

**Consolidated Financial Results**  
**for the Third Quarter Ended December 31, 2004**

Tokyo, January 27, 2005 -- Sony Corporation today announced its consolidated results for the third quarter ended December 31, 2004 (October 1, 2004 to December 31, 2004).

(Billions of yen, millions of U.S. dollars, except per share amounts)

**Third quarter ended December 31**

	2003	2004	Change in Yen	2004*
Sales and operating revenue	¥2,323.4	<b>¥2,148.2</b>	-7.5%	<b>\$20,856</b>
Operating income	158.8	<b>138.2</b>	-13.0	<b>1,341</b>
Income before income taxes	157.8	<b>149.2</b>	-5.4	<b>1,449</b>
Equity in net income of affiliated companies	3.1	<b>2.3</b>	-23.5	<b>22</b>
Net income	92.6	<b>143.8</b>	+55.3	<b>1,396</b>
Net income per share of common stock				
— Basic	¥100.16	<b>¥155.32</b>	+55.1%	<b>\$1.51</b>
— Diluted	92.51	<b>138.08</b>	+49.3	<b>1.34</b>

\* U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥103=U.S.\$1, the approximate Tokyo foreign exchange market rate as of December 30, 2004.

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

**Consolidated Results for the Third Quarter Ended December 31, 2004**

**Sales and operating revenue ("sales")** decreased 7.5% compared with the same quarter of the previous fiscal year; on a local currency basis sales decreased 8%. (For all references herein to results on a local currency basis, see Note I on page 8.)

There was a 0.9% decrease in sales within the Electronics segment. Although sales of flat panel televisions, digital still cameras and LCD rear projection televisions increased, there was a decrease in sales primarily of CRT televisions, portable audio products and optical heads. In the Game segment, an increase in software sales was more than offset by a decline in hardware sales, resulting in a decrease to overall segment sales. In the Music segment, although sales at Sony Music Entertainment Japan Inc. ("SMEJ") increased, overall sales decreased because Sony BMG Music Entertainment ("Sony BMG"), a recorded music business joint venture formed with Bertelsmann AG, has been accounted for by the equity method since August 2004 (please refer to the note on page 3). In the Pictures segment, there was an increase in sales, primarily as a result of the contribution of home entertainment sales from *Spider-Man 2*. In the Financial Services segment, revenue increased mainly due to an increase in revenue from insurance premiums at Sony Life Insurance Co., Ltd. ("Sony Life").

**Operating income** decreased 13.0% (a 19% decrease on a local currency basis) compared with the same quarter of the previous fiscal year.

In the Electronics segment, operating income declined mainly due to a deterioration in the cost of sales ratio associated with a decline in unit selling prices. In the Game segment, as a result of a decline in hardware sales, there was a decrease in operating income. In the Pictures segment, there was a significant increase in operating income primarily due to the strong home entertainment sales from *Spider-Man 2*. In the Financial Services segment, there was an increase in operating income due to an improvement in profitability at Sony Bank Inc. (“Sony Bank”).

Restructuring charges, which are recorded as operating expenses, for the third quarter amounted to ¥10.5 billion (\$102 million) compared to ¥53.6 billion in the same quarter of the previous fiscal year. In the Electronics segment, restructuring charges were ¥10.4 billion (\$101 million) compared to ¥47.2 billion in the same quarter of the previous fiscal year.

**Income before income taxes** decreased 5.4% compared to the same quarter of the previous fiscal year. However, there was an improvement in the net effect of other income and expenses compared to the same quarter of the previous fiscal year. This improvement was the result of the recording of a loss on devaluation of securities investments in the same quarter of the previous fiscal year due to the devaluation of an investment in a privately held Japanese company in which Sony has a minority interest.

Compared to an effective tax rate of 42.8% in the same quarter of the previous fiscal year, the effective tax rate was 4.7% in the current quarter. As fully discussed in Sony’s Form 20-F for the fiscal year ended March 31, 2004, as a result of the recording of operating losses in the past, the U.S. subsidiaries of Sony have had valuation allowances against deferred tax assets for U.S. federal and certain state taxes. However, in the third quarter of the current fiscal year, based on both an improvement in recent years and a sound outlook for the operating performance at Sony’s U.S. subsidiaries, Sony reversed ¥67.9 billion (\$659 million) of such valuation allowances, resulting in a reduction to income tax expense. This reversal was the major factor impacting the effective tax rate decline for the quarter.

**Equity in net income of affiliated companies** of ¥2.3 billion (\$22 million) was recorded, a 23.5% decrease from the same quarter of the previous fiscal year. Sony Ericsson Mobile Communications AB (“Sony Ericsson”) contributed ¥3.1 billion (\$30 million) to equity in net income, an 11% increase compared to the same quarter of the previous year. In addition, Sony BMG, established in August 2004, contributed ¥1.1 billion (\$11 million) to equity in net income. However, equity in net loss was recorded at affiliates such as Star Channel Inc., a Japanese-based subscription television company specializing in the broadcast of movies, and S-LCD Corporation, a joint-venture with Samsung Electronics Co., Ltd., for the manufacture of amorphous TFT LCD panels. (For operating results of major affiliates accounted for by the equity method, please refer to page 6.)

**Net income**, as a result, increased 55.3% compared to the same quarter of the previous fiscal year.

## **Remarks by Nobuyuki Idei, Chairman and Group CEO of Sony Corporation**

During the third quarter, although there was a decrease in operating income within the Game and Electronics segments, our Pictures and Financial Services segments continued to demonstrate strong operating results, and the launch of our handheld video game system PlayStation Portable (“PSP”) has been a great success.

Looking forward, we anticipate that the intense environment within the electronics industry is likely to continue. Sony reiterates its belief that strengthening the competitiveness of our electronics products is the most pressing issue facing our management today. Within the display business, we are focusing strategic resources into LCD and rear projection televisions utilizing Sony’s unique SXRD display device. In addition, we are further enhancing our range of DVD camcorders, at the same time as actively pushing ahead with our plans to bring high picture quality to the video camera market through the promotion of High Definition. In addition, through the establishment of the Connect Company in November 2004, we are launching a complete digital audio business fusing download distribution services, content and hardware. Furthermore, to enhance

the differentiation of our products and generate added-value, we are continuing our active investment in semiconductors and key devices.

Through the Company-wide implementation of such measures, we are resolutely working to ensure a revitalization in the profitability of the Sony Group.

## **Operating Performance Highlights by Business Segment**

*Note: As of August 1, 2004, Sony and Bertelsmann AG combined their recorded music businesses in a joint venture. The newly formed company, Sony BMG, is 50% owned by each parent company. Under U.S. GAAP, Sony BMG is accounted for by Sony using the equity method and, since August 1, 2004, 50% of net profits or losses of this business have been included under "Equity in net income (loss) of affiliated companies."*

*In connection with the establishment of this joint venture, Sony's non-Japan based disc manufacturing and physical distribution businesses, formerly included within the Music segment, have been reclassified to the Electronics segment to recognize the new management reporting structure whereby Sony's Electronics segment has now assumed responsibility for these businesses. Results for the previous fiscal year in the Electronics and Music segments have been restated to account for this reclassification.*

*In the Music segment, results for this fiscal year only include the results of Sony Music Entertainment Inc.'s ("SMEI") recorded music business for the months of April through July 2004, and both the third quarter and the nine month results of SMEI's music publishing business and Sony Music Entertainment (Japan) Inc. ("SMEJ"). However, results for the previous fiscal year in the Music segment include the consolidated results for SMEI's recorded music business for all three months of the quarter, and nine months year-to-date, as well as the full quarter and year-to-date results for SMEI's publishing business and SMEJ.*

## **Electronics**

(Billions of yen, millions of U.S. dollars)

### **Third quarter ended December 31**

	2003	2004	Change in Yen	2004
Sales and operating revenue	¥1,524.4	¥1,510.8	-0.9%	\$14,668
Operating income	64.4	49.4	-23.3	479

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

**Sales** decreased 0.9% (1% decrease on a local currency basis). Sales to outside customers decreased 2.8% compared to the same quarter of the previous fiscal year. There was an increase in sales of several products including flat panel televisions and digital still cameras, which both experienced increased unit sales in all geographic areas, and LCD rear projection televisions, which saw increased unit sales especially in the U.S. However, there was a decline in sales of CRT televisions, faced with a continued shift in demand towards flat panel televisions, portable audio, which faced changes in the competitive environment, and optical heads, which experienced a decline in demand.

**Operating income** decreased by ¥15.0 billion, or 23.3% compared with the same quarter of the previous fiscal year. Although there was a decrease in restructuring charges, operating income decreased due to a deterioration in the cost of sales ratio as a result of a decline in unit selling prices. With regard to products within the Electronics segment, the decrease in sales of CRT televisions and portable audio, as well as the decline in unit selling prices, primarily of video cameras, contributed to the decrease in operating income.

**Inventory**, as of December 31, 2004, was ¥570.9 billion (\$5,543 million), a ¥29.3 billion, or 5.4%, increase compared with the level as of December 31, 2003 and a ¥117.6 billion, or 17.1%, decrease compared with the level as of September 30, 2004.

*Note: In association with the completion of business integration of Sony Group's semiconductor manufacturing businesses in July 2004, it was decided to account for semiconductor manufacturing operations inventory, which was previously recorded in the Game*

segment, within the Electronics segment as of the quarter beginning July 1, 2004. (Regarding the integration of Sony Group's semiconductor manufacturing operations, please refer to note 6 on page F-9.)

## Game

(Billions of yen, millions of U.S. dollars)

### Third quarter ended December 31

	2003	2004	Change in Yen	2004
Sales and operating revenue	¥367.0	¥282.6	-23.0%	\$2,744
Operating income	70.5	44.6	-36.8	433

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

**Sales** decreased 23.0% compared with the same quarter of the previous fiscal year (a 24% decrease on a local currency basis).

**Hardware:** In addition to a decline of PS2 unit sales in Japan, the U.S. and Europe, strategic price reductions, compared to the same quarter of the previous fiscal year, of the PS2 in Japan, the U.S. and Europe resulted in a decline in sales.

**Software:** Overall software sales increased as a result of an increase in unit sales of, and revenue from, PS2 software, despite being offset by a decrease in unit sales of, and revenue from, PlayStation software. Software sales revenue increased in Japan and Europe, but decreased in the U.S.

In addition, "PSP," on sale in Japan as of December 2004, has recorded very positive hardware and software sales.

**Operating income** decreased by ¥25.9 billion, or a 36.8% decrease compared with the same quarter of the previous fiscal year, mainly as a result of the decrease in hardware sales, despite an increase in software sales.

Worldwide hardware production shipments:\*

- PS2: 7.39 million units (an increase of 0.56 million units)
- PS one: 0.84 million units (a decrease of 0.18 million units)
- PSP 0.51 million units

Worldwide software production shipments:\*

- PS2: 109 million units (an increase of 5 million units)
- PlayStation: 3 million units (a decrease of 7 million units)
- PSP 1.3 million units

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

**Inventory**, as of December 31, 2004, was ¥45.4 billion (\$441 million), a ¥83.2 billion, or 64.7%, decrease compared with the level as of December 31, 2003 and a ¥8.0 billion, or 15.0%, decrease compared with the level as of September 30, 2004. (Regarding inventory, please refer to the note in the above Electronics segment.)

## Music

(Billions of yen, millions of U.S. dollars)

### Third quarter ended December 31

	2003	2004	Change in Yen	2004
Sales and operating revenue	¥141.1	¥56.3	- 60.1%	\$547
Operating income	16.1	12.0	-25.6	116

The amounts presented above are the sum of the yen-translated results of SMEI, a U.S.-based operation which aggregates the results of its worldwide subsidiaries on a U.S. dollar basis, and the results of SMEJ, a Japan-based operation which aggregates results in yen. In addition, please refer to the note on page 3 regarding the establishment of Sony BMG.

**Sales** decreased 60.1% compared with the same quarter of the previous fiscal year. Of the Music segment's sales, 86% were generated by SMEJ, and 14% were generated by SMEI. As noted above, due to the establishment of the Sony BMG joint venture, there were no recorded music sales at SMEI in this fiscal year's third quarter as compared to the same quarter of the previous fiscal year. Therefore, SMEI's results are not comparable with results of prior quarters.

**SMEJ:** Sales increased 10.5% compared with the same quarter of the previous fiscal year mainly as a result of an increase in album and singles sales. Best-selling albums during the quarter included *musiQ* by ORANGE RANGE and *SENTIMENTALover* by Ken Hirai.

**Operating income** at SMEJ increased significantly compared to the same quarter of the previous fiscal year due to the higher sales noted above and an improvement in the cost of sales ratio.

## Pictures

(Billions of yen, millions of U.S. dollars)

### Third quarter ended December 31

	2003	2004	Change in Yen	2004
Sales and operating revenue	¥181.2	¥203.1	+ 12.1%	\$1,972
Operating income	5.6	18.6	+232.2	181

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

**Sales** increased 12.1% compared with the same quarter of the previous fiscal year (15% increase on a U.S. dollar basis). Sales, on a U.S. dollar basis, increased primarily due to higher worldwide home entertainment revenues led by the strong performance of *Spider-Man 2* and the television series *Seinfeld*. A total of over 30 million DVD and VHS units of these two titles was shipped worldwide during the quarter. U.S. theatrical revenues included the strong theatrical performance of *The Grudge* and *Christmas with the Kranks*.

**Operating income** increased ¥13.0 billion, or 232.2%, to ¥18.6 billion (\$181 million), compared with the same quarter of the previous fiscal year. *Spider-Man 2* contributed substantially to this quarter's earnings. The increase was also attributable to the theatrical performance of *The Grudge*, offset somewhat by the disappointing theatrical performance of *Spanglish*.

## Financial Services

(Billions of yen, millions of U.S. dollars)

### Third quarter ended December 31

	2003	2004	Change in Yen	2004
Financial service revenue	¥137.3	¥145.0	+5.5%	\$1,407
Operating income	12.7	13.9	+9.8	135

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

**Financial service revenue** increased 5.5% compared with the same quarter of the previous fiscal year, mainly due to an increase in revenue at Sony Life. Revenue at Sony Life was ¥121.8 billion (\$1,182 million), a ¥4.2 billion, or 3.6% increase compared with the same quarter of the previous year. Despite a deterioration in valuation gains and losses from investments, this was more than offset by an increase in revenue from insurance premiums.

**Operating income** increased by ¥1.2 billion or 9.8% compared with the same quarter of the previous fiscal year, mainly due to an improvement in profitability at Sony Bank. Operating income at Sony Bank was recorded compared to an operating loss in the same quarter of the previous fiscal year mainly due to foreign exchange gains related to transactions in foreign currency denominated assets and liabilities and an increase in gains from the fund management, primarily, of housing loans. Operating income at Sony Life increased by ¥0.3 billion or 2.0% to ¥14.0 billion (\$136 million).

## Other

(Billions of yen, millions of U.S. dollars)

### Third quarter ended December 31

	2003	2004	Change in Yen	2004
Sales and operating revenue	¥71.8	¥64.2	-10.6%	\$623
Operating income (loss)	(2.9)	2.5	-	24

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

**Sales** decreased 10.6% compared to the same quarter of the previous fiscal year. This was primarily the result of a decrease in intersegment sales due to contract changes at a Japanese subsidiary involved in the advertising agency business.

**Operating income** of ¥2.5 billion (\$24 million) was recorded, representing an improvement of ¥5.4 billion compared with the operating loss of ¥2.9 billion recorded in the same quarter of the previous fiscal year. This improvement was mainly due to the sale of a retail and showroom building in Japan, and from cost reductions at several businesses in the segment, including Sony Communication Network Corporation.

## Operating Results for Major Affiliates Accounted for by the Equity Method

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

Sony Ericsson recorded sales for the quarter ended December 31, 2004 of Euro 2,005 million, representing a Euro 568 million or 40% increase compared to the same quarter of the previous fiscal year. Income before taxes was Euro 140 million, a 204%, or Euro 94 million increase compared to the same quarter of the previous fiscal year, and net income of Euro 55 million was recorded, a Euro 12 million, or 28% increase year on year. Sony Ericsson experienced a strong quarter led by consumer demand for mid and high-end GSM models as well as 3G UMTS phones. As a result, equity in net income of ¥3.1 billion (\$30 million) was recorded by Sony.

Sony BMG recorded sales revenue of \$1,507 million, income before income taxes of \$35 million, and net income of \$21 million. Income before income taxes includes \$168 million of restructuring charges. As a result, equity in net income of ¥1.1 billion (\$11 million) was recorded by Sony.

## **Cash Flow**

*The following charts show Sony's unaudited condensed statements of cash flow on a consolidated basis for all segments excluding the Financial Services segment and for the Financial Services segment alone. These separate condensed presentations are not required under U.S. GAAP, which is used in Sony's consolidated financial statements. However, because the Financial Services segment is different in nature from Sony's other segments, Sony believes that these presentations may be useful in understanding and analyzing Sony's consolidated financial statements.*

### **Cash Flow - Consolidated (excluding Financial Services segment)**

(Billions of yen, millions of U.S. dollars)

#### **Nine months ended December 31**

Cash flow	2003	2004	Change in Yen	2004
- From operating activities	¥191.6	<b>¥230.8</b>	¥ +39.2	<b>\$2,240</b>
- From investing activities	(268.7)	<b>(414.7)</b>	-146.0	<b>(4,026)</b>
- From financing activities	319.9	<b>(35.4)</b>	-355.3	<b>(343)</b>
Cash and cash equivalents at beginning of the fiscal year	438.5	<b>592.9</b>	+154.4	<b>5,756</b>
Cash and cash equivalents as of December 31	636.5	<b>378.1</b>	-258.4	<b>3,671</b>

**Operating Activities:** During the nine months ended December 31, 2004, although there was a significant increase in notes and accounts receivable, trade within the Electronics segment associated with the year-end sales season, an increase in notes and accounts payable, trade, in addition to net income, excluding depreciation and amortization, recorded primarily in the Electronics and Pictures segments, resulted in operating activities generating more cash than was used.

**Investing Activities:** During the nine months ended December 31, 2004, Sony made significant capital investments in semiconductors, particularly the advanced microprocessor "Cell," as well as investments associated with the amorphous TFT LCD panel manufacturing joint venture (S-LCD Corporation) established with Samsung Electronics Co., Ltd.

As a result, the total amount of cash flow from operating activities and from investing activities was a use of cash of ¥183.9 billion (\$1,785 million).

**Financing Activities:** During the nine months ended December 31, 2004, financing was carried out primarily through the issuance of commercial paper. Sony also redeemed a portion of its long-term debt.

**Cash and Cash Equivalents:** In addition to the aforementioned information, the total balance of cash and cash equivalents, accounting for the effect of foreign currency exchange rate fluctuations, was ¥378.1 billion (\$3,671 million) as of December 31, 2004, a decrease of ¥214.8 billion compared to March 31, 2004 and a decrease of ¥258.4 billion compared to December 31, 2003.

## Cash Flow - Financial Services segment

(Billions of yen, millions of U.S. dollars)

### Nine months ended December 31

Cash flow	2003	2004	Change in Yen	2004
- From operating activities	¥204.5	¥114.5	¥-90.0	\$1,111
- From investing activities	(333.7)	(455.2)	-121.6	(4,420)
- From financing activities	115.8	281.7	+165.8	2,735
Cash and cash equivalents at beginning of the fiscal year	274.5	256.3	-18.2	2,489
Cash and cash equivalents as of December 31	261.2	197.2	-64.0	1,915

**Operating Activities:** Operating activities generated more cash than was used due to an increase in income from insurance premiums and other, reflecting primarily an increase in insurance-in-force at Sony Life.

**Investing Activities:** Payments for investments and advances exceeded proceeds from sales of securities investments, maturities of marketable securities and collections of advances primarily as a result of the fact that in addition to the carrying out of investment in mainly Japanese fixed income securities primarily as a result of an increase in income from insurance premiums at Sony Life, a housing loan campaign and investment in securities was carried out at Sony Bank as a result of increased customer deposits.

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

**Cash and Cash Equivalents:** As a result of the above, the balance of cash and cash equivalents was ¥197.2 billion (\$1,915 million) as of December 31, 2004, which was a decrease of ¥59.1 billion compared to March 31, 2004, and a decrease of ¥64.0 billion compared to December 31, 2003.

## Notes

**Note I:** During the third quarter ended December 31, 2004, the average value of the yen was ¥105.0 against the U.S. dollar and ¥135.6 against the euro, which was 2.8% higher against the U.S. dollar and 5.7% lower against the euro, compared with the average rates for the same quarter of the previous fiscal year. Operating results on a local currency basis described herein reflect sales and operating income obtained by applying the yen's average exchange rate in the same quarter of the previous fiscal year to local currency-denominated monthly sales, cost of sales, and selling, general and administrative expenses in the quarter. Local currency basis results are not reflected in Sony's financial statements and are not measures conforming with U.S. GAAP. In addition, Sony does not believe that these measures are a substitute for U.S. GAAP measures. However, Sony believes that local currency basis results provide additional useful analytical information to investors regarding operating performance.

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

**Note III:** In the third quarter ended December 31, 2004, Sony adopted Emerging Issues Task Force ("EITF") Issue No. 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share." As a result of adopting EITF Issue No. 04-8, diluted earnings per share of net income for the three months ended December 31, 2003 have been restated (see Note 9 on page F-10 regarding EITF Issue No. 04-8).



## Outlook for the Fiscal Year ending March 31, 2005

As announced on January 20, 2005, Sony's forecast for consolidated operating results for the fiscal year ending March 31, 2005 has been revised as per the table below:

	<u>Current Forecast</u>	<u>Change from previous year</u>	<u>October Forecast</u>
Sales and operating revenue	¥7,150 billion	-5%	¥7,350 billion
Operating income	110 billion	+11	160 billion
Income before income taxes	140 billion	-3	170 billion
Net income	150 billion	+69	110 billion

Assumed foreign currency exchange rates for the fourth quarter ending March 31, 2005: approximately ¥103 to the U.S. dollar, and approximately ¥136 to the Euro.

The above revised forecast is primarily a result of the following reasons:

1. Sales and operating income are lower than the previous forecast as a result of changes in the business and competitive environment within Electronics.
2. During the third quarter ended December 31, 2004, as a result of the reversal of valuation allowances against deferred tax assets of ¥67.9 billion (\$659 million) by Sony's U.S. subsidiaries, there was a reduction in income tax expense, leading to an increase in the forecast for net income (please refer to the discussion regarding effective tax rates on page 2).

Further to the aforementioned reasons, the revision to the forecast for income before income taxes also reflects an increase in foreign exchange gains.

In addition, the forecast for operating income also includes restructuring charges, as operating expenses, of approximately ¥100 billion (a reduction of ¥10 billion in restructuring charges since the October forecast), and the forecast for net income incorporates approximately ¥24 billion in equity in net income of affiliated companies.

### Primary Reasons for the Downward Revision to the Forecast for Sales and Operating Income

- As a result of a greater than anticipated deterioration in unit selling prices of several products in Electronics including televisions, DVD recorders and video cameras, profitability is below Sony's previously announced forecasts.
- Due to a decrease in demand, in particular from external customers, sales and profit for semiconductors and components are below Sony's expectations.
- Sales and profit for portable audio products are also anticipated to fall short of Sony's estimates as a result of changes in the competitive environment.
- With regard to sales revenue on a regional basis, in Japan, sales, in particular those of DVD recorders, portable audio products and "VAIO" PCs are lower than anticipated. In Europe, sales of portable audio products and video cameras, in particular, are below Sony's expectations.

Our forecast for capital expenditures, depreciation and amortization or research and development costs is as per the table below:

	<u>Forecast</u>	<u>Change from previous year</u>
Capital expenditures (additions to fixed assets)	¥370 billion	-2%
Depreciation and amortization*	370 billion	+1
( Depreciation expenses for tangible assets	290 billion	+1 )
* Including amortization of intangible assets and amortization of deferred insurance acquisition costs.		
Research and development expenses	550 billion	+7

We have downwardly revised by ¥40 billion our forecast, as of October 28, 2004, for capital expenditures. This reduction in capital expenditures is focused mainly within our semiconductor business. There has been no change to our forecast as of October 28, 2004 for depreciation and amortization or research and development costs.

As of December 31, 2004, Sony had deferred tax assets in relation to Japanese local income taxes totaling ¥89.1 billion. However, there is a possibility that, depending on future operating performance, Sony may establish a valuation allowance against part or all of its deferred tax assets that would be charged to income as an increase in tax expense.

However, it should be noted that the forecast above does not include the possibility of the establishment of a valuation allowance against deferred tax assets in Japan.

For your reference, further details about valuation allowances against deferred tax assets can be found under the “Deferred tax asset valuation” section of “Critical Accounting Policies” in Item 5. *Operating and Financial Review and Prospects* of Sony Corporation’s Form 20-F for the fiscal year ended March 31, 2004.

URL: <http://www.sec.gov/Archives/edgar/data/313838/000114554904000801/0001145549-04-000801-index.htm>

### **Cautionary Statement**

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

### **Investor Relations Contacts:**

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Tokyo  
Yukio Ozawa  
+81-(0)3-5448-2180

New York  
Takeshi Sudo/ Justin Hill  
+1-212-833-6722

London  
Chris Hohman/Shinji Tomita  
+44-(0)20-7444-9713

Home Page: <http://www.sony.net/IR/>

## Business Segment Information (Unaudited)

(Millions of yen, millions of U.S. dollars)

Sales and operating revenue	Three months ended December 31			2004
	2003	2004	Change	
Electronics				
Customers	¥ 1,479,622	¥ 1,438,682	-2.8%	\$ 13,968
Intersegment	44,775	72,110		700
Total	1,524,397	1,510,792	-0.9	14,668
Game				
Customers	356,212	273,599	-23.2	2,656
Intersegment	10,739	9,022		88
Total	366,951	282,621	-23.0	2,744
Music				
Customers	130,670	46,317	-64.6	450
Intersegment	10,441	10,030		97
Total	141,111	56,347	-60.1	547
Pictures				
Customers	181,227	203,097	+12.1	1,972
Intersegment	0	0		0
Total	181,227	203,097	+12.1	1,972
Financial Services				
Customers	130,319	139,479	+7.0	1,354
Intersegment	7,023	5,483		53
Total	137,342	144,962	+5.5	1,407
Other				
Customers	45,351	47,011	+3.7	456
Intersegment	26,488	17,183		167
Total	71,839	64,194	-10.6	623
Elimination	(99,466)	(113,828)	—	(1,105)
Consolidated total	¥ 2,323,401	¥ 2,148,185	-7.5%	\$ 20,856

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

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

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

Operating income (loss)	2003	2004	Change	2004
Electronics	¥ 64,419	¥ 49,381	-23.3%	\$ 479
Game	70,519	44,574	-36.8	433
Music	16,086	11,964	-25.6	116
Pictures	5,613	18,646	+232.2	181
Financial Services	12,666	13,904	+9.8	135
Other	(2,939)	2,500	—	24
Total	166,364	140,969	-15.3	1,368
Unallocated corporate expenses and elimination	(7,592)	(2,796)	—	(27)
Consolidated total	¥ 158,772	¥ 138,173	-13.0%	\$ 1,341

Commencing April 1, 2004, Sony has partly realigned its business segment configuration. Results of the previous year have been reclassified to conform to the presentations for the current quarter (See Notes 5 and 6, page F-9).

Sales and operating revenue	(Millions of yen, millions of U.S. dollars)			
	2003	Nine months ended December 31 2004	Change	2004
Electronics				
Customers	¥ 3,714,850	¥ 3,724,772	+0.3%	\$ 36,163
Intersegment	180,060	124,519		1,209
Total	3,894,910	3,849,291	-1.2	37,372
Game				
Customers	632,296	488,534	-22.7	4,743
Intersegment	21,187	19,097		185
Total	653,483	507,631	-22.3	4,928
Music				
Customers	308,779	185,631	-39.9	1,802
Intersegment	26,482	24,257		236
Total	335,261	209,888	-37.4	2,038
Pictures				
Customers	519,768	543,030	+4.5	5,272
Intersegment	0	0		0
Total	519,768	543,030	+4.5	5,272
Financial Services				
Customers	421,073	386,828	-8.1	3,756
Intersegment	20,330	17,620		171
Total	441,403	404,448	-8.4	3,927
Other				
Customers	127,434	133,800	+5.0	1,299
Intersegment	70,892	51,428		499
Total	198,326	185,228	-6.6	1,798
Elimination	(318,951)	(236,921)	—	(2,300)
Consolidated total	¥ 5,724,200	¥ 5,462,595	-4.6%	\$ 53,035

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

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

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

Operating income (loss)	2003	2004	Change	2004
Electronics	¥ 122,433	¥ 65,123	-46.8%	\$ 632
Game	74,464	41,682	-44.0	405
Music	3,129	11,412	+264.7	111
Pictures	(1,404)	50,165	—	487
Financial Services	37,969	39,188	+3.2	380
Other	(5,548)	97	—	1
Total	231,043	207,667	-10.1	2,016
Unallocated corporate expenses and elimination	(22,385)	(16,335)	—	(158)
Consolidated total	¥ 208,658	¥ 191,332	-8.3%	\$ 1,858

Commencing April 1, 2004, Sony has partly realigned its business segment configuration. Results of the previous year have been reclassified to conform to the presentations for the current quarter (See Notes 5 and 6, page F-9).

## Electronics Sales and Operating Revenue to Customers by Product Category

(Millions of yen, millions of U.S. dollars)

Sales and operating revenue	Three months ended December 31			
	2003	2004	Change	2004
Audio	¥ 219,602	¥ 183,977	-16.2%	\$ 1,786
Video	310,655	329,743	+6.1	3,201
Televisions	306,386	318,441	+3.9	3,092
Information and Communications	231,454	218,056	-5.8	2,117
Semiconductors	69,460	53,755	-22.6	522
Components	169,857	164,746	-3.0	1,600
Other	172,208	169,964	-1.3	1,650
Total	¥ 1,479,622	¥ 1,438,682	-2.8%	\$ 13,968

Sales and operating revenue	Nine months ended December 31			
	2003	2004	Change	2004
Audio	¥ 543,381	¥ 465,388	-14.4%	\$ 4,518
Video	751,746	826,824	+10.0	8,027
Televisions	710,244	734,483	+3.4	7,131
Information and Communications	625,941	573,811	-8.3	5,571
Semiconductors	187,074	195,657	+4.6	1,900
Components	464,335	476,837	+2.7	4,630
Other	432,129	451,772	+4.5	4,386
Total	¥ 3,714,850	¥ 3,724,772	+0.3%	\$ 36,163

The above table is a breakdown of Electronics sales and operating revenue to customers in the Business Segment Information on pages F-1 and F-2. The Electronics segment is managed as a single operating segment by Sony's management. However, Sony believes that the information in this table is useful to investors in understanding the product categories in this business segment. In addition, commencing April 1, 2004, Sony has partly realigned its product category configuration in the Electronics segment. Accordingly, results of the previous year have been restated. (See Note 7, page F-9)

## Geographic Segment Information (Unaudited)

(Millions of yen, millions of U.S. dollars)

Sales and operating revenue	Three months ended December 31			
	2003	2004	Change	2004
Japan	¥ 622,930	¥ 597,586	-4.1%	\$ 5,802
United States	650,658	645,831	-0.7	6,270
Europe	633,889	508,984	-19.7	4,942
Other Areas	415,924	395,784	-4.8	3,842
Total	¥ 2,323,401	¥ 2,148,185	-7.5%	\$ 20,856

Sales and operating revenue	Nine months ended December 31			
	2003	2004	Change	2004
Japan	¥ 1,670,787	¥ 1,572,982	-5.9%	\$ 15,272
United States	1,628,381	1,521,797	-6.5	14,775
Europe	1,358,097	1,244,587	-8.4	12,083
Other Areas	1,066,935	1,123,229	+5.3	10,905
Total	¥ 5,724,200	¥ 5,462,595	-4.6%	\$ 53,035

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

## Consolidated Statements of Income (Unaudited)

(Millions of yen, millions of U.S. dollars, except per share amounts)

	<b>Three months ended December 31</b>			
	2003	2004	Change	2004
<b>Sales and operating revenue:</b>			%	
Net sales	¥ 2,180,714	¥ 1,996,676		\$ 19,385
Financial service revenue	130,319	139,479		1,354
Other operating revenue	12,368	12,030		117
	<u>2,323,401</u>	<u>2,148,185</u>	-7.5	<u>20,856</u>
<b>Costs and expenses:</b>				
Cost of sales	1,551,627	1,489,359		14,460
Selling, general and administrative	485,073	393,269		3,818
Financial service expenses	117,665	125,609		1,220
Loss on sale, disposal or impairment of assets, net	10,264	1,775		17
	<u>2,164,629</u>	<u>2,010,012</u>		<u>19,515</u>
<b>Operating income</b>	158,772	138,173	-13.0	1,341
<b>Other income:</b>				
Interest and dividends	3,337	2,427		24
Royalty income	5,671	4,898		48
Foreign exchange gain, net	9,278	5,381		52
Gain on sale of securities investments, net	350	3,425		33
Gain on change in interest in subsidiary and equity investee	919	1,612		16
Other	6,154	5,924		57
	<u>25,709</u>	<u>23,667</u>		<u>230</u>
<b>Other expenses:</b>				
Interest	7,196	7,265		70
Loss on devaluation of securities investments	10,911	106		1
Other	8,564	5,244		51
	<u>26,671</u>	<u>12,615</u>		<u>122</u>
<b>Income before income taxes</b>	157,810	149,225	-5.4	1,449
Income taxes	67,587	7,017		68
<b>Income before minority interest and equity in net income of affiliated companies</b>	90,223	142,208	+57.6	1,381
Minority interest in income of consolidated subsidiaries	656	728		7
Equity in net income of affiliated companies	3,052	2,334		22
<b>Net income</b>	<u>¥ 92,619</u>	<u>¥ 143,814</u>	+55.3	<u>\$ 1,396</u>
<b>Per share data:</b>				
Common stock				
Net income				
— Basic	¥ 100.16	¥ 155.32	+55.1	\$ 1.51
— Diluted	92.51	138.08	+49.3	1.34
Subsidiary tracking stock				
Net income (loss)				
— Basic	(10.71)	27.29	—	0.26

(Millions of yen, millions of U.S. dollars, except per share amounts)

	Nine months ended December 31			
	2003	2004	Change	
<b>Sales and operating revenue:</b>			%	
Net sales	¥ 5,267,642	¥ 5,035,823		\$ 48,891
Financial service revenue	421,073	386,828		3,756
Other operating revenue	35,485	39,944		388
	<u>5,724,200</u>	<u>5,462,595</u>	-4.6	<u>53,035</u>
<b>Costs and expenses:</b>				
Cost of sales	3,819,905	3,776,754		36,667
Selling, general and administrative	1,302,861	1,131,889		10,989
Financial service expenses	379,165	348,119		3,380
Loss on sale, disposal or impairment of assets, net	13,611	14,501		141
	<u>5,515,542</u>	<u>5,271,263</u>		<u>51,177</u>
<b>Operating income</b>	208,658	191,332	-8.3	1,858
<b>Other income:</b>				
Interest and dividends	13,368	10,517		102
Royalty income	23,855	22,017		214
Foreign exchange gain, net	10,471	—		—
Gain on sale of securities investments, net	11,746	5,451		53
Gain on change in interest in subsidiary and equity investee	919	15,107		147
Other	26,448	18,607		180
	<u>86,807</u>	<u>71,699</u>		<u>696</u>
<b>Other expenses:</b>				
Interest	20,670	21,823		212
Loss on devaluation of securities investments	12,550	2,419		24
Foreign exchange loss, net	—	553		5
Other	24,605	19,136		186
	<u>57,825</u>	<u>43,931</u>		<u>427</u>
<b>Income before income taxes</b>	237,640	219,100	-7.8	2,127
Income taxes	103,272	21,378		207
<b>Income before minority interest, equity in net income (loss) of affiliated companies and cumulative effect of an accounting change</b>	134,368	197,722	+47.1	1,920
Minority interest in income of consolidated subsidiaries	1,822	1,300		13
Equity in net income (loss) of affiliated companies	(3,763)	28,579		277
<b>Income before cumulative effect of an accounting change</b>	128,783	225,001	+74.7	2,184
Cumulative effect of an accounting change (2003: Net of income taxes of ¥0 million) (2004: Net of income taxes of ¥2,675 million)	(2,117)	(4,713)		(45)
<b>Net income</b>	<u>¥ 126,666</u>	<u>¥ 220,288</u>	+73.9	<u>\$ 2,139</u>
<b>Per share data:</b>				
Common stock				
Income before cumulative effect of an accounting change				
— Basic	¥ 139.56	¥ 243.04	+74.1	\$ 2.36
— Diluted	130.19	216.87	+66.6	2.11
Net income				
— Basic	137.27	237.95	+73.3	2.31
— Diluted	128.08	212.36	+65.8	2.06
Subsidiary tracking stock				
Net income (loss)				
— Basic	(28.67)	45.41	—	0.44

## Consolidated Balance Sheets (Unaudited)

	(Millions of yen, millions of U.S. dollars)			
ASSETS	December 31 2003	March 31 2004	December 31 2004	December 31 2004
Current assets:				
Cash and cash equivalents	¥ 897,691	¥ 849,211	¥ 575,341	\$ 5,586
Time deposits	7,611	4,662	2,485	24
Marketable securities	273,261	274,748	540,177	5,244
Notes and accounts receivable, trade	1,496,804	1,123,863	1,383,540	13,432
Allowance for doubtful accounts and sales returns	(118,125)	(112,674)	(97,979)	(951)
Inventories	712,737	666,507	653,790	6,347
Deferred income taxes	122,579	125,532	121,938	1,184
Prepaid expenses and other current assets	480,276	431,506	489,047	4,749
	3,872,834	3,363,355	3,668,339	35,615
Film costs	269,183	256,740	263,157	2,555
Investments and advances:				
Affiliated companies	85,364	86,253	262,287	2,546
Securities investments and other	2,230,022	2,426,697	2,501,026	24,282
	2,315,386	2,512,950	2,763,313	26,828
Property, plant and equipment:				
Land	193,278	189,785	182,133	1,768
Buildings	950,656	930,983	912,906	8,863
Machinery and equipment	2,073,346	2,053,085	2,102,492	20,413
Construction in progress	92,273	98,480	141,645	1,375
Less—Accumulated depreciation	(1,945,638)	(1,907,289)	(1,978,404)	(19,208)
	1,363,915	1,365,044	1,360,772	13,211
Other assets:				
Intangibles, net	250,856	248,010	209,385	2,033
Goodwill	284,911	277,870	270,645	2,628
Deferred insurance acquisition costs	344,835	349,194	373,288	3,624
Deferred income taxes	265,356	203,203	224,694	2,181
Other	425,136	514,296	465,869	4,524
	1,571,094	1,592,573	1,543,881	14,990
	¥ 9,392,412	¥ 9,090,662	¥ 9,599,462	\$ 93,199
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
Current liabilities:				
Short-term borrowings	¥ 228,625	¥ 91,260	¥ 207,504	\$ 2,014
Current portion of long-term debt	89,925	383,757	450,305	4,372
Notes and accounts payable, trade	916,594	778,773	848,643	8,239
Accounts payable, other and accrued expenses	868,899	812,175	771,552	7,491
Accrued income and other taxes	115,633	57,913	79,282	770
Deposits from customers in the banking business	358,611	378,851	512,800	4,979
Other	392,509	479,486	408,991	3,971
	2,970,796	2,982,215	3,279,077	31,836
Long-term liabilities:				
Long-term debt	1,070,503	777,649	637,063	6,185
Accrued pension and severance costs	535,021	368,382	328,562	3,190
Deferred income taxes	99,185	96,193	66,949	650
Future insurance policy benefits and other	2,111,994	2,178,626	2,383,749	23,143
Other	244,565	286,737	242,628	2,356
	4,061,268	3,707,587	3,658,951	35,524
Minority interest in consolidated subsidiaries	18,493	22,858	24,140	234
Stockholders' equity:				
Capital stock	480,263	480,267	480,348	4,664
Additional paid-in capital	993,138	992,817	992,556	9,636
Retained earnings	1,416,786	1,367,060	1,575,526	15,296
Accumulated other comprehensive income	(540,503)	(449,959)	(405,232)	(3,934)
Treasury stock, at cost	(7,829)	(12,183)	(5,904)	(57)
	2,341,855	2,378,002	2,637,294	25,605
	¥ 9,392,412	¥ 9,090,662	¥ 9,599,462	\$ 93,199



## Consolidated Statements of Cash Flows (Unaudited)

(Millions of yen, millions of U.S. dollars)

Nine months ended December 31

	2003	2004	2004
Cash flows from operating activities:			
Net income	¥ 126,666	¥ 220,288	\$ 2,139
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization, including amortization of deferred insurance acquisition costs	266,930	268,740	2,609
Amortization of film costs	209,035	206,925	2,009
Accrual for pension and severance costs, less payments	42,936	14,475	141
Loss on sale, disposal or impairment of assets, net	13,611	14,501	141
Gain on sales of securities investments, net	(11,746)	(5,451)	(53)
Gain on change in interest in subsidiary and equity investee	(919)	(15,107)	(147)
Deferred income taxes	7,591	(57,349)	(557)
Equity in net (gain) loss of affiliated companies, net of dividends	5,070	(27,851)	(270)
Cumulative effect of an accounting change	2,117	4,713	45
Changes in assets and liabilities:			
Increase in notes and accounts receivable, trade	(423,890)	(288,539)	(2,801)
(Increase) decrease in inventories	(109,843)	5,099	50
Increase in film costs	(212,481)	(217,185)	(2,108)
Increase in notes and accounts payable, trade	229,608	77,125	749
Increase in accrued income and other taxes	7,295	23,073	224
Increase in future insurance policy benefits and other	197,584	100,665	977
Increase in deferred insurance acquisition costs	(53,118)	(48,882)	(475)
(Increase) decrease in marketable securities held in the financial service business for trading purpose	369	(23,138)	(225)
Increase in other current assets	(82,315)	(59,213)	(575)
Increase in other current liabilities	95,610	96,528	937
Other	76,336	49,428	480
Net cash provided by operating activities	<u>386,446</u>	<u>338,845</u>	<u>3,290</u>
Cash flows from investing activities:			
Payments for purchases of fixed assets	(306,204)	(345,073)	(3,350)
Proceeds from sales of fixed assets	31,672	27,504	267
Payments for investments and advances by financial service business	(899,450)	(998,760)	(9,697)
Payments for investments and advances (other than financial service business)	(31,997)	(143,382)	(1,392)
Proceeds from maturities of marketable securities, sales of securities investments and collections of advances by financial service business	584,602	573,218	5,565
Proceeds from maturities of marketable securities, sales of securities investments and collections of advances (other than financial service business)	26,933	22,534	219
Other	(718)	4,871	47
Net cash used in investing activities	<u>(595,162)</u>	<u>(859,088)</u>	<u>(8,341)</u>
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	258,776	10,286	100
Payments of long-term debt	(23,866)	(86,516)	(840)
Increase in short-term borrowings	109,497	64,356	625
Increase in deposits from customers in the financial service business	109,316	222,735	2,162
Dividends paid	(23,189)	(23,049)	(224)
Other	7,705	54,080	525
Net cash provided by financing activities	<u>438,239</u>	<u>241,892</u>	<u>2,348</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(44,890)</u>	<u>4,481</u>	<u>44</u>
Net increase (decrease) in cash and cash equivalents	184,633	(273,870)	(2,659)
Cash and cash equivalents at beginning of the fiscal year	713,058	849,211	8,245
Cash and cash equivalents at December 31	<u>¥ 897,691</u>	<u>¥ 575,341</u>	<u>\$ 5,586</u>

(Notes)

1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥103 = U.S. \$1, the approximate Tokyo foreign exchange market rate as of December 30, 2004.
2. As of December 31, 2004, Sony had 909 consolidated subsidiaries (including variable interest entities). It has applied the equity accounting method in respect to 59 affiliated companies.
3. Sony calculates and presents per share data separately for Sony's common stock and for the subsidiary tracking stock which is linked to the economic value of Sony Communication Network Corporation, based on Statement of Financial Accounting Standards ("FAS" ) No.128, "Earnings per Share". The holders of the tracking stock have the right to participate in earnings, together with common stock holders. Accordingly, Sony calculates per share data by the "two-class" method based on FAS No.128. Under this method, basic net income per share for each class of stock is calculated based on the earnings allocated to each class of stock for the applicable period, divided by the weighted-average number of outstanding shares in each class during the applicable period. The earnings allocated to the subsidiary tracking stock are determined based on the subsidiary tracking stockholders' economic interest in the targeted subsidiary's earnings available for dividends or change in accumulated losses that do not include those of the targeted subsidiary's subsidiaries. The earnings allocated to common stock are calculated by subtracting the earnings allocated to the subsidiary tracking stock from Sony's net income for the period. Weighted-average shares used for computation of earnings per share of common stock are as follows. The dilutive effect in the weighted-average shares for the three months and nine months ended December 31, 2003 and 2004 mainly resulted from convertible bonds.

Weighted-average shares

	(Thousands of shares)	
	<b>Three months ended December 31</b>	
	<u>2003</u>	<u>2004</u>
Net income		
— Basic	925,086	925,368
— Diluted	1,007,639	1,045,178

Weighted-average shares

	(Thousands of shares)	
	<b>Nine months ended December 31</b>	
	<u>2003</u>	<u>2004</u>
Income before cumulative effect of an accounting change and net income		
— Basic	923,387	925,183
— Diluted	1,002,877	1,045,037

By adopting the Emerging Issues Task Force ("EITF") Issue No. 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share", issued in July 2004, diluted earnings per share of income before cumulative effect of an accounting change for the nine months ended December 31, 2003, net income for the three months and nine months ended December 31, 2003 have been restated (see Note 9. Adoption of New Accounting Standards).

Weighted-average shares used for computation of earnings per share of the subsidiary tracking stock for the three months and nine months ended December 31, 2003 and 2004 are 3,072 thousand shares. There were no potentially dilutive securities or options granted for earnings per share of the subsidiary tracking stock.

4. Sony's comprehensive income is comprised of net income and other comprehensive income. Other comprehensive income includes changes in unrealized gains or losses on securities, unrealized gains or losses on derivative instruments, minimum pension liabilities adjustments and foreign currency translation adjustments. Net income, other comprehensive income and comprehensive income for the three months and nine months ended December 31, 2003 and 2004 were as follows:

	(Millions of yen, millions of U.S. dollars)					
	<b>Three months ended December 31</b>			<b>Nine months ended December 31</b>		
	2003	2004	2004	2003	2004	2004
Net income	¥ 92,619	¥ 143,814	\$ 1,396	¥ 126,666	¥ 220,288	\$ 2,139
Other comprehensive income (loss):						
Unrealized gains (losses) on securities	1,026	(1,779)	(17)	30,907	(14,293)	(139)
Unrealized gains (losses) on derivative instruments	(3,303)	2,532	25	2,891	119	1
Minimum pension liabilities adjustments	788	7,582	74	(2,196)	28,535	277
Foreign currency translation adjustments	(22,004)	(56,100)	(545)	(100,129)	30,366	295
	(23,493)	(47,765)	(463)	(68,527)	44,727	434
Comprehensive income	¥ 69,126	¥ 96,049	\$ 933	¥ 58,139	¥ 265,015	\$ 2,573

5. As of August 1, 2004, Sony and Bertelsmann AG combined their recorded music businesses in a joint venture. In connection with the establishment of this joint venture, the non-Japan based disc manufacturing and physical distribution businesses, formerly included within the Music segment, have been reclassified to “Other” category in the Electronics segment. Results for the same period of the previous year in the Electronics and Music segments have been restated to conform to the presentation for this year.
6. In July 2004, in order to establish a more efficient and coordinated semiconductor supply structure, the Sony group has integrated its semiconductor manufacturing business by transferring Sony Computer Entertainment’s semiconductor manufacturing operation from the Game segment to the Electronics segment. As a result of this transfer, sales revenue and expenditures associated with this operation are now recorded within the “Semiconductor” category in the Electronics segment. The results for the same period of the previous fiscal year have not been restated as such comparable figures cannot be practically obtained given that it was not operated as a separate line of business within the Game segment. This integration of the semiconductor manufacturing businesses is a part of Sony’s semiconductor strategy of utilizing semiconductor technologies and manufacturing equipment originally developed or designed for the Game business within the Sony group as a whole.
7. Commencing April 1, 2004, Sony has partly realigned its product category configuration in the Electronics segment. Accordingly, results of the previous year have been reclassified. The primary changes are as follows:
- | <u>Main Product</u> | <u>Previous Product Category</u> |    | <u>New Product Category</u>         |
|---------------------|----------------------------------|----|-------------------------------------|
| AIWA                | “Other”                          | -> | “Audio” or “Video” or “Televisions” |
| Set-top box         | “Video”                          | -> | “Televisions”                       |
8. In January 2003, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation (“FIN”) No.46, “Consolidation of Variable Interest Entities – an Interpretation of Accounting Research Bulletins (“ARB”) No.51”, and the revised FIN No.46 was issued in December 2003. This interpretation addresses consolidation by a primary beneficiary of a variable interest entity (“VIE”). FIN No.46 is effective immediately for all new VIEs created or acquired after January 31, 2003. Sony has not entered into any new arrangements with VIEs on or after February 1, 2003. For VIEs created or acquired prior to February 1, 2003, Sony adopted FIN No.46 on July 1, 2003. As a result of the adoption of FIN No.46, Sony recognized ¥2,117 million of loss as the cumulative effect of an accounting change. Additionally, Sony’s assets and liabilities increased as non-cash transactions, which resulted in no cash flows, by ¥95,255 million and ¥97,950 million, respectively, as well as cash and cash equivalents of ¥1,521 million.

## 9. Adoption of New Accounting Standards

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

In July 2003, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts". SOP 03-1 requires insurance enterprises to record additional reserves for long-duration life insurance contracts with minimum guarantee or annuity receivable options. Additionally, SOP 03-1 provides guidance for the presentation of separate accounts. This statement is effective for fiscal years beginning after December 15, 2003. Sony adopted SOP 03-1 on April 1, 2004. As a result of the adoption of SOP 03-1, Sony's operating income decreased by ¥344 million (\$3 million) and ¥3,561 million (\$35 million) for the three months and nine months ended December 31, 2004, respectively. Additionally, on April 1, 2004, Sony recognized ¥4,713 million (\$45 million) of loss (net of income taxes of ¥2,675 million) as a cumulative effect of an accounting change. In addition, the separate account assets, which are defined by insurance business law in Japan and were previously included in "Security investments and other" on the consolidated balance sheet, were excluded from the category of separate accounts under the provision of SOP 03-1. Accordingly, the separate account assets are now treated as general accounts and included in "Marketable securities" on the consolidated balance sheet.

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

In July 2004, the EITF issued EITF Issue No. 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share". In accordance with FAS No.128, Sony had not included in the computation of diluted earnings per share ("EPS") the number of potential common stock upon the conversion of contingently convertible debt instruments ("Co-Cos") that have 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 rights have been met. EITF Issue No. 04-8 is effective for reporting periods ending after December 15, 2004. Sony adopted EITF Issue No. 04-8 during the quarter ended December 31, 2004. As a result of the adoption of EITF Issue No. 04-8, Sony's diluted EPS of income before cumulative effect of an accounting change for the nine months ended December 31, 2003, and net income for the three months and nine months ended December 31, 2003 have been restated. Sony's diluted EPS of income before cumulative effect of an accounting change for the nine months ended December 31, 2004, net income for the three months and nine months ended December 31, 2004 were decreased by ¥9.67 (\$0.09), ¥6.16 (\$0.06) and ¥9.47 (\$0.09), respectively, compared to those before adopting EITF Issue No. 04-8.

## Other Consolidated Financial Data

	(Millions of yen, millions of U.S. dollars)			
	<b>Three months ended December 31</b>			
	2003	2004	Change	2004
Capital expenditures (additions to property, plant and equipment)	¥ 97,649	¥ <b>78,700</b>	-19.4%	\$ <b>764</b>
Depreciation and amortization expenses*	95,229	<b>92,036</b>	-3.4	<b>894</b>
(Depreciation expenses for tangible assets)	(74,670)	<b>(75,594)</b>	(+1.2)	<b>(734)</b>
Research and development expenses	123,760	<b>119,430</b>	-3.5	<b>1,160</b>
	<b>Nine months ended December 31</b>			
	2003	2004	Change	2004
Capital expenditures (additions to property, plant and equipment)	¥ 268,682	¥ <b>256,822</b>	-4.4%	\$ <b>2,493</b>
Depreciation and amortization expenses*	266,930	<b>268,740</b>	+0.7	<b>2,609</b>
(Depreciation expenses for tangible assets)	(210,426)	<b>(217,080)</b>	(+3.2)	<b>(2,108)</b>
Research and development expenses	374,115	<b>370,030</b>	-1.1	<b>3,593</b>

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

## Condensed Financial Services Financial Statements (Unaudited)

The results of the Financial Services segment are included in Sony's consolidated financial statements. The following schedules show unaudited condensed financial statements for the Financial Services segment and all other segments excluding Financial Services. These presentations are not required under U.S. GAAP, which is used in Sony's consolidated financial statements. However, because the Financial Services segment is different in nature from Sony's other segments, Sony believes that a comparative presentation may be useful in understanding and analyzing Sony's consolidated financial statements.

Transactions between the Financial Services segment and Sony without Financial Services are eliminated in the consolidated figures shown below.

### Condensed Statements of Income

<b>Financial Services</b>	(Millions of yen, millions of U.S. dollars)			
	2003	<b>Three months ended December 31</b>		2004
		2004	Change	
			%	
Financial service revenue	¥ 137,342	¥ 144,962	+5.5	\$ 1,407
Financial service expenses	124,676	131,058	+5.1	1,272
<b>Operating income</b>	12,666	13,904	+9.8	135
Other income (expenses), net	2,137	861	-59.7	8
<b>Income before income taxes</b>	14,803	14,765	-0.3	143
Income taxes and other	6,006	5,399	-10.1	52
<b>Net income</b>	¥ 8,797	¥ 9,366	+6.5	\$ 91

<b>Sony without Financial Services</b>	(Millions of yen, millions of U.S. dollars)			
	2003	<b>Three months ended December 31</b>		2004
		2004	Change	
			%	
Net sales and operating revenue	¥ 2,195,686	¥ 2,012,140	-8.4	\$ 19,535
Costs and expenses	2,049,716	1,888,195	-7.9	18,332
<b>Operating income</b>	145,970	123,945	-15.1	1,203
Other income (expenses), net	(2,963)	10,516	—	102
<b>Income before income taxes</b>	143,007	134,461	-6.0	1,305
Income taxes and other	59,426	13	-100.0	0
<b>Net income</b>	¥ 83,581	¥ 134,448	+60.9	\$ 1,305

<b>Consolidated</b>	(Millions of yen, millions of U.S. dollars)			
	2003	<b>Three months ended December 31</b>		2004
		2004	Change	
			%	
Financial service revenue	¥ 130,319	¥ 139,479	+7.0	\$ 1,354
Net sales and operating revenue	2,193,082	2,008,706	-8.4	19,502
	2,323,401	2,148,185	-7.5	20,856
Costs and expenses	2,164,629	2,010,012	-7.1	19,515
<b>Operating income</b>	158,772	138,173	-13.0	1,341
Other income (expenses), net	(962)	11,052	—	108
<b>Income before income taxes</b>	157,810	149,225	-5.4	1,449
Income taxes and other	65,191	5,411	-91.7	53
<b>Net income</b>	¥ 92,619	¥ 143,814	+55.3	\$ 1,396

(Millions of yen, millions of U.S. dollars)

**Condensed Statements of Income****Financial Services**

	2003	Nine months ended December 31		2004
		2004	Change	
			%	
Financial service revenue	¥ 441,403	¥ 404,448	-8.4	\$ 3,927
Financial service expenses	403,434	365,260	-9.5	3,547
<b>Operating income</b>	37,969	39,188	+3.2	380
Other income (expenses), net	2,049	9,754	+376.0	95
<b>Income before income taxes</b>	40,018	48,942	+22.3	475
Income taxes and other	15,872	18,857	+18.8	184
<b>Income before cumulative effect of an accounting change</b>	24,146	30,085	+24.6	291
Cumulative effect of an accounting change	—	(4,713)	—	(45)
<b>Net income</b>	¥ 24,146	¥ 25,372	+5.1	\$ 246

(Millions of yen, millions of U.S. dollars)

**Sony without Financial Services**

	2003	Nine months ended December 31		2004
		2004	Change	
			%	
Net sales and operating revenue	¥ 5,309,512	¥ 5,083,519	-4.3	\$ 49,355
Costs and expenses	5,138,694	4,931,856	-4.0	47,883
<b>Operating income</b>	170,818	151,663	-11.2	1,472
Other income (expenses), net	36,196	24,995	-30.9	243
<b>Income before income taxes</b>	207,014	176,658	-14.7	1,715
Income taxes and other	93,336	(24,758)	—	(240)
<b>Income before cumulative effect of an accounting change</b>	113,678	201,416	+77.2	1,955
Cumulative effect of an accounting change	(2,117)	—	—	—
<b>Net income</b>	¥ 111,561	¥ 201,416	+80.5	\$ 1,955

(Millions of yen, millions of U.S. dollars)

**Consolidated**

	2003	Nine months ended December 31		2004
		2004	Change	
			%	
Financial service revenue	¥ 421,073	¥ 386,828	-8.1	\$ 3,756
Net sales and operating revenue	5,303,127	5,075,767	-4.3	49,279
Costs and expenses	5,724,200	5,462,595	-4.6	53,035
<b>Operating income</b>	208,658	191,332	-8.3	1,858
Other income (expenses), net	28,982	27,768	-4.2	269
<b>Income before income taxes</b>	237,640	219,100	-7.8	2,127
Income taxes and other	108,857	(5,901)	—	(57)
<b>Income before cumulative effect of an accounting change</b>	128,783	225,001	+74.7	2,184
Cumulative effect of an accounting change	(2,117)	(4,713)	—	(45)
<b>Net income</b>	¥ 126,666	¥ 220,288	+73.9	\$ 2,139

## Condensed Balance Sheets

		(Millions of yen, millions of U.S. dollars)						
		December 31 2003	March 31 2004	December 31 2004	December 31 2004			
<b>Financial Services</b>								
<b>ASSETS</b>								
Current assets:								
Cash and cash equivalents	¥	261,222	¥	256,316	¥	197,245	\$	1,915
Marketable securities		268,944		270,676		536,099		5,205
Notes and accounts receivable, trade		84,141		72,273		77,462		752
Other		113,840		100,433		130,348		1,265
		<u>728,147</u>		<u>699,698</u>		<u>941,154</u>		<u>9,137</u>
Investments and advances		2,067,251		2,274,510		2,383,676		23,142
Property, plant and equipment		40,503		40,833		38,686		376
Other assets:								
Deferred insurance acquisition costs		344,835		349,194		373,288		3,624
Other		108,514		110,804		103,539		1,006
		<u>453,349</u>		<u>459,998</u>		<u>476,827</u>		<u>4,630</u>
	¥	<u>3,289,250</u>	¥	<u>3,475,039</u>	¥	<u>3,840,343</u>	\$	<u>37,285</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>								
Current liabilities:								
Short-term borrowings	¥	79,010	¥	86,748	¥	141,777	\$	1,376
Notes and accounts payable, trade		9,759		7,847		8,747		85
Deposits from customers in the banking business		358,611		378,851		512,800		4,979
Other		104,441		175,357		108,416		1,053
		<u>551,821</u>		<u>648,803</u>		<u>771,740</u>		<u>7,493</u>
Long-term liabilities:								
Long-term debt		139,184		135,811		136,472		1,325
Accrued pension and severance costs		10,064		10,183		11,518		112
Future insurance policy benefits and other		2,111,994		2,178,626		2,383,749		23,143
Other		120,033		126,349		135,749		1,318
		<u>2,381,275</u>		<u>2,450,969</u>		<u>2,667,488</u>		<u>25,898</u>
Minority interest in consolidated subsidiaries		—		—		5,560		54
Stockholders' equity		356,154		375,267		395,555		3,840
	¥	<u>3,289,250</u>	¥	<u>3,475,039</u>	¥	<u>3,840,343</u>	\$	<u>37,285</u>
<b>Sony without Financial Services</b>								
<b>ASSETS</b>								
Current assets:								
Cash and cash equivalents	¥	636,469	¥	592,895	¥	378,096	\$	3,671
Marketable securities		4,317		4,072		4,078		39
Notes and accounts receivable, trade		1,298,808		943,590		1,212,422		11,771
Other		1,245,792		1,151,879		1,156,326		11,227
		<u>3,185,386</u>		<u>2,692,436</u>		<u>2,750,922</u>		<u>26,708</u>
Film costs		269,183		256,740		263,157		2,555
Investments and advances		368,341		358,629		504,131		4,894
Investments in Financial Services, at cost		176,905		176,905		187,400		1,819
Property, plant and equipment		1,323,412		1,324,211		1,322,086		12,835
Other assets		1,227,008		1,251,901		1,183,216		11,489
	¥	<u>6,550,235</u>	¥	<u>6,060,822</u>	¥	<u>6,210,912</u>	\$	<u>60,300</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>								
Current liabilities:								
Short-term borrowings	¥	276,798	¥	409,766	¥	537,924	\$	5,223
Notes and accounts payable, trade		910,052		773,221		842,852		8,183
Other		1,284,782		1,190,563		1,160,417		11,266
		<u>2,471,632</u>		<u>2,373,550</u>		<u>2,541,193</u>		<u>24,672</u>
Long-term liabilities:								
Long-term debt		1,066,067		775,233		630,981		6,126
Accrued pension and severance costs		524,957		358,199		317,044		3,078
Other		304,079		348,946		273,839		2,659
		<u>1,895,103</u>		<u>1,482,378</u>		<u>1,221,864</u>		<u>11,863</u>
Minority interest in consolidated subsidiaries		13,014		17,554		18,680		181
Stockholders' equity		2,170,486		2,187,340		2,429,175		23,584
	¥	<u>6,550,235</u>	¥	<u>6,060,822</u>	¥	<u>6,210,912</u>	\$	<u>60,300</u>

<b>Consolidated</b>		(Millions of yen, millions of U.S. dollars)			
		December 31 2003	March 31 2004	<b>December 31 2004</b>	<b>December 31 2004</b>
<b>ASSETS</b>					
Current assets:					
	Cash and cash equivalents	¥ 897,691	¥ 849,211	¥ 575,341	\$ 5,586
	Marketable securities	273,261	274,748	540,177	5,244
	Notes and accounts receivable, trade	1,378,679	1,011,189	1,285,561	12,481
	Other	<u>1,323,203</u>	<u>1,228,207</u>	<u>1,267,260</u>	<u>12,304</u>
		3,872,834	3,363,355	3,668,339	35,615
	Film costs	269,183	256,740	263,157	2,555
	Investments and advances	2,315,386	2,512,950	2,763,313	26,828
	Property, plant and equipment	1,363,915	1,365,044	1,360,772	13,211
Other assets:					
	Deferred insurance acquisition costs	344,835	349,194	373,288	3,624
	Other	<u>1,226,259</u>	<u>1,243,379</u>	<u>1,170,593</u>	<u>11,366</u>
		<u>1,571,094</u>	<u>1,592,573</u>	<u>1,543,881</u>	<u>14,990</u>
		<u>¥ 9,392,412</u>	<u>¥ 9,090,662</u>	<u>¥ 9,599,462</u>	<u>\$ 93,199</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Current liabilities:					
	Short-term borrowings	¥ 318,550	¥ 475,017	¥ 657,809	\$ 6,386
	Notes and accounts payable, trade	916,594	778,773	848,643	8,239
	Deposits from customers in the banking business	358,611	378,851	512,800	4,979
	Other	<u>1,377,041</u>	<u>1,349,574</u>	<u>1,259,825</u>	<u>12,232</u>
		2,970,796	2,982,215	3,279,077	31,836
Long-term liabilities:					
	Long-term debt	1,070,503	777,649	637,063	6,185
	Accrued pension and severance costs	535,021	368,382	328,562	3,190
	Future insurance policy benefits and other	2,111,994	2,178,626	2,383,749	23,143
	Other	<u>343,750</u>	<u>382,930</u>	<u>309,577</u>	<u>3,006</u>
		4,061,268	3,707,587	3,658,951	35,524
	Minority interest in consolidated subsidiaries	18,493	22,858	24,140	234
	Stockholders' equity	<u>2,341,855</u>	<u>2,378,002</u>	<u>2,637,294</u>	<u>25,605</u>
		<u>¥ 9,392,412</u>	<u>¥ 9,090,662</u>	<u>¥ 9,599,462</u>	<u>\$ 93,199</u>



**Condensed Statements of Cash Flows**  
**Financial Services**

(Millions of yen, millions of U.S. dollars)

**Nine months ended December 31**

	2003	2004	2004
Net cash provided by operating activities	¥ 204,485	¥ 114,487	\$ 1,111
Net cash used in investing activities	(333,650)	(455,219)	(4,420)
Net cash provided by financing activities	115,844	281,661	2,735
Net decrease in cash and cash equivalents	(13,321)	(59,071)	(574)
Cash and cash equivalents at beginning of the fiscal year	274,543	256,316	2,489
Cash and cash equivalents at December 31	¥ 261,222	¥ 197,245	\$ 1,915

(Millions of yen, millions of U.S. dollars)

**Nine months ended December 31**

**Sony without Financial Services**

	2003	2004	2004
Net cash provided by operating activities	¥ 191,620	¥ 230,785	\$ 2,240
Net cash used in investing activities	(268,699)	(414,690)	(4,026)
Net cash provided by (used in) financing activities	319,923	(35,375)	(343)
Effect of exchange rate changes on cash and cash equivalents	(44,890)	4,481	44
Net increase (decrease) in cash and cash equivalents	197,954	(214,799)	(2,085)
Cash and cash equivalents at beginning of the fiscal year	438,515	592,895	5,756
Cash and cash equivalents at December 31	¥ 636,469	¥ 378,096	\$ 3,671

(Millions of yen, millions of U.S. dollars)

**Nine months ended December 31**

**Consolidated**

	2003	2004	2004
Net cash provided by operating activities	¥ 386,446	¥ 338,845	\$ 3,290
Net cash used in investing activities	(595,162)	(859,088)	(8,341)
Net cash provided by financing activities	438,239	241,892	2,348
Effect of exchange rate changes on cash and cash equivalents	(44,890)	4,481	44
Net increase (decrease) in cash and cash equivalents	184,633	(273,870)	(2,659)
Cash and cash equivalents at beginning of the fiscal year	713,058	849,211	8,245
Cash and cash equivalents at December 31	¥ 897,691	¥ 575,341	\$ 5,586