.3 billion yen, or 55.7 percent, to 42.7 billion yen and the operating margin increased from 3.7 percent to 4.4 percent. The results in the Pictures segment consist of the results of Sony Pictures Entertainment Inc. ("SPE"), a U.S.-based subsidiary.

On a U.S. dollar basis, sales for the fiscal year in the Pictures segment increased approximately 26 percent and operating income increased by approximately 53 percent. Sales increased significantly due to higher worldwide theatrical and home entertainment revenue from films released in the current fiscal year, as compared to those released in the previous fiscal year. Major films released in the fiscal year that contributed to both theatrical and home entertainment revenue included *The Da Vinci Code*, *Casino Royale*, *Click*, *Talladega Nights: The Ballad of Ricky Bobby* and *The Pursuit of Happyness*. Sales for the fiscal year release slate increased approximately 1.8 billion U.S. dollars as compared to the previous fiscal year. Television product revenues increased by approximately 160 million U.S. dollars primarily as a result of higher advertising and subscription sales from several international channels.

Operating income for the segment increased significantly, primarily due to the performance of films released in the current fiscal year. Operating loss from the current fiscal year release slate decreased approximately 530 million U.S. dollars as compared to the previous year's release slate due to the same factors contributing to the increase in film revenue noted above. Partially offsetting this was a decrease in operating income of 98 million U.S. dollars for television product primarily due to the recording of production and marketing expenses in the current fiscal year associated with several new network and made-for-syndication television shows, combined with the absence of a licensing agreement extension for *Wheel of Fortune*, which was recognized in the previous fiscal year. Results for the Pictures segment were also negatively impacted by an adjustment to increase its reserve for returns of home entertainment catalog product.

As of March 31, 2007, unrecognized license fee revenue at SPE was approximately 1.1 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 products. The license fee revenue will be recognized in the fiscal year in which the product is made available for broadcast.

Sales and operating income in the Pictures segment



■ FINANCIAL SERVICES

Note that the revenue and operating income at Sony Life, Sony Assurance and Sony Bank discussed below on generally accepted accounting principles in the U.S. ("U.S. GAAP") basis differ from the results that Sony Life, Sony Assurance and Sony Bank disclose on a Japanese statutory basis.

Financial Services segment revenue for the fiscal year ended March 31, 2007 decreased by 93.9 billion yen, or 12.6 percent, to 649.3 billion yen compared with the previous fiscal year. Operating income decreased by 104.2 billion yen, or 55.3 percent, to 84.1 billion yen and the operating income margin decreased to 13.0 percent compared with the 25.3 percent of the previous fiscal year.

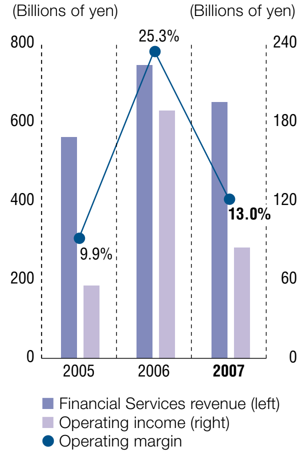
At Sony Life, revenue decreased by 100.0 billion yen, or 15.5 percent, to 545.1 billion yen compared with the previous fiscal year. Although revenue from insurance premiums increased at Sony Life reflecting an increase in insurance-in-force, the main reason for this decrease was lower valuation gains in the general and separate accounts as compared to the previous fiscal year, when there was a significant increase in the Japanese stock market. Operating income at Sony Life decreased by 106.8 billion yen or 56.7 percent to 81.7 billion yen, primarily due to a decrease in valuation gains from investments in the general account, including valuation gains from convertible bonds.

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

At Sony Bank, revenue rose mainly due to a significant decrease of foreign exchange losses from part of Sony Bank's foreign currency deposits, as compared with the previous fiscal year, and an increase in interest revenue associated with an increase in the balance of assets from investing activities. As a result, Sony Bank recorded operating income in the fiscal year ended March 31, 2007, as compared to an operating loss in the previous fiscal year.

At Sony Finance International, Inc., a leasing and credit financing business subsidiary in Japan, overall revenue decreased and the operating loss increased primarily due to decreases in revenue and profit at leasing and installment businesses. However, revenue increased at the credit card business which resulted in a decrease in the operating loss recorded for that business.

Revenue and operating income in the Financial Services segment



*Years ended March 31

● 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

Yen in millions

	Financial Services		Sony without Financial Services		Consolidated	
Years ended March 31	2006	**2007**	2006	**2007**	2006	**2007**
Financial Services revenue	743,215	**649,341**	—	**—**	720,566	**624,282**
Net sales and operating revenue	—	**—**	6,799,068	**7,680,578**	6,790,031	**7,671,413**
	743,215	**649,341**	6,799,068	**7,680,578**	7,510,597	**8,295,695**
Costs and expenses	554,892	**565,199**	6,762,194	**7,694,375**	7,284,181	**8,223,945**
Operating income (loss)	188,323	**84,142**	36,874	**(13,797)**	226,416	**71,750**
Other income (expenses), net	24,522	**9,886**	36,610	**27,917**	59,913	**30,287**
Income before income taxes	212,845	**94,028**	73,484	**14,120**	286,329	**102,037**
Income taxes and other	78,527	**33,536**	84,186	**(57,991)**	162,713	**(24,291)**
Net income (loss)	134,318	**60,492**	(10,702)	**72,111**	123,616	**126,328**

■ ALL OTHER

During the fiscal year ended March 31, 2007, sales within All Other were comprised mainly of sales from Sony Music Entertainment (Japan) Inc. ("SMEJ"), a Japanese domestic recorded music business; Sony Music Entertainment Inc.'s ("SMEI") music publishing business; So-net, an Internet-related service business subsidiary operating mainly in Japan; a contactless integrated circuit ("IC") card business; and an advertising agency business in Japan. In June 2006, Sony Corporation sold 51 percent of the stock of StylingLife, a holding company comprised of six retail businesses within Sony previously included within All Other, to a wholly-owned subsidiary of Nikko Principal Investments Japan Ltd. Sony Corporation sold additional shares of StylingLife in December 2006, and currently holds approximately 23 percent of the total outstanding stock in StylingLife.

Sales for the fiscal year ended March 31, 2007 decreased by 48.4 billion yen, or 11.4 percent, to 377.6 billion yen, compared with the previous fiscal year. During the fiscal year, the sales decrease within All Other reflects the deconsolidation of the six retail businesses noted above after the sale of a majority of the stock of StylingLife. Of total segment sales, 82 percent were sales to outside customers. In terms of profit performance, operating income for All Other increased from 20.5 billion yen in the previous fiscal year to 32.4 billion yen.

Sales at SMEJ declined mainly due to lower intersegment sales in association with the transfer of business activity relating to Sony's disc custom press business, which was carried out at SMEJ during the previous fiscal year, to other segments within Sony Group. Best selling albums during the fiscal year included CHEMISTRY's *ALL THE BEST*, Yuna Ito's *HEART* and Angela Aki's *HOME*.

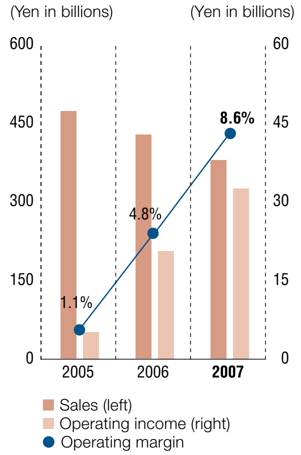
Excluding sales recorded within Sony's music business, there was a decrease in sales within All Other. This decrease was mainly due to the above-mentioned deconsolidation of Sony's retail businesses, partially offset by an increase in sales at the contactless IC card business and So-net, where there was a favorable increase in fiber optic connection service subscribers.

Regarding profit performance within All Other, operating income of 32.4 billion yen was recorded, an 11.9 billion yen increase compared to the 20.5 billion yen of operating income recorded in the previous fiscal year. Operating income at SMEJ declined approximately 37 percent compared to the previous fiscal year, mainly due to a decrease in album and single sales and the recognition of a gain in the previous fiscal year resulting from the transfer to the Japanese government of the substitutional portion of Sony's Employee Pension Fund.

Excluding the decrease in operating income in the music business, there was an increase in operating income within All Other, mainly due to an asset impairment write-down associated with the sale of the Metreon, a U.S. entertainment complex, recorded in the previous fiscal year. Operating income at So-net increased mainly due to an increase in profit resulting from greater fee revenue from new subscribers.

During the fiscal year ended March 31, 2007, a gain on the sale of a portion of Sony's former headquarters site in the amount of 2.6 billion yen is included in operating income within All Other.

Sales and operating income in All Other



*Years ended March 31

FOREIGN EXCHANGE FLUCTUATIONS AND RISK HEDGING

During the fiscal year ended March 31, 2007, the average value of the yen was 116.0 yen against the U.S. dollar, and 148.6 yen against the Euro, which was 3.2 percent lower against the U.S. dollar and 8.2 percent lower against the Euro, compared with the average of the previous fiscal year.

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

Therefore, analysis and discussion of certain portions of the operating results of SPE are specified as being on "a U.S. dollar basis." Results on a 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 results presented on a local currency basis provide additional useful information to investors regarding operating performance.

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

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

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

Changes in the fair value of derivatives designated as cash flow hedges, including foreign exchange forward contracts and foreign currency option contracts, are initially recorded in accumulated other comprehensive income and reclassified into earnings when the hedged transaction affects earnings. Foreign exchange forward contracts, foreign currency option contracts and other derivatives that do not qualify as hedges are marked-to-market with changes in value recognized in Other Income and Expenses. The notional amounts of foreign exchange forward contracts, currency option contracts purchased and currency option contracts written as of March 31, 2007 were 1,768.6 billion yen, 287.8 billion yen and 67.2 billion yen, respectively.

ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY

ASSETS

Total assets on March 31, 2007 increased by 1,108.6 billion yen, or 10.5 percent, to 11,716.4 billion yen, compared with the previous fiscal year-end. Total assets on March 31, 2007 in all segments excluding the Financial Services segment increased by 711.3 billion yen, or 11.1 percent, to 7,098.1 billion yen and total assets on March 31, 2007 in the Financial Services segment increased by 409.5 billion yen, or 9.0 percent, to 4,977.6 billion yen, compared with the previous fiscal year-end.

■ CURRENT ASSETS

Current assets on March 31, 2007 increased by 777.2 billion yen, or 20.6 percent, to 4,546.7 billion yen compared with the previous fiscal year-end. Current assets on March 31, 2007 in all segments, excluding the Financial Services segment, increased by 538.4 billion yen, or 18.2 percent, to 3,495.0 billion yen.

Cash and cash equivalents on March 31, 2007 in all segments, excluding the Financial Services segment, decreased 62.6 billion yen, or 10.7 percent, to 522.9 billion yen compared with the previous fiscal year-end.

Notes and accounts receivable, trade (net of allowance for doubtful accounts and sales returns) on March 31, 2007, excluding the Financial Services segment, increased 369.5 billion yen, or 37.9 percent, compared with the previous fiscal year-end to 1,343.1 billion yen. This was primarily the result of an increase in sales of the PS3.

Inventories on March 31, 2007 increased by 136.2 billion yen, or 16.9 percent, to 940.9 billion yen compared with the previous fiscal year-end. This increase was primarily a result of both increased semiconductor inventory, primarily for use in the PS3, and LCD television inventory in the Electronics segment and increased inventory in the Game segment resulting from the worldwide introduction of the PS3 platform. The inventory to cost of sales turnover ratio (based on the average of inventories at the end of each fiscal year and the previous fiscal year) was 1.78 months compared to 1.67 months at the end of the previous fiscal year. Sony considers this level of inventory to be appropriate in the aggregate.

Current assets on March 31, 2007 in the Financial Services segment increased by 237.8 billion yen, or 27.9 percent, to 1,089.3 billion yen, compared with the previous fiscal year-end. This increase was primarily due to an expansion of the life insurance and banking businesses.

■ INVESTMENTS AND ADVANCES

Investments and advances on March 31, 2007 increased by 368.8 billion yen, or 10.5 percent, to 3,888.7 billion yen, compared with the previous fiscal year-end.

Investments and advances on March 31, 2007 in all segments, excluding the Financial Services segment, increased by 148.8 billion yen, or 31.3 percent, to 623.3 billion yen. This was primarily a result of an increase in investments and advances towards affiliated companies such as Sony Ericsson and S-LCD.

Investments and advances on March 31, 2007 in the Financial Services segment increased by 216.6 billion yen, or 6.9 percent, to 3,347.9 billion yen, compared with the previous fiscal year-end. This increase was primarily due to investments mainly in Japanese fixed income securities by Sony Life, which increased assets as a result of an expansion of business, and an increase in mortgage loans at Sony Bank.

Also refer to “Investments” below.

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

Property, plant and equipment on March 31, 2007 increased by 33.0 billion yen, or 2.4 percent, to 1,421.5 billion yen, compared with the previous fiscal year-end.

Property, plant and equipment on March 31, 2007 in all segments, excluding the Financial Services segment, increased by 31.7 billion yen, or 2.3 percent, to 1,382.9 billion yen, compared with the previous fiscal year-end.

Capital expenditures (part of the increase in property, plant and equipment) for the fiscal year ended March 31, 2007 increased by 29.8 billion yen, or 7.8 percent, to 414.1 billion yen compared with the previous fiscal year. Capital expenditures in the Electronics segment increased by 22.9 billion yen, or 7.0 percent, to 351.5 billion yen. Capital expenditures in the semiconductor business within the Electronics segment, including capital expenditures related to the Cell/B.E., totaled approximately 150.0 billion yen. Capital expenditures increased in the Game segment by 8.4 billion yen, or 99.5 percent, to 16.8 billion yen. In the Pictures segment, capital expenditures increased by 0.9 billion yen, or 8.6 percent to 11.0 billion yen. In All Other, which includes Sony’s consolidated music business, 5.6 billion yen of capital expenditures were recorded, compared to the 4.2 billion yen of capital expenditures recorded in the previous fiscal year.

Property, plant and equipment on March 31, 2007 in the Financial Services segment increased by 1.2 billion yen, or 3.3 percent, to 38.7 billion yen compared with the previous fiscal year-end. Capital expenditures in the Financial Services segment increased by 2.4 billion yen, or 53.4 percent, to 6.8 billion yen.

■ OTHER ASSETS

Other assets on March 31, 2007 decreased by 18.7 billion yen, or 1.2 percent, to 1,550.7 billion yen, compared with the previous fiscal year-end.

Other assets on March 31, 2007 in all segments, excluding the Financial Services segment, increased by 44.1 billion yen to 1,100.8 billion yen compared with the previous fiscal year-end.

Deferred tax assets on March 31, 2007 increased by 38.2 billion yen, or 21.4 percent, to 217.0 billion yen compared with the previous fiscal year-end. The increase is due primarily to an increase of deferred tax assets recorded in connection with tax loss carryforwards of foreign subsidiaries in the Game segment.

Other assets in the Financial Services segment on March 31, 2007 decreased by 46.2 billion yen, or 8.4 percent, to 501.8 billion yen compared with the previous fiscal year-end.

LIABILITIES

Total current and long-term liabilities on March 31, 2007 increased by 939.9 billion yen, or 12.8 percent, to 8,306.7 billion yen compared with the previous fiscal year-end. Total current and long-term liabilities on March 31, 2007 in all segments, excluding the Financial Services segment, increased by 589.0 billion yen, or 16.6 percent, to 4,140.9 billion yen. Total current and long-term liabilities in the Financial Services segment on March 31, 2007 increased by 363.2 billion yen, or 9.1 percent, to 4,337.7 billion yen, compared with the previous fiscal year-end.

■ CURRENT LIABILITIES

Current liabilities on March 31, 2007 increased by 351.6 billion yen, or 11.0 percent, to 3,551.9 billion yen compared with the previous fiscal year-end. Current liabilities on March 31, 2007 in all segments excluding the Financial Services segment increased by 311.3 billion yen, or 13.4 percent, to 2,640.6 billion yen.

Short-term borrowings and the current portion of long-term debt on March 31, 2007 in all segments, excluding the Financial Services segment, decreased 144.1 billion yen, or 64.0 percent, to 80.9 billion yen compared with the previous fiscal year-end. This was principally as a result of a decrease in the current portion of long-term debt, due to the redemption of straight bonds and medium-term notes.

Notes and accounts payable, trade on March 31, 2007 in all segments, excluding the Financial Services segment, increased by 362.9 billion yen, or 45.1 percent, to 1,167.3 billion yen compared with the previous fiscal year-end.

Current liabilities on March 31, 2007 in the Financial Services segment increased by 39.1 billion yen, or 4.3 percent, to 957.5 billion yen, mainly due to an increase in deposits from customers at Sony Bank.

■ LONG-TERM LIABILITIES

Long-term liabilities on March 31, 2007 increased by 588.3 billion yen, or 14.1 percent, to 4,754.8 billion yen compared with the previous fiscal year-end.

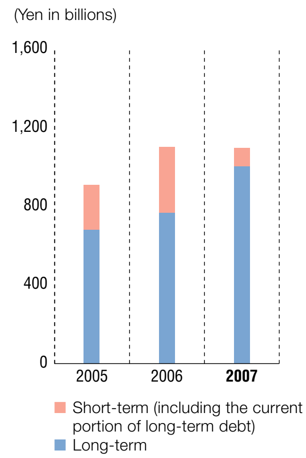
Long-term liabilities on March 31, 2007 in all segments, excluding the Financial Services segment, increased by 277.7 billion yen, or 22.7 percent, to 1,500.3 billion yen. In addition, long-term debt on March 31, 2007 in all segments, excluding the Financial Services segment, increased by 223.9 billion yen, or 31.9 percent, to 925.3 billion yen. Long-term debt increased primarily due to the execution of yen-denominated syndicated loans for the purpose of allocating funds for general corporate purposes, including capital expenditures, and for debt redemption.

Long-term liabilities on March 31, 2007 in the Financial Services segment increased by 324.0 billion yen, or 10.6 percent, to 3,380.2 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 293.3 billion yen, or 10.7 percent, to 3,037.7 billion yen.

■ TOTAL INTEREST-BEARING DEBT

Total interest-bearing debt on March 31, 2007 decreased by 4.8 billion yen, or 0.4 percent, to 1,096.5 billion yen, compared with the previous fiscal year-end. Total interest-bearing debt on March 31, 2007 in all segments, excluding the Financial Services segment, increased by 79.7 billion yen, or 8.6 percent, to 1,006.2 billion yen.

Interest-bearing liabilities

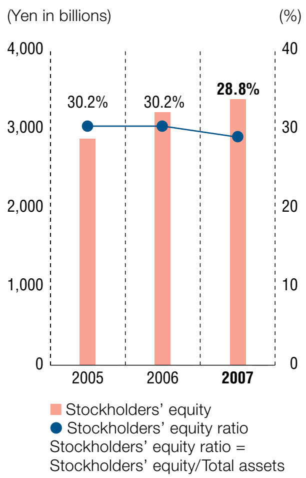


*As of March 31

STOCKHOLDERS' EQUITY

Stockholders' equity on March 31, 2007 increased by 166.9 billion yen, or 5.2 percent, to 3,370.7 billion yen compared with the previous fiscal year-end. Retained earnings increased 116.9 billion yen compared with the previous fiscal year-end, and accumulated other comprehensive income (net of tax) was 115.5 billion yen. This was primarily due to accumulated other comprehensive income of 86.3 billion yen arising from foreign currency translation adjustments in the current fiscal year due to the depreciation of the yen, partially offset by a decrease in unrealized gains on securities in accumulated other comprehensive income of 14.7 billion yen in the current fiscal year. The ratio of stockholders' equity to total assets decreased 1.4 percentage points compared to the end of the previous fiscal year, from 30.2 percent to 28.8 percent.

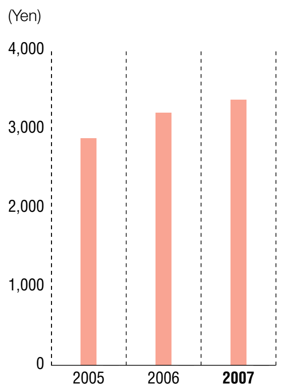
Stockholders' equity and stockholders' equity ratio



Stockholders' equity ratio = Stockholders' equity/Total assets

*As of March 31

Stockholders' equity per share of common stock



*As of March 31

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

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

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

Yen in millions

	Financial Services		Sony without Financial Services		Consolidated	
March 31	2006	**2007**	2006	**2007**	2006	**2007**
Assets						
Current assets	851,454	**1,089,254**	2,956,522	**3,494,971**	3,769,524	**4,546,723**
Cash and cash equivalents	117,630	**277,048**	585,468	**522,851**	703,098	**799,899**
Marketable securities	532,895	**490,237**	4,073	**3,078**	536,968	**493,315**
Notes and accounts receivable, trade	17,236	**29,163**	973,675	**1,343,128**	985,508	**1,369,777**
Other	183,693	**292,806**	1,393,306	**1,625,914**	1,543,950	**1,883,732**
Film costs	—	**—**	360,372	**308,694**	360,372	**308,694**
Investments and advances	3,131,269	**3,347,897**	474,568	**623,342**	3,519,907	**3,888,736**
Investments in Financial Services, at cost	—	**—**	187,400	**187,400**	—	**—**
Property, plant and equipment	37,422	**38,671**	1,351,125	**1,382,860**	1,388,547	**1,421,531**
Other assets	547,983	**501,820**	1,056,726	**1,100,795**	1,569,403	**1,550,678**
Deferred insurance acquisition costs	383,156	**394,117**	—	**—**	383,156	**394,117**
Other	164,827	**107,703**	1,056,726	**1,100,795**	1,186,247	**1,156,561**
	4,568,128	**4,977,642**	6,386,713	**7,098,062**	10,607,753	**11,716,362**
Liabilities and stockholders' equity						
Current liabilities	918,338	**957,459**	2,329,285	**2,640,601**	3,200,228	**3,551,852**
Short-term borrowings	136,723	**48,688**	225,082	**80,944**	336,321	**95,461**
Notes and accounts payable, trade	11,707	**13,159**	804,394	**1,167,324**	813,332	**1,179,694**
Deposits from customers in the banking business	599,952	**752,367**	—	**—**	599,952	**752,367**
Other	169,956	**143,245**	1,299,809	**1,392,333**	1,450,623	**1,524,330**
Long-term liabilities	3,056,191	**3,380,240**	1,222,597	**1,500,314**	4,166,572	**4,754,836**
Long-term debt	128,097	**129,484**	701,372	**925,259**	764,898	**1,001,005**
Accrued pension and severance costs	13,479	**8,773**	168,768	**164,701**	182,247	**173,474**
Future insurance policy benefits and other	2,744,321	**3,037,666**	—	**—**	2,744,321	**3,037,666**
Other	170,294	**204,317**	352,457	**410,354**	475,106	**542,691**
Minority interest in consolidated subsidiaries	4,089	**5,145**	32,623	**32,808**	37,101	**38,970**
Stockholders' equity	589,510	**634,798**	2,802,208	**2,924,339**	3,203,852	**3,370,704**
	4,568,128	**4,977,642**	6,386,713	**7,098,062**	10,607,753	**11,716,362**

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 months). The presumption of an other-than-temporary impairment in such cases may be overcome if there is evidence to support the conclusion 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 worldwide 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.

Yen in millions

March 31, 2007	Cost	Unrealized gain	Unrealized loss	Fair market value
Financial Services Business:				
Available for sale				
Debt securities				
Sony Life	2,129,352	17,679	(3,052)	2,143,979
Other	381,663	5,983	(5,794)	381,852
Equity securities				
Sony Life	210,009	105,376	(3,579)	311,806
Other	7,341	1,657	(40)	8,958
Held to maturity				
Debt securities				
Sony Life	—	—	—	—
Other	34,931	165	(127)	34,969
Total Financial Services	2,763,296	130,860	(12,592)	2,881,564
Non-Financial Services:				
Available-for-sale securities	70,496	21,909	(3,770)	88,635
Held to maturity securities	1,104	—	—	1,104
Total Non-Financial Services	71,600	21,909	(3,770)	89,739
Consolidated	2,834,896	152,769	(16,362)	2,971,303

The most significant portion of these unrealized losses relate to investments held by Sony Life. Sony Life principally invests in debt securities in various industries. Almost all of these securities were rated "BBB" or higher by Standard and Poor's Rating Services ("S&P"), Moody's Investors Service ("Moody's") or other rating agencies. As of March 31, 2007, Sony Life had debt and equity securities which had gross unrealized losses of 3.1 billion yen and 3.6 billion yen, respectively. Of the unrealized loss amounts recorded by Sony Life, approximately 46 percent relate to securities being in an unrealized loss position for periods greater than 12 months as of March 31, 2007. These unrealized losses related to numerous investments, with no single investment being in a material unrealized loss position for the above-mentioned periods. 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 non-investment grade securities held by Sony Life represents approximately 0.1 percent of Sony Life's total investment portfolio, while the percentage of unrealized losses that relate to those non-investment grade securities was approximately 1 percent of Sony Life's total unrealized losses as of March 31, 2007.

For fixed maturity securities with unrecognized losses held by Sony Life as of March 31, 2007 (3.1 billion yen), maturity dates vary as follows:

- ■Within 1 year 0.4%
- ■1 to 5 years 96.0%
- ■5 to 10 years 3.4%
- ■Above 10 years 0.2%

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, 2007 was 64.9 billion yen. A non-public equity investment is valued at cost as fair value is not readily determinable. If the value is estimated to have declined and such decline is judged to be other-than-temporary, the impairment of the investment is recognized and the carrying value is reduced to its fair value.

For the fiscal years ended March 31, 2006 and 2007, total impairment losses were 4.0 billion yen and 7.4 billion yen, of which 0.2 billion yen and 6.1 billion yen, respectively, were recorded by Sony Life in Financial Services revenue. Impairment losses other than at Sony Life in each of the two years were reflected in non-operating expenses and primarily relate to certain strategic investments in non-financial services businesses. These investments primarily relate to the certain strategic investments in Japan and the U.S. with which Sony has strategic relationships for the purposes of developing and marketing new technologies. The impairment losses were recorded for each of the two fiscal years as these companies failed to successfully develop and market such technology, the operating performance of the companies was more unfavorable than previously expected and the decline in fair value of these companies was judged as other-than-temporary. None of these impairment losses was individually material to Sony.

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 two fiscal 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 85 percent and 13 percent of the investments of the Financial Services segment, respectively.

Sony Life's fundamental investment policy is to build an investment portfolio capable of ensuring stable mid- to long-term returns through the efficient investment of funds, taking into account both expected returns and investment risks and responding flexibly to changes in financial conditions and the investment environment, while maintaining a sound asset base. Moreover, as its fundamental stance towards ALM, a method of managing interest rate fluctuation risk through the comprehensive identification of differences in duration and cash flows between assets and liabilities, Sony Life takes the distinct characteristics of liability into account in order to control price fluctuation risks and establish a portfolio that ensures a certain level of returns. Sony Life adjusts its investing style depending on changes in the investment environment. In the first half of the fiscal year ended March 31, 2007, when interest rates in Japan were increasing, Sony Life invested mainly in long-term Japanese government bonds. Sony Life concentrated its investments in convertible bonds whose prices had declined due to the issuer's falling stock price.

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

CONTRACTUAL OBLIGATIONS, COMMITMENTS, AND CONTINGENT LIABILITIES

The following table summarizes Sony's contractual obligations and major commitments as of March 31, 2007. The references to the Notes below refer to corresponding notes within the Notes to Consolidated Financial Statements.

Yen in millions

	Payments due by period				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	After 5 years
Contractual Obligations and Major Commitments:*					
Long-term debt (Note 11)					
Capital lease obligations (Notes 8 and 11)	**49,403**	12,559	13,674	6,052	17,118
Other long-term debt (Note 11)	**994,772**	30,611	448,404	272,798	242,959
Minimum rental payments required under operating leases (Note 8)	**202,723**	46,154	64,811	31,129	60,629
Purchase commitments for property, plant and equipment and other assets (Note 23)	**43,329**	43,083	213	33	—
Expected cost for the production or purchase of films and television programming or certain rights (Note 23)	**67,717**	54,940	12,033	585	159
Partnership program contract with Fédération Internationale de Football Association (Note 23)	**30,939**	3,897	7,794	9,624	9,624
8th generation amorphous TFT LCD panel manufacturing line at joint venture, S-LCD Corporation (Note 23)	**50,200**	50,200	—	—	—

* The total amount of expected future pension payments is not included in either the above table or the total amount of commitments outstanding at March 31, 2007 discussed below as such amount is not currently determinable. Sony expects to contribute approximately 37.0 billion yen to the Japanese pension plans and approximately 5.0 billion yen to the foreign pension plans during the fiscal year ending March 31, 2008 (Note 14).

* The total unused portion of the line of credit extended under loan agreements in the Financial Services segment is not included in either the above table or the amount of commitments outstanding at March 31, 2007 discussed below as it is not foreseeable how many loans will be executed. The total unused portion of the line of credit extended under these contracts was 348.4 billion yen as of March 31, 2007 (Note 23).

* The 5-year Revolving Credit Agreement with SONY BMG, which matures on August 5, 2009 and provides for a base commitment of 300 million U.S. dollars and additional incremental borrowings of up to 150 million U.S. dollars, is not included in either the above table or the amount of commitments outstanding at March 31, 2007 discussed below as such amount is not currently determinable. Sony's outstanding commitment under this Credit Agreement as of March 31, 2007 was 26.6 billion yen (Note 23).

The total amount of commitments outstanding at March 31, 2007 was 296.1 billion yen (Note 23). The commitments include major purchase obligations as shown above.

In the ordinary course of business, Sony makes commitments for the purchase of property, plant and equipment. As of March 31, 2007, such commitments outstanding were 43.3 billion yen.

A subsidiary in the Pictures segment has committed to fund a portion of the production costs 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, 2007, 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 67.7 billion yen.

Sony Corporation has entered into a partnership program contract with Fédération Internationale de Football Association ("FIFA"). Through this program Sony Corporation will be able to exercise various rights as an official sponsor of FIFA events from 2007 to 2014. As of March 31, 2007, Sony Corporation was committed to make payments of 30.9 billion yen under such contract.

In July 2006, Sony Corporation and Samsung signed the final contract with respect to the construction of an 8th generation amorphous TFT LCD panel manufacturing line at their joint venture, S-LCD. As of March 31, 2007, Sony Corporation was committed to make payments of 50.2 billion yen under such contract.

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

The following table summarizes Sony's contingent liabilities as of March 31, 2007.

	Yen in millions
Contingent Liabilities (Note 23)**:**	
Loan guarantees to related parties	11,100
Other	10,581
Total contingent liabilities	21,681

OFF-BALANCE SHEET ARRANGEMENTS

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

During the fiscal year ended March 31, 2005, Sony entered into accounts receivable sales programs that provide for the accelerated receipt of up to 47.5 billion yen of eligible trade accounts receivable of Sony Corporation. Through these programs, Sony can sell receivables to special purpose entities owned and operated by banks. These transactions are accounted for as a sale in accordance with 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 transactions are excluded from receivables in the accompanying consolidated balance sheet. Total receivables sold for the fiscal years ended March 2006 and 2007 were 146.2 billion yen and 152.5 billion yen, respectively. Losses from these transactions were insignificant. Although Sony continues servicing the sold receivables, no servicing liabilities are recorded because costs regarding collection of the sold receivables are insignificant.

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

Sony has, from time to time, entered into various arrangements with variable interest entities ("VIEs"). In several of the arrangements in which Sony holds a significant variable interest, Sony is the primary beneficiary and therefore consolidates these VIEs. These arrangements include facilities which provide for the leasing of certain property, the financing of film production and the U.S. based music publishing business. In addition, Sony holds a significant variable interest in VIEs in which Sony is not the primary beneficiary and therefore does not consolidate. These VIEs include the film production/co-financing arrangements noted as follows.

On December 30, 2005, a subsidiary in the Pictures segment entered into a production/co-financing agreement with a VIE to co-finance 11 films that were released over the 15 months ended March 31, 2007. The subsidiary received 373 million U.S. dollars over the term of the agreement to fund the production or acquisition cost of films (including fees and expenses). The subsidiary is responsible for the marketing and distribution of the product through its global distribution channels. The VIE shares in the net profits, as defined, of the films after the subsidiary recoups a distribution fee, its marketing and distribution expenses, and third-party participation and residual costs, each as defined. The subsidiary did not make any equity investment in the VIE nor issue any guarantees with respect to the VIE. On April 28, 2006, the subsidiary entered into a second production/co-financing agreement with a VIE to co-finance additional films. Nine films are anticipated to be released under this financing arrangement. The subsidiary will receive approximately 240 million U.S. dollars over the term of the agreement to fund the production or acquisition cost of the films (including fees and expenses). Similar to the first agreement, the subsidiary is responsible for the marketing and distribution of the product through its global distribution channels. The VIE shares in the net profits, as defined, of the films after the subsidiary recoups a distribution fee, its marketing and distribution expenses, and third-party participation and residual costs, each as defined. As of March 31, 2007, three co-financed films have been released by the subsidiary and 37 million U.S. dollars has been received from the VIE under this agreement. The subsidiary did not make any equity investment in the VIE nor issue any guarantees with respect to the VIE. On January 19, 2007, the subsidiary entered into a third production/co-financing agreement with a VIE to co-finance a majority of the films to be submitted through March 2012. The subsidiary has received a commitment from the VIE that the VIE will fund up to 525 million U.S. dollars on a revolving basis to fund the production or acquisition cost of films (including fees and expenses). As of March 31, 2007, no films of the subsidiary have been funded by this VIE. Similar to the first two agreements, the subsidiary is responsible for marketing and distribution of the product through its global distribution channels. The VIE shares in the net profits, as defined, of the films after the subsidiary recoups a distribution fee, its marketing and distribution expenses, and third-party participation and residual costs, each as defined. The subsidiary did not make any equity investment in the VIE nor issue any guarantees with respect to the VIE.

Refer to Note 22 of Notes to Consolidated Financial Statements for more information on variable interest entities.

CASH FLOWS

Operating Activities: During the fiscal year ended March 31, 2007, Sony generated 561.0 billion yen of net cash from operating activities, an increase of 161.2 billion yen, or 40.3 percent, compared with the previous fiscal year. Of this total, all segments excluding the Financial Services segment generated 305.6 billion yen of net cash from operating activities, an increase of 53.6 billion yen, or 21.3 percent, compared with the previous fiscal year, and the Financial Services segment generated 256.5 billion yen of net cash from operating activities, an increase of 109.4 billion yen, or 74.3 percent, compared with the previous fiscal year.

During the fiscal year, there was a positive impact on operating cash flow from an increase in notes and accounts payable, trade, and an increase in future insurance policy benefits and other as well as the contribution of net income after taking into account depreciation and amortization. However, primarily offsetting these contributions was an increase in notes and accounts receivable, trade, and inventory, particularly within the Electronics and Game segments.

Compared with the previous fiscal year, net cash provided by operating activities increased mainly as a result of an increase in net income after taking into account depreciation and amortization recorded during the fiscal year as compared to the previous fiscal year, as well as the effect of the gain on the transfer to the Japanese government of the substitutional portion of the employee pension fund in the previous fiscal year, and the effect of an increase in revenue from insurance premiums, primarily reflecting an increase in insurance-in-force at Sony Life.

Investing Activities: During the fiscal year, Sony used 715.4 billion yen of net cash in investing activities, a decrease of 155.8 billion yen, or 17.9 percent, compared with the previous fiscal year. Of this total, all segments, excluding the Financial Services segment, used 431.1 billion yen of net cash in investing activities, an increase of 134.7 billion yen, or 45.5 percent, compared with the previous fiscal year, and the Financial Services segment used 276.7 billion yen in net cash, a decrease of 287.0 billion yen, or 50.9 percent, compared with the previous fiscal year.

During the fiscal year, purchases of fixed assets (capital expenditures) in the Electronics segment were made primarily for semiconductor manufacturing facilities. Part of an investment in S-LCD was also made for manufacturing facilities for 8th generation TFT LCD panels.

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

Compared with the previous fiscal year, net cash used in investing activities increased within all segments excluding the Financial Services segment, reflecting the additional investment in S-LCD and the purchases of fixed assets noted above. On the other hand, net cash used in the Financial Services segment for investing activities decreased compared to the previous fiscal year due to the fact that there was an increase in the collections of investments and advances as compared to the previous fiscal year.

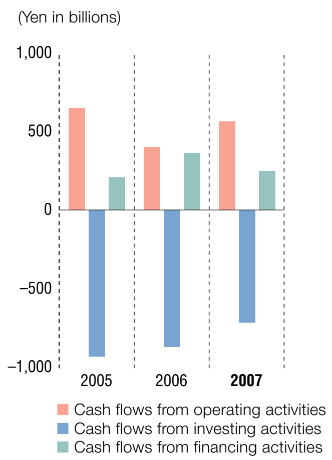
In all segments excluding the Financial Services segment, the difference between cash generated from operating activities and cash used in investing activities was a net use of cash of 125.5 billion yen, an increase of 81.1 billion yen, or 182.7 percent, as compared to a net use of cash of 44.4 billion yen in the previous fiscal year.

Financing Activities: During the fiscal year ended March 31, 2007, 247.9 billion yen of net cash was provided by financing activities. Of the total, 59.6 billion yen of net cash was generated from financing activities in all segments excluding the Financial Services segment, a decrease of 15.0 billion yen or 20.1 percent, compared to net cash generated in the previous fiscal year of 74.6 billion yen. This was a result, as noted above, of financing carried out through yen-denominated syndicated loans during the current fiscal year.

In the Financial Services segment, as a result of an increase in policyholder accounts at Sony Life and an increase in deposits from customers at the banking business, financing activities generated 179.6 billion yen of net cash.

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 by 96.8 billion yen, or 13.8 percent, to 799.9 billion yen, compared with the end of the previous fiscal year. The total outstanding balance of cash and cash equivalents of all segments, excluding the Financial Services segment, decreased by 62.6 billion yen, or 10.7 percent, to 522.9 billion yen, and for the Financial Services segment, increased by 159.4 billion, or 135.5 percent, to 277.0 billion yen, compared with the end of the previous fiscal year.

Cash flows



*Years ended March 31

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

Yen in millions

	Financial Services		Sony without Financial Services		Consolidated	
Years ended March 31	2006	**2007**	2006	**2007**	2006	**2007**
Net cash provided by operating activities	147,149	**256,540**	251,975	**305,571**	399,858	**561,028**
Net cash used in investing activities	(563,753)	**(276,749)**	(296,376)	**(431,086)**	(871,264)	**(715,430)**
Net cash provided by financing activities	274,863	**179,627**	74,600	**59,598**	359,864	**247,903**
Effect of exchange rate changes on cash and cash equivalents	—	**—**	35,537	**3,300**	35,537	**3,300**
Net increase (decrease) in cash and cash equivalents	(141,741)	**159,418**	65,736	**(62,617)**	(76,005)	**96,801**
Cash and cash equivalents at beginning of the fiscal year	259,371	**117,630**	519,732	**585,468**	779,103	**703,098**
Cash and cash equivalents at end of the fiscal year	117,630	**277,048**	585,468	**522,851**	703,098	**799,899**

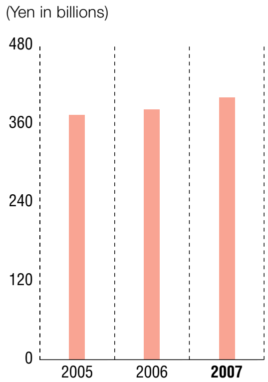
LIQUIDITY AND CAPITAL RESOURCES

Sony's financial policy is to maintain the strength of its balance sheet, while securing adequate liquidity for business expenses.

Sony intends to continue various investments for future growth. Funding requirements that arise from its business strategy are principally covered by free cash flow generated from business operations and by cash and cash equivalents ("cash balance"); however as needed, Sony will procure funds from the financial and capital markets. For these financing activities, Sony has sufficient access to financial and capital markets as described below. In addition, to sustain sufficient liquidity, Sony has committed lines of credit with financial institutions, together with cash balances.

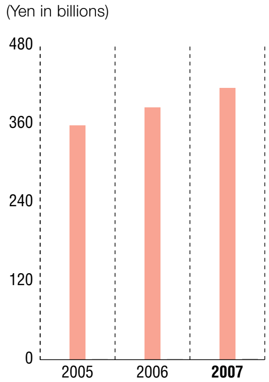
The description below covers liquidity and capital resources for consolidated Sony and excludes the Financial Services segment, which secures liquidity on its own.

Depreciation and amortization



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

Capital expenditures (additions to property, plant and equipment)



*Years ended March 31

MARKET ACCESS

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

In order to meet long-term funding requirements, Sony Corporation utilizes its access to global equity and bond markets and borrowings from financial institutions. During the fiscal year ended March 31, 2007, Sony Corporation issued an 80 billion yen syndicated loan in June 2006 (3 years maturity), and a 130 billion yen syndicated loan in December 2006 (4 years and 7 years maturity), for general corporate purposes including capital expenditures, and debt redemption. Sony Corporation maintains a bond shelf registration of 300 billion yen filed in Japan, effective until April 2008; however Sony Corporation has not issued a bond using this shelf registration during the fiscal year ended March 31, 2007.

In order to meet the working capital requirements of Sony, SGTS maintains commercial paper ("CP") programs and a medium-term note ("MTN") program. SGTS maintains CP programs for the U.S., Euro and Japanese CP markets. As of March 31, 2007, the total maximum amount to be issued under these CP programs, translated into yen, was 1,326.6 billion yen. During the fiscal year ended March 31, 2007, the largest month-end outstanding balance of CP was 348.2 billion yen in November 2006. There was no outstanding balance of CP as of March 31, 2007.

SGTS maintains a Euro MTN program with a program limit amount, translated into yen as of March 31, 2007, of 590.5 billion yen. There was no outstanding balance as of that date.

LIQUIDITY MANAGEMENT

Sony's working capital needs grow significantly in the third quarter (from October to December) as a result of the general seasonality of Sony's business. Sony's basic liquidity management policy is to secure sufficient liquidity throughout the relevant fiscal year, covering such factors as short-term cash flow volatility mentioned above, repayments for debts whose due date fall within a year, and possible downward earnings risk due to changes in the business environment.

Sony defines its liquidity sources as the amount of cash balance, and committed lines of credit contracted with financial institutions. Regarding its cash balance, Sony's policy is to maintain more than a certain level of cash balance to absorb any daily and monthly working capital needs. The balance of cash and marketable securities on March 31, 2007 was 525.9 billion yen. A short-term shortage in the cash balance is financed by the issuance of CP. However, Sony controls the outstanding CP amount through internal limits as part of its short-term debt risk management strategy.

For general corporate purposes, including the support of CP programs and for emergency purposes, Sony has a total, translated into yen, of 689.3 billion yen in committed lines of credit with various financial institutions, of which the unused amount was 684.9 billion yen as of March 31, 2007. Major committed lines of credit include a total, translated into yen, of 505.4 billion yen of Global Commitment Facilities contracted with a syndicate of global banks effective until March 2009, and a 150 billion yen committed line of credit contracted with Japanese financial institutions, effective until July 2009. During the fiscal year ended March 31, 2007, the contract period of the committed line of credit with Japanese financial institutions was extended for one year, from the previous contract which was effective until July 2008. In the event of a downgrade in Sony's credit ratings, even though the cost of borrowing could increase, there are no financial covenants in any of Sony's material financial agreements that would cause an acceleration of the obligation. In general, there are no restrictions on the uses of proceeds except that some borrowings may not be used to acquire securities listed on a U.S. exchange or traded over-the-counter in the U.S., and the use of such borrowings must comply with the rules and regulations issued by authorities such as the Board of Governors of the Federal Reserve Board.

RATINGS

Sony considers one of management's top priorities to be the maintainenance of stable and appropriate credit ratings in order to ensure financial flexibility for liquidity and capital management and continued adequate access to sufficient funding resources in the financial and capital markets.

In order to facilitate access to global capital markets, Sony obtains credit ratings from two rating agencies, Moody's 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 from each agency are noted below:

	Moody's	S&P	R&I
Long-term debt	A2 (Outlook: Stable)	A– (Outlook: Negative)	AA– (Outlook: Stable)
Short-term debt	P-1	A-2	a-1+

In October 2006, S&P changed its outlook of Sony's long-term debt rating from stable to negative. This change was made based upon their view of increased uncertainty for Sony's business recovery in the fiscal year ending March 31, 2008, and onwards. Despite this change in outlook, Sony believes its access to the global capital markets and its ability to issue CP for its working capital needs have not been restricted.

CASH MANAGEMENT

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

FINANCIAL SERVICES SEGMENT

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

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

RESEARCH AND DEVELOPMENT

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

Research and development is focused in four key domains: a common development platform technology for home and mobile electronics and the technologies essential for product differentiation and for creating value-added products, semiconductor, device, and software technologies.

Reflecting Sony's mid-term corporate strategy, in October 2005, Sony established the Display Device Development Group, to accelerate the development of organic light-emitting diode ("OLED") displays, and the Technology Development Group, to strengthen software development. In April 2007, Sony expressed its intention to begin selling 11-inch OLED flat panel televisions during 2007.

Research and development costs for the fiscal year ended March 31, 2007 increased 12.1 billion yen, or 2.3 percent, to 543.9 billion yen, compared with the previous fiscal year. The ratio of research and development costs to net sales (which excludes financial service revenue) decreased from 7.8 percent to 7.1 percent. The bulk of research and development costs were incurred in the Electronics and Game segments. Expenses in the Electronics segment increased 22.3 billion yen, or 5.3 percent, to 440.4 billion yen, whereas expenses in the Game segment decreased 10.8 billion yen, or 9.9 percent, to 97.9 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 and displays. In the Game segment, research and development costs decreased mainly due to the completion of most of the PS3's research and development phase.

DIVIDEND POLICY

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

On May 15, 2007, a year-end cash dividend of 12.5 yen per share (the same as the amount paid in the previous fiscal year) payable as of June 1, 2007 was approved by the Board of Directors. Sony Corporation has already paid an interim dividend of 12.5 yen per share to each shareholder; accordingly, the total annual cash dividend per share would be 25.0 yen.

NUMBER OF EMPLOYEES

The number of employees at the end of March 2007 was approximately 163,000, an increase of approximately 4,500 employees from the end of March 2006. Although there was a reduction in employees associated with the deconsolidation of StylingLife and restructuring at a number of manufacturing facilities, the total number of employees increased as a result of a significant increase of employees at manufacturing facilities in East Asia.

RISK FACTORS

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

Sony must overcome increasingly intense pricing competition, especially in the Electronics and Game segments.
Sony's Electronics segment produces consumer products that compete against products sold by an increasing number of competitors on the basis of several factors including price.
In order to produce products that appeal to changing and increasingly diverse consumer preferences, and to overcome

the fact that a relatively high percentage of consumers already possess products similar to those that Sony offers, Sony's Electronics and Game segments must develop superior technology, anticipate consumer tastes and rapidly develop attractive products. In the Electronics segment, Sony faces increasingly intense pricing pressure in a variety of consumer product areas. Sony's sales and operating income depend on Sony's ability to continue to develop and offer Electronics and Game products at competitive prices that meet changing and increasingly diverse consumer preferences.

Sony is subject to competition from firms that may be more specialized or have greater resources.

Sony's businesses, primarily within the Electronics segment, face a broad range of competitors, from large international companies to an increasing number of relatively small, rapidly growing, and highly specialized organizations. Sony has a portfolio of businesses in different industries while many of its competitors specialize in one or more of these business areas. As a result, Sony may not fund or invest in certain of its businesses to the same degree that its competitors do, and these competitors may have greater financial, technical, and marketing resources available to them than the businesses of Sony against which they compete. The Financial Services segment faces increasing competition in Japan due to ongoing deregulation that is eliminating barriers among the insurance, banking and securities industries. In addition, Sony's financial services businesses may not be able to compete effectively, especially against established competitors with greater financial, marketing and other resources.

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

Sony's businesses, particularly the Electronics and Game segments, compete in intensely competitive markets characterized by changing consumer preferences and rapid technological innovation. In order to be profitable in such markets, Sony is continuing to invest heavily in research and development and semiconductor fabrication equipment. Recent examples of such expenditures include research and development investment in 65 nanometer semiconductor process technology and related capital expenditures with IBM and Toshiba for production of the Cell/B.E. within the Electronics segment for sale primarily to the Game segment, and an investment in a joint venture, S-LCD, with Samsung to produce 7th generation amorphous TFT LCD panels. In addition, by the end of the fiscal year ending March 31, 2008, Sony Corporation and Samsung are scheduled to complete the investment in S-LCD regarding the manufacture of 8th generation TFT LCD panels at S-LCD. The total amount of the investment for the 8th generation panels is expected to be approximately 200 billion yen (approximately 50 percent of which will be contributed by Sony Corporation). Sony may not be able to recover these investments, in part or in full, or the recovery of these investments may take longer than expected. As a result, the carrying value of the related assets may be subject to an impairment charge, which could adversely affect Sony's mid-term profitability. (Refer to "Trend Information.")

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

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

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

In association with these restructuring initiatives, 138.7 billion yen and 38.8 billion yen of restructuring charges were recorded for the fiscal years ended March 31, 2006 and 2007, respectively. Sony anticipates the recording of approximately 35 billion yen in restructuring charges for the fiscal year ending March 31, 2008.

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

Foreign exchange rate fluctuations can affect financial results because a large portion of Sony's sales and assets are denominated in currencies other than the yen.
Sony's consolidated statements of income are prepared from the local currency-denominated financial results of each of Sony Corporation's subsidiaries around the world which are translated into yen at the monthly average currency exchange rate. Sony's consolidated balance sheets are prepared using local currency-denominated assets and liabilities of each of Sony Corporation's subsidiaries around the world, which are translated into yen at the market exchange rate at the end of each financial period. A large proportion of Sony's consolidated financial results, assets and liabilities is accounted for in currencies other than the Japanese yen. For example, only 25.6 percent of Sony's sales and operating revenue in the fiscal year ended March 31, 2007 were originally recorded in Japan. Accordingly, Sony's consolidated financial results, assets and liabilities in Sony's businesses that operate internationally, principally in its Electronics, Game and Pictures segments, may be materially affected by changes in the exchange rates of foreign currencies when translating into Japanese yen. In the fiscal year ended March 31, 2007, for example, Sony's operating income prepared on the basis of U.S. GAAP in yen decreased from the preceding fiscal year by 68.3 percent to 71.8 billion yen. However, if Sony's operating income had been prepared on a local currency basis, it would have been an operating loss of 20.3 billion yen. Operating results on a local currency basis described herein reflect sales and operating revenue and operating income obtained by applying the yen's monthly average exchange rate in the previous fiscal year to local currency-denominated monthly sales, cost of sales, and selling, general and administrative expenses in the current fiscal year. Foreign exchange rate fluctuations may have a negative impact on Sony's results in the future, especially if the yen strengthens significantly against the U.S. dollar or the Euro.

Foreign exchange fluctuations can affect Sony's results of operations due to sales and expenses in different currencies.
Exchange rate fluctuations affect Sony's operating profitability because many of Sony's products are sold in countries other than the ones in which they were manufactured. The concentration of research and development, administrative functions and manufacturing activities within the Electronics segment largely in Japan, makes this segment particularly sensitive to the yen's appreciation as the ratio of yen-denominated costs to total costs is higher than the ratio of yen-denominated revenue to total revenue. Volatile mid- to long-term changes in exchange rate levels may interfere with Sony's global allocation of resources and hinder Sony's ability to execute procurement, production, logistics, and sales activities in a manner that is profitable after the effect of such exchange rate changes.

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

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

Sony's sales and profitability are sensitive to economic and other trends in Sony's major markets.
A consumer's decision to purchase products such as those offered by Sony in its Electronics, Game and Pictures segments, as well as by companies within All Other, is to a very significant

extent discretionary. Accordingly, weakening economic conditions or outlook can reduce consumption in any of Sony's major markets, causing material declines in Sony's sales and operating income. In the fiscal year ended March 31, 2007, 25.6 percent, 26.9 percent and 24.6 percent of Sony's sales and operating revenue were attributable to Japan, the U.S. and Europe, respectively. If economic conditions in Japan, the U.S. or Europe deteriorate, or if the effects of international political and military instability depress consumer confidence, Sony's short- to mid-term sales and profitability may be significantly adversely affected. In addition, since Sony's sales in Other Areas are growing, its sales and profitability may also be affected by future political, economic and military uncertainties surrounding those areas.

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

An example of such a significant negative impact during the introductory period of the platform is the PS3-related charges which resulted in a loss of 232.3 billion yen within the Game segment for the fiscal year ended March 31, 2007. This loss reflected a negative margin arising from the sale of the PS3 at strategic price points lower than its production cost during the introductory period. (Refer to "Game" section of "*Operating Performance by Business Segment*" in "Operating Results.")

Sony's Game and Electronics segments are particularly sensitive to year-end holiday season demand.
Since the Game segment offers a relatively small range of hardware products (including PS2, PSP and the PS3) and a significant portion of overall demand is weighted towards the year-end holiday season, factors such as changes in the competitive environment, changes in market conditions, delays in the release of highly anticipated software titles and insufficient supply of hardware during the year-end holiday season can negatively impact the financial performance of both the Game and the Electronics segments. For example, in the fiscal year ended March 31, 2007, the introduction of the PS3 in Europe was delayed from the scheduled date of November 2006 to March 2007 because of a delay in improvements in the mass production yield of the blue-violet laser diode, a key device for the Blu-ray Disc drive equipped in the PS3, which was designed, developed and manufactured internally at Sony. Also, a supply shortage of the PS3 arose during the 2006 year-end holiday season in Japan and North America.

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

The sales and profitability of Sony's Game segment depends on the penetration of its gaming platforms, which is sensitive to software lineups, including software published by third parties.
In the Game segment, the penetration of gaming platforms is a significant factor for sales and profitability, which may be affected by the ability to provide customers with sufficient software lineups, including software published by third parties. Software lineups affect not only software sales and profitability, as in many other content businesses, but also affect the penetration of gaming platforms, which can affect hardware sales and profitability.

Operating results for Sony's Pictures segment vary according to the cost of productions, customer acceptance, and competing products.
Operating results for the Pictures segment's motion picture and television productions can materially fluctuate depending primarily upon the cost of such productions and acceptance of such productions by the public, which are difficult to predict. In addition, the commercial success of the Pictures segment's motion picture and television productions depend upon the

acceptance of other competing productions by the public, and the availability of alternative forms of entertainment and leisure activities.

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

Sony's Financial Services segment operates in a highly regulated environment and new regulations and regulatory initiatives could adversely affect the flexibility of its business operation.
Sony's Financial Services segment operates in industries subject to comprehensive regulation and supervision, including the Japanese insurance and banking industries. Future developments or changes in laws, regulations or policies and their effects are unpredictable and could lead to increased compliance expenses or limitations on operations. For example, Japan's Financial Services Agency recently required all life and non-life insurance companies to perform and report on systematic reviews of non-payment of insurance claims, the results of which could lead to additional rulemaking.

In conducting prudent asset liability management, Sony's Financial Services segment is subject to risks from market fluctuations in the value of investments, changes in customer demand and potential variability in insurance claims.
If Sony's Financial Services segment fails to conduct effective ALM to balance possible risks and expected returns on investment assets with its financing liabilities and underwriting risks on insurance policy benefits, its ability to provide competitive products and services to customers may deteriorate and its profitability may decline. Sony Life, which constitutes the largest portion of this segment, has liabilities to policyholders with a long average duration, making ALM more challenging. This segment also may incur losses from decreases in the value of securities and other financial instruments purchased for investment purposes resulting from fluctuations in interest rates or in equity markets. In addition, Sony's Financial Services segment faces a risk of changes in customer demand including a change from more profitable protection-orientated products, such as term insurance, to less profitable savings-oriented products, such as individual annuities, as well as a risk of unpredictable increases in insurance claims.

Differences between actual and assumed policy benefits and claims may require Sony's Financial Services segment to increase policy reserves in the future.
Sony's life insurance and non-life insurance businesses establish policy reserves for future benefits and claims based on regulatory guidelines and estimates of future payment obligations made by qualified actuaries. The insurance businesses calculate these reserves based on many assumptions and estimates, including the frequency and timing of the event covered by the policy, the amount of benefits or claims to be paid and the investment returns on the assets they purchase with the premiums received. These assumptions and estimates are inherently uncertain, and the insurance businesses cannot determine with precision the ultimate amounts that they will be required to pay for, or the timing of payment of, actual benefits and claims or whether the assets supporting the policy liabilities will grow at the level they assume prior to the payment of benefits or claims. The frequency and timing of the event covered by the policy and the amount of benefits or claims to be paid are subject to a number of risks and uncertainties, many of which are outside of the insurance businesses' control, including:

- changes in trends underlying the insurance businesses' assumptions and estimates, such as mortality and morbidity rates and automobile accident rates;
- the availability of sufficient reliable data and the insurance businesses' ability to correctly analyze the data;
- the insurance businesses' selection and application of appropriate rating and pricing techniques; and
- changes in legal standards, claim settlement practices, medical care expenses and automobile repair costs.

If the actual experience of the insurance businesses is less favorable than their assumptions or estimates, reserves may be inadequate. In addition, any changes in regulatory guidelines or standards with respect to the required level of policy reserves may require that the insurance businesses establish policy reserves based on more stringent assumptions, estimates or actuarial calculations. Such events could result in a need to increase provisions for policy reserves, which may have a significant adverse effect on the financial condition and results of operations of the Financial Services segment.

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

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

Sony's Music business and Sony's investment in SONY BMG are dependent on establishing new artists, and together with Sony's Pictures segment are subject to increases in talent-related costs.

The success of Sony's Music business and Sony's investment in SONY BMG is highly dependent on establishing artists that appeal to customers, and the competition with other entertainment companies for such talent is intense. If the Music business and SONY BMG are unable to find and establish new talented artists, sales, operating income and equity in net income (loss) of affiliated companies may be adversely affected. In addition, with respect to the Music business and the Pictures segment, as well as SONY BMG, Sony has experienced and may continue to experience significant increases in talent-related spending.

SONY BMG is subject to renewed regulatory approval from the European Commission competition authorities.

In August 2004, Sony combined its recorded music business outside of Japan with the recorded music business of Bertelsmann AG, forming SONY BMG, after approval from, among others, the European Commission competition authorities. On December 3, 2004, Impala, an international association consisting of 2,500 independent recorded music companies, applied for annulment of the decision to clear the merger. On July 13, 2006, the European Court of First Instance overruled the Commission's decision to allow the merger to go forward, requiring the Commission to re-examine the merger. The transaction was renotified on January 31, 2007, in accordance with applicable European Union ("EU") merger control rules, and an in-depth investigation was opened on March 1, 2007. While the Commission completes its reexamination, Sony continues to account for the results of SONY BMG under the equity method. If the Commission does not approve the merger and the previously combined company is forced to unwind the merger, Sony may incur significant costs and may not be able to achieve its objectives with respect to its recorded music business.

Sony may not be successful in implementing its hardware, software and content integration strategy.

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

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

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

Sony currently has investments in several joint ventures, including Sony Ericsson. In April 2004, Sony established S-LCD, a joint venture with Samsung for the production of 7th generation amorphous TFT LCD panels. In August 2004, Sony combined its recorded music business outside of Japan with the recorded music business of Bertelsmann AG, forming the jointly-owned company, SONY BMG. If Sony and its partners are not able to reach their common financial objectives successfully, Sony's financial performance as a whole may be adversely affected. Sony's financial performance may also be adversely affected temporarily or in the medium-term during the investment period of those alliances, joint ventures and strategic investments even if Sony and its partners remain on course to achieve those common objectives. A recent example of how Sony's financial performance has been adversely affected in the course of these types of relationships is the equity in net losses recorded for S-LCD during the fiscal year ended March 31, 2006 of 7.2 billion yen. Managing the growing number of joint ventures and strategic alliances, and, in particular, dealing with the legal and cultural differences that can arise in such relationships, represents a risk. In addition, by participating in joint ventures or strategic alliances, Sony may encounter conflicts of interest, may not maintain sufficient control over the joint venture or strategic alliance, including over cash flow, and may be faced with an increased risk of the loss of proprietary technology or know-how.

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

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

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

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

Sony products, such as software (including software for mobile phone handsets) and electronic devices including semiconductors are becoming increasingly sophisticated and complicated as rapid advancements in technologies occur, and as demand increases for digital equipment. At the same time, product quality and liability issues present greater risks. Sony's efforts to manage the rapid advancements in technologies and increased demand, as well as to control product quality, may not be successful, and if they are not, Sony may incur expenses in connection with, for example, product recalls, service and lawsuits, and Sony's brand image and reputation as a producer of high-quality products may suffer. These issues are not only relevant to the final Sony products that are sold directly to customers but also to the final products of other companies that are equipped with Sony's components, such as the semiconductors mentioned above. An example of these issues is the recording of a 51.2 billion yen provision during the fiscal year ended March 31, 2007 that related to the recalls by Dell, Apple and Lenovo of notebook computer battery packs that use lithium-ion battery cells manufactured by Sony as well as the subsequent global replacement program initiated by Sony for certain notebook computer battery packs used by Sony and several other notebook computer manufacturers that use lithium-ion battery cells manufactured by Sony (Refer to "Performance by Product Category" for "Electronics" in "*Operating Results*").

Sony may be adversely affected by its employee benefit obligations.

Sony recognizes the unfunded pension obligation as consisting of the (i) Projected Benefit Obligation ("PBO") less (ii) the fair value of pension plan assets. Actuarial gains and losses are included in pension expenses in a systematic manner over employees' average remaining service periods in a manner consistent with FAS No. 87, "Employers' Accounting for Pensions," FAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" and the related amendments to those standards. Any decrease of the pension asset value due to low returns from investments or increases in the PBO due to a lower discount rate, increases in rates of compensation and certain other actuarial assumptions would increase the unfunded pension obligations, and could, subject to the provisions of FAS No. 87, result in an increase in pension expenses recorded as cost of sales or as a selling, general and administrative expense. Refer to Note 14 of Notes to Consolidated Financial Statements for more information regarding Sony's pension and severance plans. Also refer to "Critical Accounting Policies," below.

Most pension assets and liabilities recognized on Sony's consolidated balance sheets relate to Japanese plans, which are subject to the Japanese Defined Benefit Corporate Pension Plan Act pursuant to which Sony is required to meet certain financial criteria including periodic actuarial revaluation and annual settlement of gain or loss of the plan. In the eventuality that the actuarial reserve required by law exceeds the fair value of pension assets, Sony may be required to make an additional contribution to the plan, which would reduce consolidated cash flow.

Changes in Sony's tax rates or exposure to additional tax liabilities could adversely affect its earnings and financial condition.

Sony is subject to income taxes in Japan and numerous other jurisdictions. Significant judgment is required in determining its worldwide provision for income taxes. In the ordinary course of our business, there are many transactions, including intercompany charges, and calculations where the ultimate tax determination is uncertain. Also, Sony's future effective tax rates could be unfavorably affected by changes in the mix of earnings in countries with differing statutory rates.

Further, Sony is subject to continuous examination of its income tax returns by tax authorities. As a result, Sony regularly assesses the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of its provision for income taxes. However, there can be no assurance that the outcomes of these examinations will not have an adverse effect on Sony's operating results and financial condition.

In addition, if Sony is unable to generate sufficient future taxable income in certain jurisdictions, or if there is a significant change in the actual effective tax rates or the time period within which the underlying temporary differences become taxable or deductible, Sony could be required to increase its valuation allowances against its deferred tax assets resulting in an increase in its effective tax rate and an adverse impact on future operating results.

Sony's business could suffer as a result of adverse outcomes of current or future litigation and regulatory actions.

Sony faces the risk of litigation and regulatory proceedings in connection with its operations. Lawsuits, including regulatory actions, may seek recovery of very large, indeterminate amounts or limit Sony's operations, and the possibility that they may arise and their magnitude may remain unknown for substantial periods of time. A substantial legal liability or adverse regulatory outcome could have a material adverse effect on Sony's business, results of operations, financial condition, and reputation.

Sony may be accused of infringing others' intellectual property rights and be liable for significant damages.

Sony's products incorporate a wide variety of technologies. Claims have been and could be asserted against Sony that such technology infringes the intellectual property owned by others. Such claims might require us to enter into settlement or license agreements, to pay significant damage awards, and/or to face a temporary or permanent injunction prohibiting Sony from marketing or selling certain of its products, which could have a material adverse effect on Sony's business, results of operations, financial condition, and reputation.

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

Many of Sony's products are designed under the license of patents and other intellectual property rights from third parties who have developed technologies that are protected by such rights. Based upon past experience and industry practice, Sony believes that it will be able to obtain or renew licenses relating to various intellectual properties useful in its business that it needs in the future; however, such licenses may not be available at all or on acceptable terms, and Sony may need to redesign or discontinue marketing or selling such products as a result.

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

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

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

Sony is subject to a broad range of environmental and occupational health and safety laws and regulations, including laws and regulations relating to air pollution, water pollution, the management, elimination or reduction of the use of hazardous substances, decreases in the level of standby power of certain products, waste management, recycling of products, batteries and packaging materials, site remediation and worker and consumer health and safety. These regulations could become more stringent or additional regulations could be adopted in the future, which could cause us to incur additional compliance costs or limit our activities. Further, a failure to comply with applicable environmental or health and safety laws could result in fines, penalties, legal judgments or other costs or remediation obligations. Such a finding of noncompliance could also injure our brand image. Such events could adversely affect our financial performance.

We monitor and evaluate new environmental and health and safety requirements that may affect our operations. The EU has enacted two directives relevant to our business: the Restriction of Hazardous Substances Directive ("RoHS") and the Waste Electrical and Electronic Equipment Directive ("WEEE"). RoHS restricts the use of certain hazardous substances in electrical and electronic equipment marketed in the EU. WEEE makes producers of electrical and electronic equipment financially responsible for the collection of certain products from end users who wish to dispose of them and for subsequent treatment, recycling and safe disposal of those products. Similar regulations are being formulated in other parts of the world, including in China. We could incur substantial costs to comply with RoHS, WEEE and other similar programs that might be enacted in the future.

In addition, the EU's Registration, Evaluation, Authorisation and Restriction of Chemicals program ("REACH") came into effect as of June 2007. In general, REACH requires manufacturers, users and importers of a broad range of chemical substances to register for these chemicals and uses of chemicals up and down the supply chain and perform a range of tests and assessments on those substances and make the results available to the public and the EU regulators. Going forward, as registrations and test data are processed and evaluated under the REACH program, actions could be taken that could affect the cost and availability of certain chemicals, and users may have to shift to the use of more expensive and/or less effective substitutes. The various obligations under REACH are to be phased in over a period of time, and we will continue to evaluate the potential impact of these regulations, including whether REACH could directly or indirectly increase our costs or restrict our activities, which could have an adverse impact on our financial performance.

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

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

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

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

Sony Corporation is incorporated in Japan with limited liability. A majority of our directors and corporate executive officers are non-U.S. residents, and a substantial portion of the assets of Sony Corporation and the assets of our directors and corporate executive officers are located outside the U.S. As a result, it may be more difficult for investors to enforce against Sony Corporation or such persons the judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal and state securities laws of the U.S. or judgments obtained in other courts outside Japan. There is doubt as to the enforceability in Japanese courts, in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated solely upon the federal and state securities laws of the U.S.

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 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.

■ VALUATION OF INVENTORY

Sony values its inventory based on the lower of cost or market. Sony writes down inventory to an amount equal to the difference between the cost of the inventory and the net realizable value—i.e., less reasonably predictable costs of completion and disposal. However, if actual market conditions are less favorable than projected and further price decreases are needed, additional inventory write-downs may be required. Additionally, as Sony evaluates its manufacturing cost in yen while it sets its sales prices in Euros and U.S. dollars for some products, Sony's results may be negatively impacted by future exchange rate fluctuations.

■ IMPAIRMENT OF LONG-LIVED ASSETS

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

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

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

In the fiscal year ended March 31, 2007, Sony recorded impairment charges for long-lived assets totaling 16.8 billion yen, which included 3.6 billion yen for the impairment of long-lived assets of CRT TV display manufacturing facilities to be held and used in the U.S., East Asia and Southeast Asia in connection with certain restructuring activities in the Electronics segment. Fair value of these assets was determined using estimated future discounted cash flows which were based on the best information available.

■ GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets that are determined to have an indefinite life are not amortized, but are tested annually for impairment in accordance with FAS No. 142 during the fourth quarter of each fiscal year, and the assets are also tested between the annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of these assets below their carrying amount. Such an event would include unfavorable variances from established business plans, significant changes in forecasted results or volatility inherent to external markets and industries, which are periodically reviewed by Sony's 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 fiscal year ended March 31, 2007, Sony recorded impairment losses of 5,620 million yen in reporting units in the Electronics segment, of which 5,320 million yen was related to the CRT TV business which was downsized in the U.S., and an impairment loss of 237 million yen in a reporting unit included in All Other. These impairment charges reflected the overall decline in the fair value of the subsidiaries. The fair value of the subsidiaries was estimated principally using the expected present value of future cash flows.

Management believes that the estimates of future cash flows and fair value are reasonable; however, changes in estimates resulting in lower future cash flows and fair value due to unforeseen changes in business assumptions could negatively affect the valuations, which may result in Sony recognizing impairment charges for goodwill and other intangible assets in the future. In order to evaluate the sensitivity of the fair value calculations on the impairment analysis, Sony applied a hypothetical 10 percent decrease to the fair value of each reporting unit. As of March 31, 2007, a hypothetical 10 percent decrease to the fair value of each reporting unit would not have resulted in a material impairment loss.

■ PENSION BENEFITS COSTS

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

Sony's principal pension plans are its Japanese pension plans. Foreign pension plans are not significant, individually, to total plan assets and pension obligations.

To determine the benefit obligation of the Japanese pension plans, Sony used a discount rate of 2.3 percent for its Japanese pension plans as of March 31, 2007. The discount rate was determined by using currently available information about rates of return on high-quality fixed-income investments available and expected to be available during the period to maturity of the pension benefit obligation in consideration of amounts and timing of cash outflows for expected benefit payments. Such available information about rates of returns is collected from Bloomberg and credit rating agencies. The 2.3 percent discount rate represents a 10 basis point increase from the 2.2 percent discount rate used for the fiscal year ended March 31, 2006 and reflects current market interest rate conditions. For Japanese pension plans, a 10 basis point increase in the discount rate would decrease pension costs by approximately 0.8 billion yen for the fiscal year ending March 31, 2008.

To determine the expected long-term rate of return on pension plan assets, Sony considers the current and expected asset allocations, as well as historical and expected long-term rates of return on various categories of plan assets. For Japanese pension plans, the expected long-term rate of return on pension plan assets was 3.5 percent and 3.7 percent as of March 31, 2006 and 2007, respectively. The actual gain on pension plan assets for the fiscal year ended March 31, 2007 was 0.8 percent. Actual results that differ from the expected return on plan assets are accumulated and amortized as a component of pension costs over the average future service period, thereby reducing the year-to-year volatility in pension costs. As of March 31, 2006 Sony had unrecognized actuarial losses of 169.9 billion yen and as of March 31, 2007 Sony had a net actuarial loss of 200.6 billion yen, including losses related to plan assets. For the fiscal year ended March 31, 2007, the net actuarial loss increased due to the difference between the actual rate of return on pension plan assets and the expected long-term rate of return on pension plan assets. The net actuarial loss reflects the overall unfavorable return on investment over the past several years and will result in an increase in pension costs as they are recognized.

Sony recorded a minimum pension liability adjustment for the unfunded accumulated benefit obligation for Japanese pension plans of 35.8 billion yen as of March 31, 2006. FAS No. 158 was adopted by Sony in the financial statements for the year ended March 31, 2007. As a result, Sony recorded a pension liability adjustment for the prior service cost, net actuarial loss and obligation existing at transition for Japanese pension plans of 73.5 billion yen as of March 31, 2007. Both adjustments were established by a charge to stockholders' equity, resulting in no impact to the accompanying consolidated statements of income. Refer to Note 14 of Notes to Consolidated Financial Statements for more information regarding Sony's pension and severance plans.

The following table illustrates the effect of changes 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, 2007.

CHANGE IN ASSUMPTION

Yen in billions

	Pre-tax PBO	Pension costs	Equity (net of tax)
25 basis point increase / decrease in discount rate . . .	–/+ 24.9	–/+2.0	+/–1.2
25 basis point increase / decrease in expected return on assets	—	–/+ 1.3	+/–0.8

■ STOCK-BASED COMPENSATION

Sony accounts for stock-based compensation using the fair value-based method. The fair value is measured on the date of grant using the Black-Scholes option-pricing model. Sony estimates the forfeiture rate based on its historical experience for the stock acquisition rights plans, and recognizes this compensation expense, net of an estimated forfeiture rate, only for the stock acquisition rights expected to vest over the requisite service period. The expense is mainly included in selling, general and administrative expenses.

The Black-Scholes option-pricing model requires various highly judgmental assumptions including expected stock price volatility and the expected life of each award. In addition, judgment is also required to estimate the expected forfeiture rate and recognize expense only for those rights expected to vest.

Management believes that these estimates are reasonable; however, if actual results differ significantly from these estimates, stock-based compensation expense may differ materially in the future from that recorded in the current period.

■ DEFERRED TAX ASSET VALUATION

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

SCE and SCEA have recorded cumulative losses in recent years primarily due to the sale of the PS3 at a price lower than production cost during the introductory period, the recording of other charges in association with the preparation for the launch of the PS3 platform and a write-down for semiconductor components used in the PS3. However, Sony expects to establish the same successful business model with the PS3 that it achieved with the PS2, which has sold over 100 million units. Taxable income is expected to increase during the tax carryforward period due to the rapid reduction in hardware production costs and an enhanced lineup of software titles in the PS3 business. Accordingly, both companies expect to recover these losses within the next five years.

Given sufficiently strong evidence to support the conclusion that a valuation allowance is not necessary, Sony has decided not to record a valuation allowance for SCE and SCEA's deferred tax assets.

■ FILM ACCOUNTING

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

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

■ FUTURE INSURANCE POLICY BENEFITS

Liabilities for future insurance policy benefits are established in amounts adequate to meet the estimated future obligations of policies in force. These liabilities are computed by the net level premium method based upon estimates as to future investment yield, mortality, morbidity, withdrawals and other factors. Future policy benefits are computed using interest rates ranging from 0.90 percent to 5.00 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.

RECENTLY ADOPTED ACCOUNTING STANDARDS

■ INVENTORY COSTS

In November 2004, the Financial Accounting Standards Board ("FASB") issued Statement of FAS No. 151, "Inventory Costs, an amendment of Accounting Research Bulletin No. 43, Chapter 4." This statement requires certain abnormal expenditures to be recognized as expenses in the current period. It also requires that the amount of fixed production overhead allocated to the inventory be based on the normal capacity of the production facilities. Sony adopted FAS No. 151 on April 1, 2006. The adoption of FAS No. 151 did not have a material impact on Sony's results of operations and financial position.

■ ACCOUNTING FOR STOCK-BASED COMPENSATION

Effective April 1, 2006, Sony adopted FAS No. 123 (revised 2004), "Share-Based Payment" ("FAS No. 123(R)"). This statement requires the use of the fair value-based method of accounting for employee stock-based compensation and eliminates the alternative to use the intrinsic value method prescribed by Accounting Principle Board Opinion ("APB") No. 25. With limited exceptions, FAS No. 123(R) requires that the grant-date fair value of share-based payments to employees be expensed over the period the service is received. Sony had accounted for its employee stock-based compensation in accordance with the provisions prescribed by APB No. 25 and its related interpretations and had disclosed the net effect on net income and net income per share ("EPS") allocated to the common stock as if Sony had applied the fair value recognition provisions of FAS No. 123 to stock-based compensation as described in Note 2 to the Consolidated Financial Statements, Significant accounting policies—Stock-based compensation. Sony has elected the modified prospective method of transition prescribed in FAS No. 123(R), which requires that compensation expense be recorded for all unvested stock acquisition rights as the requisite service is rendered beginning with the first period of adoption. As a result of the adoption of FAS No. 123(R), Sony's operating income decreased by 3,670 million yen for the fiscal year ended March 31, 2007.

■ DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In February 2006, the FASB issued FAS No. 155, "Accounting for Certain Hybrid Financial Instruments," an amendment of FAS No. 133 and FAS No. 140. This statement permits an entity to elect fair value remeasurement for any hybrid financial instrument if the hybrid instrument contains an embedded derivative that would otherwise be required to be bifurcated and accounted for separately under FAS No. 133. The election to measure the hybrid instrument at fair value is made on an instrument-by-instrument basis and is irreversible. The statement is effective for all financial instruments acquired, issued, or subject to a remeasurement event occurring after the beginning of an entity's fiscal year beginning after September 15, 2006, with earlier adoption permitted as of the beginning of the fiscal year, provided that financial statements for any interim period of that fiscal year have not been issued. Sony early adopted FAS No. 155 on April 1, 2006. As a result of the adoption of FAS No. 155, Sony's operating income increased by 3,828 million yen for the fiscal year ended March 31, 2007.

Additionally, on April 1, 2006, Sony recognized a net charge of 3,785 million yen (net of income taxes of 2,148 million yen) as a cumulative-effect adjustment to beginning retained earnings, which consisted of 1,754 million yen (net of income taxes of 996 million yen) of gross gains and 5,539 million yen (net of income taxes of 3,144 million yen) of gross losses.

■ EMPLOYERS' ACCOUNTING FOR DEFINED BENEFIT PENSION AND OTHER POSTRETIREMENT PLANS

In September 2006, the FASB issued FAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," an amendment to FASB Statements No. 87, 88, 106 and 132(R). FAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit pension and other postretirement benefit plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through other comprehensive income. FAS No. 158 was adopted by Sony in the financial statements for the fiscal year ending March 31, 2007. FAS No. 158 also requires companies to measure the funded status of the plan as of the date of its fiscal year-end, effective for years ending after December 15, 2008. Sony expects to adopt the measurement provisions of FAS No. 158 effective March 31, 2009. Refer to Note 14, "Pension and severance plans," for further details.

■ QUANTIFYING EFFECTS OF PRIOR YEAR MISSTATEMENTS IN CURRENT YEAR FINANCIAL STATEMENTS

In September 2006, the U.S. Securities and Exchange Commission ("SEC") staff issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effect of Prior Year Misstatement when Quantifying Misstatements in Current Year Financial Statements." SAB No. 108 requires that registrants quantify errors using both a balance sheet approach, generally referred to as the "Iron Curtain" method, and a statement of operations approach, generally referred to as the "Rollover" method, and evaluate whether either approach results in a misstated amount that, when all relevant quantitative and qualitative factors are considered, is material. SAB No. 108 became effective for Sony as of April 1, 2006. Prior to the application of SAB No. 108, Sony used a statement of operations approach to quantify errors. The application of SAB No. 108 did not have a material impact on Sony's consolidated financial statements.

RECENT PRONOUNCEMENTS

■ ACCOUNTING BY INSURANCE ENTERPRISES FOR DEFERRED ACQUISITION COSTS IN CONNECTION WITH MODIFICATIONS OR EXCHANGES OF INSURANCE CONTRACTS

In September 2005, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants ("AcSEC") issued the Statement of Position ("SOP") 05-1, "Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts." SOP 05-1 provides guidance on accounting for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in FAS No. 97, "Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sales of Investments." This statement will be effective for Sony as of April 1, 2007. Although Sony is currently evaluating the impact of adopting this new pronouncement, the adoption of SOP 05-1 is not expected to have a material impact on Sony's results of operations and financial position.

■ ACCOUNTING FOR SERVICING OF FINANCIAL ASSETS

In March 2006, the FASB issued FAS No. 156, "Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140." This statement amends FAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" with respect to the accounting for separately recognized servicing assets and servicing liabilities. This statement will be effective for Sony as of April 1, 2007. Sony is currently evaluating the impact of adopting this new pronouncement.

■ ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

In June 2006, the FASB issued FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109." FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FAS No. 109, "Accounting for Income Taxes." FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This statement will be effective for Sony as of April 1, 2007. Sony is currently evaluating the potential cumulative impact of FIN No. 48 on the consolidated financial statements, and the final evaluation is expected to result in a charge to beginning retained earnings and an increase in tax liabilities.

■ HOW TAXES COLLECTED FROM CUSTOMERS AND REMITTED TO GOVERNMENTAL AUTHORITIES SHOULD BE PRESENTED IN THE INCOME STATEMENT

In June 2006, the Emerging Issues Task Force ("EITF") issued EITF Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement." EITF Issue No. 06-3 requires disclosure of the accounting policy for any tax assessed by a governmental authority that is imposed concurrently on a specific revenue-producing transaction between a seller and a customer. EITF Issue No. 06-3 should be applied to financial reports for interim and annual reporting periods beginning after December 15, 2006. This statement will be effective for Sony as of April 1, 2007. Although Sony is currently evaluating the impact of adopting this new pronouncement, the adoption of EITF Issue No. 06-3 is not expected to have a material impact on Sony's results of operations and financial position.

■ FAIR VALUE MEASUREMENTS

In September 2006, the FASB issued FAS No. 157, "Fair Value Measurements." FAS No. 157 establishes a framework for measuring fair value, clarifies the definition of fair value, and expands disclosures about the use of fair value measurements. FAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. FAS No. 157 will be effective for Sony beginning April 1, 2008. Sony is currently assessing the potential effect of FAS No. 157 on the financial statements.

■ FAIR VALUE OPTION FOR FINANCIAL ASSETS AND FINANCIAL LIABILITIES

In February 2007, the FASB issued FAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." FAS No. 159 permits companies to choose to measure, on an instrument-by-instrument basis, financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Sony is currently evaluating whether to elect the option provided for in this statement. If elected, FAS No. 159 would be effective for Sony as of April 1, 2008.

Five-Year Summary of Selected Financial Data

Sony Corporation and Consolidated Subsidiaries — Years ended March 31

	Yen in millions (Yen per share amounts)				
	2003	2004	2005	2006	**2007**
FOR THE YEAR					
Sales and operating revenue	¥7,506,008	¥7,530,635	¥7,191,325	¥ 7,510,597	**¥8,295,695**
Operating income	217,815	133,146	145,628	226,416	**71,750**
Income before income taxes	247,621	144,067	157,207	286,329	**102,037**
Income taxes	80,831	52,774	16,044	176,515	**53,888**
Equity in net income (loss) of affiliated companies	(44,690)	1,714	29,039	13,176	**78,654**
Net income	115,519	88,511	163,838	123,616	**126,328**
Per share data:					
Common stock					
Net income					
—Basic	¥ 125.74	¥ 95.97	¥ 175.90	¥ 122.58	**¥ 126.15**
—Diluted	118.21	87.00	158.07	116.88	**120.29**
Cash dividends	25.00	25.00	25.00	25.00	**25.00**
Number of weighted-average shares for basic per share data (thousands of shares)	919,706	923,650	931,125	997,781	**1,001,403**
Subsidiary tracking stock					
Net income (loss)					
—Basic	(41.98)	(41.80)	17.21	—	**—**
Number of weighted-average shares for basic per share data (thousands of shares)	3,072	3,072	3,072	—	**—**
Depreciation and amortization*	¥ 351,925	¥ 366,269	¥ 372,865	¥ 381,843	**¥ 400,009**
Capital expenditures (additions to property, plant and equipment)	261,241	378,264	356,818	384,347	**414,138**
Research and development expenses	443,128	514,483	502,008	531,795	**543,937**
AT YEAR-END					
Net working capital	¥ 719,166	¥ 381,140	¥ 746,803	¥ 569,296	**¥ 994,871**
Stockholders' equity	2,280,895	2,378,002	2,870,338	3,203,852	**3,370,704**
Stockholders' equity per share attributable to common stock	¥ 2,466.81	¥ 2,563.67	¥ 2,872.21	¥ 3,200.85	**¥ 3,363.77**
Total assets	¥8,370,545	¥9,090,662	¥9,499,100	¥10,607,753	**¥11,716,362**
Number of shares issued at year-end (thousands of shares):					
Common stock	922,385	926,418	997,211	1,001,680	**1,002,897**
Subsidiary tracking stock	3,072	3,072	3,072	—	**—**

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

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

2. In July 2003, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts." SOP 03-1 requires insurance enterprises to record additional reserves for long-duration life insurance contracts with minimum guarantee or annuity receivable options. Additionally, SOP 03-1 provides guidance for the presentation of separate accounts. Sony adopted SOP 03-1 on April 1, 2004. As a result of the adoption of SOP 03-1, Sony's operating income decreased by 5,156 million yen for the fiscal year ended March 31, 2005. Additionally, on April 1, 2004, Sony recognized a charge of 4,713 million yen (net of income taxes of 2,675 million yen) as a cumulative effect of an accounting change.

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

4. Effective April 1, 2006, Sony adopted FAS No. 123 (revised 2004), "Share-Based Payment" ("FAS No. 123(R)"). This statement requires the use of the fair value-based method of accounting for employee stock-based compensation and eliminates the alternative to use the intrinsic value method prescribed by Accounting Principle Board Opinion ("APB") No. 25. With limited exceptions, FAS No. 123(R) requires that the grant-date fair value of share-based payments to employees be expensed over the period the service is received. Sony had accounted for its employee stock-based compensation in accordance with the provisions prescribed by APB No. 25 and its related interpretations and had disclosed the net effect on net income and net income per share ("EPS") allocated to the common stock as if Sony had applied the fair value recognition provisions of FAS No. 123 to stock-based compensation as described in Note 2 to the Consolidated Financial Statements, "Significant accounting policies—Stock-based compensation." Sony has elected the modified prospective method of transition prescribed in FAS No. 123(R), which requires that compensation expense be recorded for all unvested stock acquisition rights as the requisite service is rendered beginning with the first period of adoption. As a result of the adoption of FAS No. 123(R), Sony's operating income decreased by 3,670 million yen for the fiscal year ended March 31, 2007.

5. In February 2006, the FASB issued FAS No. 155, "Accounting for Certain Hybrid Financial Instruments," an amendment of FAS No. 133 and FAS No. 140. This statement permits an entity to elect fair value remeasurement for any hybrid financial instrument if the hybrid instrument contains an embedded derivative that would otherwise be required to be bifurcated and accounted for separately under FAS No. 133. The election to measure the hybrid instrument at fair value is made on an instrument-by-instrument basis and is irreversible. The statement is effective for all financial instruments acquired, issued, or subject to a remeasurement event occurring after the beginning of an entity's fiscal year beginning after September 15, 2006, with earlier adoption permitted as of the beginning of the fiscal year, provided that financial statements for any interim period of that fiscal year have not been issued. Sony early adopted FAS No. 155 on April 1, 2006. As a result of the adoption of FAS No. 155, Sony's operating income increased by 3,828 million yen for the fiscal year ended March 31, 2007. Additionally, on April 1, 2006, Sony recognized a net charge of 3,785 million yen (net of income taxes of 2,148 million yen) as a cumulative-effect adjustment to beginning retained earnings, which consisted of 1,754 million yen (net of income taxes of 996 million yen) of gross gains and 5,539 million yen (net of income taxes of 3,144 million yen) of gross losses.

6. In September 2006, the FASB issued FAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," an amendment to FASB Statements No. 87, 88, 106 and 132(R). FAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit pension and other postretirement benefit plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through other comprehensive income. FAS No. 158 was adopted by Sony in the financial statements for the fiscal year ended March 31, 2007. FAS No. 158 also requires companies to measure the funded status of the plan as of the date of its fiscal year-end, effective for years ending after December 15, 2008. Sony expects to adopt the measurement provisions of FAS No. 158 effective March 31, 2009. The impact of adopting FAS 158 was a 9,508 million yen reduction in accumulated other comprehensive income. Refer to Note 14 to the Consolidated Financial Statements, "Pension and severance plans," for further details.

7. Effective April 1, 2006, Sony reclassified royalty income as a component of sales and operating revenue, rather than as a component of other income as previously recorded. In connection with this reclassification, sales and operating revenue, operating income and other income for the fiscal years ended March 31, 2003, 2004, 2005 and 2006 have been reclassified to conform with the presentation of these items for the fiscal year ended March 31, 2007. The amounts of royalty income reclassified from other income to sales and operating revenue for the fiscal years ended March 31, 2003, 2004, 2005 and 2006 were 32,375, 34,244, 31,709, and 35,161 million yen, respectively. In addition to the above, certain reclassifications of the financial statements for the fiscal years ended March 31, 2003, 2004, 2005 and 2006 have been made to conform to the presentation for the fiscal year ended March 31, 2007.

Quarterly Financial and Stock Information

Sony Corporation and Consolidated Subsidiaries—Years ended March 31 (Unaudited)

	Yen in billions (Yen per share amounts)							
	1st quarter		2nd quarter		3rd quarter		4th quarter	
	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**
Sales and operating revenue	¥1,568.1	**¥1,744.2**	¥1,711.6	**¥1,854.2**	¥2,375.1	**¥2,607.7**	¥1,855.7	**¥2,089.6**
Operating income (loss)	(6.6)	**27.0**	74.6	**(20.8)**	210.3	**178.9**	(51.9)	**(113.4)**
Income (loss) before income taxes	12.9	**54.0**	95.4	**(26.1)**	225.9	**179.8**	(47.9)	**(105.7)**
Income taxes	12.1	**24.8**	65.1	**(7.6)**	75.7	**61.5**	23.6	**(24.9)**
Equity in net income (loss) of affiliated companies	(9.1)	**3.6**	(2.6)	**19.7**	19.5	**43.0**	5.4	**12.3**
Net income (loss)	(7.3)	**32.3**	28.5	**1.7**	168.9	**159.9**	(66.5)	**(67.6)**
Per share data of common stock								
Net income (loss)								
—Basic	¥ (8.68)	**¥ 32.25**	¥ 28.63	**¥ 1.68**	¥ 169.36	**¥ 159.70**	¥ (66.48)	**¥ (67.44)**
—Diluted	(8.68)	**30.75**	27.32	**1.60**	161.60	**152.49**	(66.48)	**(67.44)**
Depreciation and amortization*	¥ 88.7	**¥ 91.3**	¥ 92.8	**¥ 93.7**	¥ 96.8	**¥ 99.9**	¥ 103.6	**¥ 115.2**
Capital expenditures (additions to fixed assets)	98.0	**134.1**	87.8	**90.0**	76.1	**88.0**	122.4	**102.1**
R&D expenses	118.4	**119.4**	131.4	**143.5**	121.7	**133.5**	160.4	**147.6**
Tokyo Stock Exchange price per share of common stock:								
High	¥ 4,410	**¥ 6,200**	¥ 4,100	**¥ 5,360**	¥ 5,020	**¥ 5,190**	¥ 6,040	**¥ 6,540**
Low	3,770	**4,660**	3,660	**4,610**	3,710	**4,340**	4,700	**5,120**
New York Stock Exchange price per American Depositary Share:								
High	$ 40.79	**$ 52.29**	$ 36.74	**$ 46.40**	$ 41.30	**$ 43.78**	$ 51.16	**$ 53.34**
Low	34.38	**40.67**	32.38	**39.30**	31.80	**37.24**	40.90	**42.73**

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

Notes:
1. Effective April 1, 2006, Sony adopted FAS No. 123 (revised 2004), "Share-Based Payment" ("FAS No. 123(R)"). This statement requires the use of the fair value based method of accounting for employee stock-based compensation and eliminates the alternative to use the intrinsic value method prescribed by APB No. 25. With limited exceptions, FAS No. 123(R) requires that the grant-date fair value of share-based payments to employees be expensed over the period the service is received. Sony had accounted for its employee stock-based compensation in accordance with the provisions prescribed by APB No. 25 and its related interpretations and had disclosed the net effect on net income and net income per share ("EPS") allocated to the common stock as if Sony had applied the fair value recognition provisions of FAS No. 123 to stock-based compensation as described in Note 2 to the Consolidated Financial Statements, "Significant accounting policies—Stock-based compensation." Sony has elected the modified prospective method of transition prescribed in FAS No. 123(R), which requires that compensation expense be recorded for all unvested stock acquisition rights as the requisite service is rendered beginning with the first period of adoption. As a result of the adoption of FAS No. 123(R), Sony's operating income decreased by 3,670 million yen for the fiscal year ended March 31, 2007.
2. In February 2006, the FASB issued FAS No. 155, "Accounting for Certain Hybrid Financial Instruments," an amendment of FAS No. 133 and FAS No. 140. This statement permits an entity to elect fair value remeasurement for any hybrid financial instrument if the hybrid instrument contains an embedded derivative that would otherwise be required to be bifurcated and accounted for separately under FAS No. 133. The election to measure the hybrid instrument at fair value is made on an instrument-by-instrument basis and is irreversible. The statement is effective for all financial instruments acquired, issued, or subject to a remeasurement event occurring after the beginning of an entity's fiscal year beginning after September 15, 2006, with earlier adoption permitted as of the beginning of the fiscal year, provided that financial statements for any interim period of that fiscal year have not been issued. Sony early adopted FAS No. 155 on April 1, 2006. As a result of the adoption of FAS No. 155, Sony's operating income increased by 3,828 million yen for the fiscal year ended March 31, 2007. Additionally, on April 1, 2006, Sony recognized a net charge of 3,785 million yen (net of income taxes of 2,148 million yen) as a cumulative-effect adjustment to beginning retained earnings, which consisted of 1,754 million yen (net of income taxes of 996 million yen) of gross gains and 5,539 million yen (net of income taxes of 3,144 million yen) of gross losses.
3. In September 2006, the FASB issued FAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," an amendment to FASB Statements No. 87, 88, 106 and 132(R). FAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit pension and other postretirement benefit plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through other comprehensive income. FAS No. 158 was adopted by Sony in the financial statements for the year ended March 31, 2007. FAS No. 158 also requires companies to measure the funded status of the plan as of the date of its fiscal year-end, effective for years ending after December 15, 2008. Sony expects to adopt the measurement provisions of FAS No. 158 effective March 31, 2009. The impact of adopting FAS 158 was a 9,508 million yen reduction in accumulated other comprehensive income. Refer to Note 14 to the Consolidated Financial Statements, "Pension and severance plans," for further details.
4. Effective April 1, 2006, Sony reclassified royalty income as a component of sales and operating revenue, rather than as a component of other income as previously recorded. In connection with this reclassification, sales and operating revenue, operating income and other income for the fiscal years ended March 31, 2003, 2004, 2005 and 2006 have been reclassified to conform with the presentation of these items for the fiscal year ended March 31, 2007. The amounts of royalty income reclassified from other income to sales and operating revenue for the fiscal years ended March 31, 2003, 2004, 2005 and 2006 were 32,375, 34,244, 31,709, and 35,161 million yen, respectively. In addition to the above, certain reclassifications of the financial statements for the fiscal years ended March 31, 2003, 2004, 2005 and 2006 have been made to conform to the presentation for the fiscal year ended March 31, 2007.

Segment Information

Sony Corporation and Consolidated Subsidiaries—Years ended March 31

SALES AND OPERATING REVENUE BY BUSINESS SEGMENT*

Years ended March 31	Yen in millions 2005	2006	**2007**
Electronics	¥4,827,663	¥4,782,173	**¥5,421,384**
	67.1%	63.7%	**65.4%**
Game	702,524	918,252	**974,218**
	9.8	12.2	**11.7**
Pictures	733,677	745,859	**966,260**
	10.2	9.9	**11.7**
Financial Services	537,715	720,566	**624,282**
	7.5	9.6	**7.5**
All Other	389,746	343,747	**309,551**
	5.4	4.6	**3.7**
Consolidated total	¥7,191,325	¥7,510,597	**¥8,295,695**

*Sales and operating revenue to customers

ELECTRONICS SALES AND OPERATING REVENUE TO CUSTOMERS BY PRODUCT CATEGORY

Years ended March 31	Yen in millions 2005	2006	**2007**
Audio	¥ 571,864	¥536,187	**¥ 522,879**
	11.8%	11.2%	**9.7%**
Video	1,036,328	1,021,325	**1,143,120**
	21.5	21.4	**21.1**
Televisions	921,195	927,769	**1,226,971**
	19.1	19.4	**22.6**
Information and Communications	816,150	842,537	**950,461**
	16.9	17.6	**17.5**
Semiconductors	184,235	172,249	**205,757**
	3.8	3.6	**3.8**
Components	751,097	800,716	**852,981**
	15.6	16.7	**15.7**
Other	546,794	481,390	**519,215**
	11.3	10.1	**9.6**
Total	¥4,827,663	¥4,782,173	**¥5,421,384**

Note: The above table is a breakdown of Electronics sales and operating revenue to external customers by product category. The Electronics segment is managed as a single operating segment by Sony's management. Effective for the fiscal year ended March 31, 2007, Sony has partly changed its product category configuration. The main change is that the low-temperature polysilicon thin film transistor LCD product group has been moved from "Semiconductors" to "Components." Accordingly, sales and operating revenue for the fiscal years ended March 31, 2005 and 2006 have been restated to conform to the presentation for the fiscal year ended March 31, 2007.

SALES AND OPERATING REVENUE BY GEOGRAPHIC INFORMATION

	Yen in millions		
Years ended March 31	2005	2006	**2007**
Japan	¥2,132,462	¥2,203,812	**¥2,127,841**
	29.7%	29.3%	**25.6%**
U.S.A.	1,977,310	1,957,644	**2,232,453**
	27.5	26.1	**26.9**
Europe	1,612,576	1,715,775	**2,037,658**
	22.4	22.8	**24.6**
Other	1,468,977	1,633,366	**1,897,743**
	20.4	21.8	**22.9**
Total	¥7,191,325	¥7,510,597	**8,295,695**

Note: Classification of geographic segment information shows sales and operating revenue recognized by location of customers.

Consolidated Balance Sheets

Sony Corporation and Consolidated Subsidiaries—As of March 31

	Yen in millions	
	2006	2007
ASSETS		
Current assets:		
Cash and cash equivalents	¥ 703,098	**¥ 799,899**
Marketable securities	536,968	**493,315**
Notes and accounts receivable, trade	1,075,071	**1,490,452**
Allowance for doubtful accounts and sales returns	(89,563)	**(120,675)**
Inventories	804,724	**940,875**
Deferred income taxes	221,311	**243,782**
Prepaid expenses and other current assets	517,915	**699,075**
Total current assets	3,769,524	**4,546,723**
Film costs	360,372	**308,694**
Investments and advances:		
Affiliated companies	285,870	**448,169**
Securities investments and other	3,234,037	**3,440,567**
	3,519,907	**3,888,736**
Property, plant and equipment:		
Land	178,844	**167,493**
Buildings	926,783	**978,680**
Machinery and equipment	2,327,676	**2,479,308**
Construction in progress	116,149	**64,855**
	3,549,452	**3,690,336**
Less—Accumulated depreciation	2,160,905	**2,268,805**
	1,388,547	**1,421,531**
Other assets:		
Intangibles, net	207,034	**233,255**
Goodwill	299,024	**304,669**
Deferred insurance acquisition costs	383,156	**394,117**
Deferred income taxes	178,751	**216,997**
Other	501,438	**401,640**
	1,569,403	**1,550,678**
Total assets	¥10,607,753	**¥11,716,362**

(Continued on following page)

	Yen in millions	
	2006	**2007**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	¥ 142,766	**¥ 52,291**
Current portion of long-term debt	193,555	**43,170**
Notes and accounts payable, trade	813,332	**1,179,694**
Accounts payable, other and accrued expenses	854,886	**968,757**
Accrued income and other taxes	87,295	**70,286**
Deposits from customers in the banking business	599,952	**752,367**
Other	508,442	**485,287**
Total current liabilities	3,200,228	**3,551,852**
Long-term liabilities:		
Long-term debt	764,898	**1,001,005**
Accrued pension and severance costs	182,247	**173,474**
Deferred income taxes	216,497	**261,102**
Future insurance policy benefits and other	2,744,321	**3,037,666**
Other	258,609	**281,589**
Total long-term liabilities	4,166,572	**4,754,836**
Total liabilities	7,366,800	**8,306,688**
Minority interest in consolidated subsidiaries	37,101	**38,970**
Stockholders' equity:		
Common stock, no par value—		
2006—Authorized 3,500,000,000 shares, outstanding 1,001,679,664 shares	624,124	
2007—Authorized 3,600,000,000 shares, outstanding 1,002,897,264 shares		**626,907**
Additional paid-in capital	1,136,638	**1,143,423**
Retained earnings	1,602,654	**1,719,506**
Accumulated other comprehensive income—		
Unrealized gains on securities	100,804	**86,096**
Unrealized losses on derivative instruments	(2,049)	**(1,075)**
Minimum pension liability adjustment	(39,824)	**—**
Pension liability adjustment	—	**(71,459)**
Foreign currency translation adjustments	(215,368)	**(129,055)**
	(156,437)	**(115,493)**
Treasury stock, at cost		
Common stock (2006—740,888 shares)	(3,127)	
(2007—834,859 shares)		**(3,639)**
	3,203,852	**3,370,704**
Commitments and contingent liabilities		
Total liabilities and stockholders' equity	¥10,607,753	**¥11,716,362**

Consolidated Statements of Income

Sony Corporation and Consolidated Subsidiaries—Years ended March 31

	Yen in millions		
	2005	2006	**2007**
Sales and operating revenue:			
Net sales	¥6,565,010	¥6,692,776	**¥7,567,359**
Financial service revenue	537,715	720,566	**624,282**
Other operating revenue	88,600	97,255	**104,054**
	7,191,325	7,510,597	**8,295,695**
Costs and expenses:			
Cost of sales	5,000,112	5,151,397	**5,889,601**
Selling, general and administrative	1,535,015	1,527,036	**1,788,427**
Financial service expenses	482,576	531,809	**540,097**
Loss on sale, disposal or impairment of assets, net	27,994	73,939	**5,820**
	7,045,697	7,284,181	**8,223,945**
Operating income	145,628	226,416	**71,750**
Other income:			
Interest and dividends	14,708	24,937	**28,240**
Gain on sale of securities investments, net	5,437	9,645	**14,695**
Gain on change in interest in subsidiaries and equity investees	16,322	60,834	**31,509**
Other	29,447	23,039	**20,738**
	65,914	118,455	**95,182**
Other expenses:			
Interest	24,578	28,996	**27,278**
Loss on devaluation of securities investments	3,715	3,878	**1,308**
Foreign exchange loss, net	524	3,065	**18,835**
Other	25,518	22,603	**17,474**
	54,335	58,542	**64,895**
Income before income taxes	157,207	286,329	**102,037**
Income taxes:			
Current	85,510	96,400	**67,081**
Deferred	(69,466)	80,115	**(13,193)**
	16,044	176,515	**53,888**
Income before minority interest, equity in net income of affiliated companies and cumulative effect of an accounting change	141,163	109,814	**48,149**
Minority interest in income (loss) of consolidated subsidiaries	1,651	(626)	**475**
Equity in net income of affiliated companies	29,039	13,176	**78,654**
Income before cumulative effect of an accounting change	168,551	123,616	**126,328**
Cumulative effect of an accounting change (2005: Net of income taxes of ¥2,675 million)	(4,713)	—	**—**
Net income	¥ 163,838	¥123,616	**¥126,328**

(Continued on following page)

	Yen		
	2005	2006	**2007**
Per share data:			
Common stock			
Income before cumulative effect of an accounting change			
—Basic	¥180.96	¥122.58	**¥126.15**
—Diluted	162.59	116.88	**120.29**
Cumulative effect of an accounting change			
—Basic	(5.06)	—	—
—Diluted	(4.52)	—	—
Net income			
—Basic	175.90	122.58	**126.15**
—Diluted	158.07	116.88	**120.29**
Cash dividends	25.00	25.00	**25.00**
Subsidiary tracking stock			
Net income			
—Basic	17.21	—	—

Consolidated Statements of Cash Flows

Sony Corporation and Consolidated Subsidiaries—Years ended March 31

	Yen in millions		
	2005	2006	**2007**
Cash flows from operating activities:			
Net income	¥ 163,838	¥ 123,616	**¥ 126,328**
Adjustments to reconcile net income to net cash provided by operating activities—			
Depreciation and amortization, including amortization of deferred insurance acquisition costs	372,865	381,843	**400,009**
Amortization of film costs	276,320	286,655	**368,382**
Stock-based compensation	(74)	150	**3,838**
Accrual for pension and severance costs, less payments	22,837	(7,563)	**(22,759)**
Gain on the transfer to the Japanese government of the substitutional portion of employee pension fund, net	—	(73,472)	**—**
Loss on sale, disposal or impairment of assets, net	27,994	73,939	**5,820**
Gain on sale or loss on devaluation of securities investments, net	(1,722)	(5,767)	**(13,387)**
Gain on revaluation of marketable securities held in the financial service business for trading purpose, net	(5,246)	(44,986)	**(11,857)**
Gain on change in interest in subsidiaries and equity investees	(16,322)	(60,834)	**(31,509)**
Deferred income taxes	(69,466)	80,115	**(13,193)**
Equity in net (income) losses of affiliated companies, net of dividends	(15,648)	9,794	**(68,179)**
Cumulative effect of an accounting change	4,713	—	**—**
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable, trade	(22,056)	17,464	**(357,891)**
(Increase) decrease in inventories	34,128	(164,772)	**(119,202)**
Increase in film costs	(294,272)	(339,697)	**(320,079)**
Increase (decrease) in notes and accounts payable, trade	31,473	(9,078)	**362,079**
Increase (decrease) in accrued income and other taxes	3	29,009	**(14,396)**
Increase in future insurance policy benefits and other	144,143	143,122	**172,498**
Increase in deferred insurance acquisition costs	(65,051)	(51,520)	**(61,563)**
(Increase) decrease in marketable securities held in the financial service business for trading purpose	(26,096)	(35,346)	**31,732**
Increase in other current assets	(29,699)	(8,792)	**(35,133)**
Increase in other current liabilities	46,545	105,865	**73,222**
Other	67,790	(49,887)	**86,268**
Net cash provided by operating activities	¥ 646,997	¥ 399,858	**¥ 561,028**

(Continued on following page)

	Yen in millions		
	2005	2006	**2007**
Cash flows from investing activities:			
Payments for purchases of fixed assets	¥ (453,445)	¥ (462,473)	**¥ (527,515)**
Proceeds from sales of fixed assets	34,184	38,168	**87,319**
Payments for investments and advances by financial service business	(1,309,092)	(1,368,158)	**(914,754)**
Payments for investments and advances (other than financial service business)	(158,151)	(36,947)	**(100,152)**
Proceeds from maturities of marketable securities, sales of securities investments and collections of advances by financial service business	923,593	857,376	**679,772**
Proceeds from maturities of marketable securities, sales of securities investments and collections of advances (other than financial service business)	25,849	24,527	**22,828**
Proceeds from sales of subsidiaries' and equity investees' stocks	3,162	75,897	**43,157**
Other	2,728	346	**(6,085)**
Net cash used in investing activities	(931,172)	(871,264)	**(715,430)**
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	57,232	246,326	**270,780**
Payments of long-term debt	(94,862)	(138,773)	**(182,374)**
Increase (decrease) in short-term borrowings	11,397	(11,045)	**6,096**
Increase in deposits from customers in the financial service business	294,352	190,320	**273,435**
Increase (decrease) in call money and bills sold in the banking business	(40,400)	86,100	**(100,700)**
Dividends paid	(22,978)	(24,810)	**(25,052)**
Proceeds from issuance of shares under stock-based compensation plans	105	4,681	**5,566**
Proceeds from issuance of shares by subsidiaries	4,023	6,937	**2,217**
Other	(3,692)	128	**(2,065)**
Net cash provided by financing activities	205,177	359,864	**247,903**
Effect of exchange rate changes on cash and cash equivalents	8,890	35,537	**3,300**
Net increase (decrease) in cash and cash equivalents	(70,108)	(76,005)	**96,801**
Cash and cash equivalents at beginning of the fiscal year	849,211	779,103	**703,098**
Cash and cash equivalents at end of the fiscal year	¥ 779,103	¥ 703,098	**¥ 799,899**
Supplemental data:			
Cash paid during the fiscal year for—			
Income taxes	¥ 65,477	¥ 70,019	**¥ 104,822**
Interest	18,187	24,651	**23,000**
Non-cash investing and financing activities—			
Conversion of convertible bonds	¥ 282,744	¥ —	**¥ —**
Obtaining assets by entering into capital lease	19,049	19,682	**13,784**
Contribution of net assets into the joint venture with Bertelsmann AG	9,402	—	**—**

Consolidated Statements of Changes in Stockholders' Equity

Sony Corporation and Consolidated Subsidiaries—Years 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, 2004	¥3,917	¥476,350	¥992,817	¥1,367,060	¥(449,959)	¥(12,183)	¥2,378,002
Exercise of stock acquisition rights		52	53				105
Conversion of convertible bonds		141,390	141,354				282,744
Stock-based compensation			340				340
Comprehensive income:							
Net income				163,838			163,838
Other comprehensive income, net of tax—							
Unrealized gains on securities:							
Unrealized holding gains (losses) arising during the period					5,643		5,643
Less: Reclassification adjustment included in net income					(12,924)		(12,924)
Unrealized losses on derivative instruments:							
Unrealized holding gains (losses) arising during the period					(209)		(209)
Less: Reclassification adjustment included in net income					(1,681)		(1,681)
Minimum pension liability adjustment					(769)		(769)
Foreign currency translation adjustments					74,224		74,224
Total comprehensive income							228,122
Stock issue costs, net of tax				(541)			(541)
Dividends declared				(24,030)			(24,030)
Purchase of treasury stock						(416)	(416)
Reissuance of treasury stock			(342)	(245)		6,599	6,012
Balance at March 31, 2005	¥3,917	¥617,792	¥1,134,222	¥1,506,082	¥(385,675)	¥(6,000)	¥2,870,338
Exercise of stock acquisition rights		931	932				1,863
Conversion of convertible bonds		1,484	1,484				2,968
Conversion of subsidiary tracking stock	(3,917)	3,917					—
Comprehensive income:							
Net income				123,616			123,616
Other comprehensive income, net of tax—							
Unrealized gains on securities:							
Unrealized holding gains (losses) arising during the period					79,630		79,630
Less: Reclassification adjustment included in net income					(41,495)		(41,495)
Unrealized losses on derivative instruments:							
Unrealized holding gains (losses) arising during the period					7,865		7,865
Less: Reclassification adjustment included in net income					(7,424)		(7,424)
Minimum pension liability adjustment					50,206		50,206
Foreign currency translation adjustments					140,473		140,473
Less: Reclassification adjustment included in net income					(17)		(17)
Total comprehensive income							352,854
Stock issue costs, net of tax				(780)			(780)
Dividends declared				(24,968)			(24,968)
Purchase of treasury stock						(394)	(394)
Reissuance of treasury stock				(1,296)		3,267	1,971
Balance at March 31, 2006	¥ —	¥624,124	¥1,136,638	¥1,602,654	¥(156,437)	¥(3,127)	¥3,203,852

(Continued on following page)

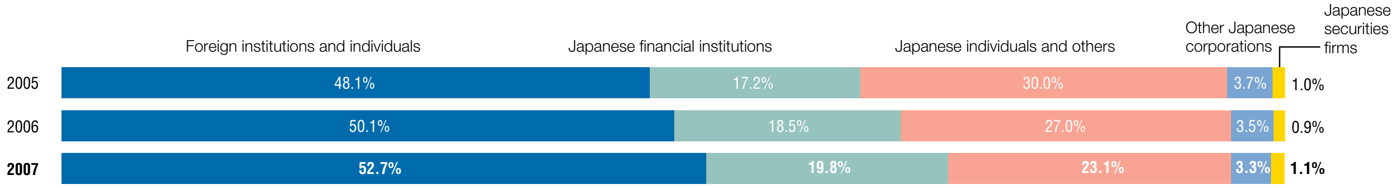
Yen in millions

	Subsidiary tracking stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total
Balance at March 31, 2006	¥ —	¥624,124	¥1,136,638	¥1,602,654	¥(156,437)	¥(3,127)	¥3,203,852
Exercise of stock acquisition rights		2,175	2,175				4,350
Conversion of convertible bonds		608	608				1,216
Stock-based compensation			3,993				3,993
Comprehensive income:							
Net income				126,328			126,328
Cumulative effect of an accounting change, net of tax				(3,785)			(3,785)
Other comprehensive income, net of tax—							
Unrealized gains on securities:							
Unrealized holding gains (losses) arising during the period					6,963		6,963
Less: Reclassification adjustment included in net income					(21,671)		(21,671)
Unrealized losses on derivative instruments:							
Unrealized holding gains (losses) arising during the period					6,907		6,907
Less: Reclassification adjustment included in net income					(5,933)		(5,933)
Minimum pension liability adjustment					(2,754)		(2,754)
Foreign currency translation adjustments					86,313		86,313
Total comprehensive income							192,368
Stock issue costs, net of tax				(22)			(22)
Dividends declared				(25,042)			(25,042)
Purchase of treasury stock						(558)	(558)
Reissuance of treasury stock			9			46	55
Adoption of FAS No. 158, net of tax					(9,508)		(9,508)
Other				19,373	(19,373)		—
Balance at March 31, 2007	¥ —	¥626,907	¥1,143,423	¥1,719,506	¥(115,493)	¥(3,639)	¥3,370,704

Stock Information

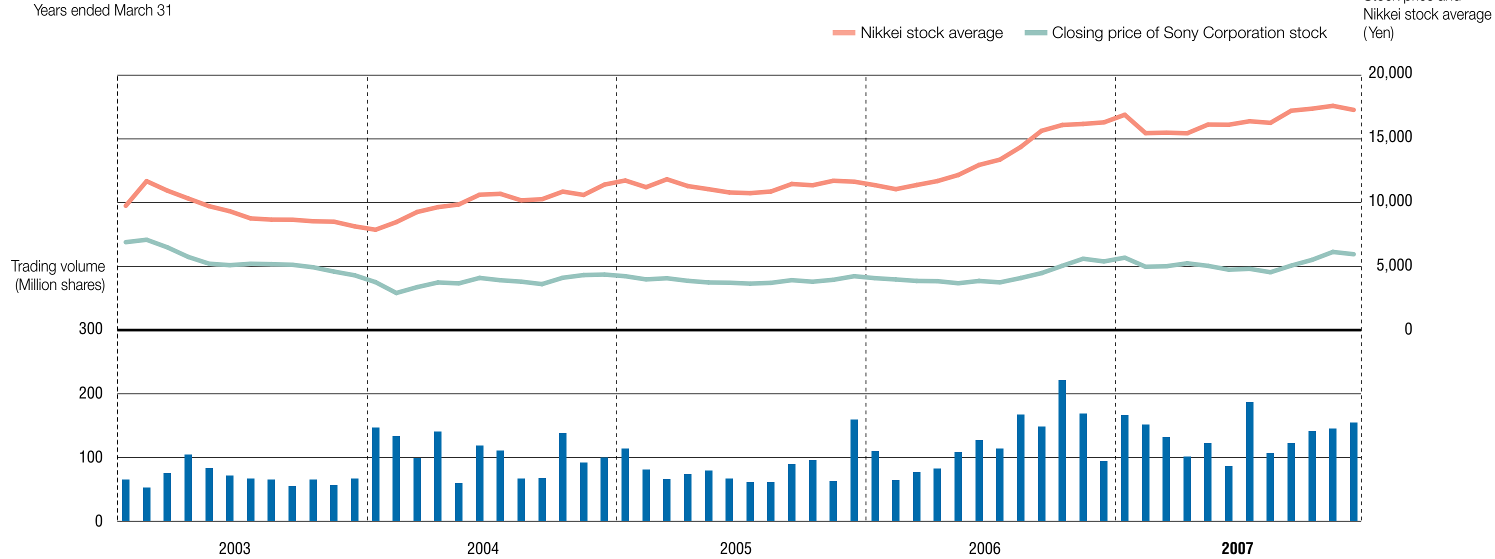
Ownership and Distribution of Shares

Years ended March 31	2005		2006		**2007**	
	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	480,990,694	1,409	502,219,220	1,375	**528,218,332**	**1,380**
Japanese financial institutions	172,413,987	350	184,831,560	293	**198,775,896**	**269**
Japanese individuals and others	300,072,586	776,192	270,118,452	712,033	**231,442,469**	**624,770**
Other Japanese corporations	37,334,315	5,240	35,031,017	4,650	**33,163,266**	**4,054**
Japanese securities firms	9,471,631	72	9,479,415	98	**11,297,301**	**81**
Total	1,000,283,213	783,263	1,001,679,664	718,449	**1,002,897,264**	**630,554**



Stock Price Range and Trading Volume on the Tokyo Stock Exchange

Years ended March 31



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.

Years ended March 31	2003	2004	2005	2006	**2007**
Stock price (Yen)					
At year-end	4,200	4,360	4,270	5,450	**5,990**
High	7,460	4,670	4,710	6,040	**6,540**
Low	4,070	2,720	3,550	3,660	**4,340**
Annual increase/decrease	–37.3%	+3.8%	–2.1%	+27.6%	**+9.9%**
Number of shares outstanding at year-end (Thousands of shares)	922,385	926,418	997,211	1,001,680	**1,002,897**
Market capitalization at year-end (Yen in trillions)	3.87	4.04	4.26	5.46	**6.01**
Per share of common stock data (Yen)					
Cash dividends applicable to the year	25.0	25.0	25.0	25.0	**25.0**
Net Income (diluted)	118.21	87.00	158.07	116.88	**120.29**
Stockholders' equity	2,466.81	2,563.67	2,872.21	3,200.85	**3,363.77**

Stock Acquisition Rights and Bond Information

As of March 31, 2007

STOCK ACQUISITION RIGHTS (SARs)

Name	Date of issue	(Exercise period)	Total number of SARs issued	Number of shares to be issued or transferred	Exercise price	Percentage of SARs exercised (%)
The first series of common stock acquisition rights	December 9, 2002	(December 8, 2012)	11,241	1,124,100	¥5,396.0	6.4
The third series of common stock acquisition rights	March 31, 2003	(March 31, 2013)	10,532	1,053,200	U.S.$36.57	27.2
The fourth series of common stock acquisition rights	November 14, 2003	(November 13, 2013)	10,081	1,008,100	¥4,101.0	27.9
The sixth series of common stock acquisition rights	March 31, 2004	(March 31, 2014)	10,325	1,032,500	U.S.$40.90	15.6
The seventh series of common stock acquisition rights	November 18, 2004	(November 17, 2014)	11,867	1,186,700	¥3,782.0	16.7
The ninth series of common stock acquisition rights	March 31, 2005	(March 31, 2015)	9,560	956,000	U.S.$40.34	5.3
The tenth series of common stock acquisition rights	November 17, 2005	(November 16, 2015)	11,131	1,113,100	¥4,060.0	1.0
The eleventh series of common stock acquisition rights	November 17, 2005	(November 17, 2015)	13,087	1,308,700	U.S.$34.14	4.3
The twelfth series of common stock acquisition rights	November 16, 2006	(November 15, 2016)	10,695	1,069,500	¥4,756.0	0.0
The thirteenth series of common stock acquisition rights	November 16, 2006	(November 16, 2016)	14,498	1,449,800	U.S.$40.05	0.0

Note: All series of Stock Acquisition Rights were issued for the purpose of granting stock options. Accordingly, no cash payment was required for the allocation.

BONDS WITH STOCK ACQUISITION RIGHTS

Name	Date of issue	Years	Total number of SARs issued	Number of shares to be issued or transferred	Exercise price	Percentage of SARs exercised (%)
Bonds with stock acquisition rights	December 18, 2003	5	50,000	44,603,033	¥5,605.0	0

Notes: 1. Bonds with Stock Acquisition Rights (total amount of issue being 250 billion yen) were issued in overseas markets mainly in Europe in order to raise funds for the development of and equipment expenditures for the next-generation semiconductors and key devices in Sony Group.

2. The issue price of the Stock Acquisition Rights included in the Bonds with Stock Acquisition Rights was determined as zero, taking into consideration: that the Bonds and the Stock Acquisition Rights have a close interrelation on the grounds that the Stock Acquisition Rights are incorporated in the Bonds with the Stock Acquisition Rights and shall not be transferable separately from the Bonds, and that all Bonds shall cease to exist upon exercise of the related Stock Acquisition Rights due to substitute payment; and the value of the Stock Acquisition Rights and the economic value obtainable from the interest rate, the issue price and other terms of issue of the Bonds.

CONVERTIBLE BONDS

Name	Date of issue	Years	Interest rate (%)	Total amount of issue	Conversion price	Outstanding balance (Percentage of bonds converted)
U.S. dollar convertible bonds	April 17, 2000	10	0	U.S.$57,331 thousand	¥13,220.0	U.S.$45,968 thousand (0%)
U.S. dollar convertible bonds	April 16, 2001	10	0	U.S.$77,056 thousand	¥ 8,814.0	U.S.$47,733 thousand (0%)
U.S. dollar convertible bonds	April 15, 2002	10	0	U.S.$67,297 thousand	¥ 6,931.0	U.S.$36,422 thousand (0.6%)

Note: All convertible bonds were issued to provide equity-based compensation to certain executives in Sony's U.S. subsidiary companies. The outstanding balance of each series is not equal to the total amount of issue of such series since Sony Corporation repurchased and canceled certain portion of each series which were not used for such purpose.

BONDS WITH WARRANTS

Name	Date of issue	Years	Interest rate (%)	Total amount of issue	Conversion price	Outstanding balance (Percentage of warrants exercised)
The thirteenth series of unsecured bonds with warrants	December 21, 2001	6	0.9	¥7,300 million	¥6,039.0	¥6,920 million (0%)

Note: Bonds with warrants were issued to provide equity-based compensation to directors and other executives of Sony Corporation by granting them the warrants detached from the bonds as part of their remuneration.

While the percentage of warrants exercised is 0 percent, the outstanding balance is not equal to the total amount of issue of the bonds with warrants since Sony Corporation canceled certain portion of the warrants which were not used for such purpose.

STRAIGHT BONDS

Name	Date of issue	Years	Interest rate (%)	Total amount of issue	Outstanding balance
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 ninth series of unsecured bonds	September 13, 2000	10	2.04	¥50,000 million	¥ 50,000 million
The twelfth series of unsecured bonds	September 17, 2001	10	1.52	¥50,000 million	¥ 50,000 million
The fifteenth series of unsecured bonds	September 8, 2005	5	0.80	¥50,000 million	¥ 50,000 million
The sixteenth series of unsecured bonds	September 8, 2005	7	1.16	¥40,000 million	¥ 40,000 million
The seventeenth series of unsecured bonds	September 8, 2005	10	1.57	¥30,000 million	¥ 30,000 million
The eighteenth series of unsecured bonds	February 28, 2006	4	1.01	¥40,000 million	¥ 40,000 million
The nineteenth series of unsecured bonds	February 28, 2006	7	1.52	¥35,000 million	¥ 35,000 million
The twentieth series of unsecured bonds	February 28, 2006	10	1.75	¥25,000 million	¥ 25,000 million

Notes: 1. Sony Corporation assumed responsibility for 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 100 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 percent. (If the result of this calculation is negative, the interest rate is 0 percent.)

Investor Information

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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 our Annual Report to shareholders, please direct your request to:

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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.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
PricewaterhouseCoopers Aarata
Tokyo, Japan

DEPOSITARY, TRANSFER AGENT AND REGISTRAR FOR AMERICAN DEPOSITARY RECEIPTS
JPMorgan Chase Bank N.A.
4 New York Plaza, New York, NY 10004, U.S.A

■ **Contact Address:**
JPMorgan Service Center
JPMorgan Chase Bank
P.O. Box 43013
Providence, RI 02940-3013
Phone: U.S. 800-360-4522
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TRANSFER AGENT
Mitsubishi UFJ Trust Bank Limited and Banking Corporation
Corporate Agency Department
10-11, Higashisuna 7-chome, Koto-ku,
Tokyo 137-8081, Japan
Phone: 81-(0)3-3212-1211

OVERSEAS STOCK EXCHANGE LISTINGS
New York and London stock exchanges

JAPANESE STOCK EXCHANGE LISTINGS
Tokyo and Osaka stock exchanges

NUMBER OF SHAREHOLDERS
(As of March 31, 2007)
630,554

INFORMATION REGARDING CSR
(Corporate Social Responsibility)
Sony's CSR Report and information about Sony CSR and environmental activities can be accessed at the following web site.
http://www.sony.net/csr/

Inquiries concerning the aforementioned activities can be directed to:
Sony Corporation
Corporate Social Responsibility Department
Phone: 81-(0)3-6748-2111
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Cautionary Statement

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