SONY CORP
Form 6-K
September 11, 2006

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
FORM 6-K
REPORT OF FOREIGN PRIVATE ISSUER
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934
For the month of September 2006
Commission File Number: 001-06439
SONY CORPORATION
(Translation of registrant s name into English)
7-35 KITASHINAGAWA 6-CHOME, SHINAGAWA-KU, TOKYO, JAPAN
(Address of principal executive offices)
The registrant files annual reports under cover of Form 20-F.

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F,
Form 20-F þ Form 40-F o

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934,
Yes o No þ

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82-________

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SIGNATURE

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

SONY CORPORATION
(Registrant)

By: /s/ Nobuyuki Oneda

(Signature)
Nobuyuki Oneda

Corporate Executive Officer,
Executive Vice President and Chief
Financial Officer

Date: September 11, 2006

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List of materials
Document attached hereto:
1. Annual Report 2006 for the Fiscal Year Ended March 31, 2006

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Cautionary Statement

Statements made in this annual report with respect to Sony s current plans, estimates, strategies and beliefs and other statements that are not historical facts are forward-looking statements about the future performance of Sony. Forward-looking statements include, but are not limited to, those statements using words such as believe, expect, plans, strategy, prospects, forecast, estimate, project, anticipate, aim, may or might and words of 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, as well as achieve sufficient cost reductions for, 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 and Pictures segments, and music business); (iv) Sony s ability to recoup large-scale investment required for technology development, increasing production capacity and by the Game segment for the development and introduction of a new platform; (v) Sony s ability to implement successfully personnel reduction and other business reorganization activities in its Electronics segment; (vi) Sony s ability to implement successfully its network strategy for its Electronics, Game and Pictures segments, All Other and the music business, and to develop and implement successful sales and distribution strategies in its Pictures segment and music business in light of the Internet and other technological developments; (vii) 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); (viii) shifts in customer demand for financial services such as life insurance and Sony s ability to conduct successful Asset Liability Management in the Financial Services segment; and (ix) the success of Sony s joint ventures and alliances. Risks and uncertainties also include the impact of any future events with material unforeseen impacts.

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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
	2004	2005	**2006**	2006/2005	**2006**
FOR THE YEAR					
Sales and operating revenue	¥ 7,496,391	¥ 7,159,616	**¥ 7,475,436**	+ 4.4%	**$ 63,893**
Operating income	98,902	113,919	**191,255**	+67.9	**1,635**
Income before income taxes	144,067	157,207	**286,329**	+82.1	**2,447**
Income taxes	52,774	16,044	**176,515**	+1,000.2	**1,508**
Equity in net income of affiliated companies	1,714	29,039	**13,176**	-54.6	**113**
Net income	88,511	163,838	**123,616**	-24.5	**1,057**
Cash flows from operating activities	632,635	646,997	**399,858**	-38.2	**3,418**
Cash flows from investing activities	(761,792)	(931,172)	**(871,264)**		**(7,447)**
Per share data: (Yen, dollars)					
Net income					
Basic	¥ 95.97	¥ 175.90	**¥ 122.58**	-30.3%	**$ 1.05**
Diluted	87.00	158.07	**116.88**	-26.1	**1.00**
Cash dividends	25.00	25.00	**25.00**		**0.21**
AT YEAR-END					
Stockholders equity	¥ 2,378,002	¥ 2,870,338	**¥ 3,203,852**	+ 11.6%	**$ 27,383**
Total assets	9,090,662	9,499,100	**10,607,753**	+ 11.7	**90,665**
Number of employees	162,000	151,400	**158,500**	+ 4.7%	

*U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥117=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2006.

Please refer to page 80 for detailed footnotes to the table above.

In the year ended March 31, 2006, consolidated sales and operating revenue rose 4.4% from the previous year, to ¥7,475.4 billion. This result was largely attributable to increases in the Game and Financial Services businesses.

Operating income increased 67.9%, to ¥191.3 billion, primarily due to an improvement in gains and losses on investments at Sony Life Insurance Co., Ltd., accounted for in the Financial Services business. The increase in operating income included a one-time net gain of ¥73.5 billion resulting from the transfer to the Japanese government of the substitutional portion of Sony s Employee Pension Fund. Restructuring charges, recorded as operating expenses, amounted to ¥138.7 billion, compared with ¥90.0 billion in the previous period.

Income before income taxes climbed 82.1%, to ¥286.3 billion, reflecting a gain on a change in interest in subsidiaries and equity investees.

The effective tax rate was 61.6%, exceeding the Japanese statutory rate, primarily as a consequence of the recording of additional valuation allowance against deferred tax assets by Sony Corporation and certain of its subsidiaries in Japan and overseas, and the recording of an additional tax provision for the undistributed earnings of overseas subsidiaries.

Equity in net income of affiliated companies declined 54.6%, to ¥13.2 billion. This reflected the impact in the previous period of proceeds recorded by equity-method affiliate InterTrust Technologies Corporation from a patent-related settlement.

As a result of the above factors, net income decreased 24.5% from the previous period, to ¥123.6 billion.

Sales and operating revenue and operating income

Net income and ROE

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To our Shareholders
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Just over a year ago, I was asked to assume the role of CEO of Sony. While truly honored by this opportunity, my experience in running Sony s North American operations over the prior eight years gave me an acute sense of the challenges that lay ahead for revitalizing Sony on a global basis. The world in which we operate has been undergoing rapid and seismic changes creating both opportunities and threats for us at the same time. I knew that staying ahead of this curve would require us to provide truly differentiated products and services to the market. To do this, we would not only have to improve our organizational structure, resource allocation and focus, but, as importantly, we would need to reinvigorate the Sony founders spirit for the digital age. I have always been proud to work for this great company but believe as I am certain many of you do that Sony could do even better. With this in mind, I accepted the opportunity along with my partner, President and Electronics CEO, Ryoji Chubachi to rejuvenate Sony.

Soon after the new management team s formation in 2005, we established a global cross-company team tasked with diagnosing Sony s key issues and challenges and providing workable solutions. Our team had frank and honest discussions with a broad range of our key stakeholders including customers, dealers, vendors, shareholders and employees (who submitted more than 2,000 smart ideas about how to fix our company). Those discussions, along with an extensive business review, led us to conclude that Sony s collection of assets is truly unique but that the combination of challenging market conditions and self-imposed structural issues was hindering our ability to compete effectively. Sony is a company with great traditions, and I intend to look after those that make us unique and valuable. At the same time, however, we must be prepared to abandon those traditions that had undoubtedly contributed to our structural and competitive challenges. Sony needed a revitalization plan that would allow us to become a simpler, yet more highly focused, customer-driven organization.

In September 2005, we announced our mid-term corporate strategy, outlining a revitalization plan that achieved a distinct balance between restructuring initiatives designed to reduce costs, and strategic growth initiatives designed to foster continued innovation. A key component of the plan was a new organizational structure that would break down internal barriers, encourage communication across all of our businesses and enable these initiatives to succeed. In its simplest form, this new plan attempts to achieve three key objectives: (i) eliminate silos; (ii) sharpen our focus; and (iii) create unique and sustainable competitive advantages.

As part of our new plan, Sony made firm commitments to the financial community regarding cost savings initiatives and also identified certain areas that we believed would be key to our future growth such as high definition (HD), software development, digital content and Cell technology, among others. We outlined our key financial target of reaching a consolidated operating profit margin of five percent (before restructuring and one-time charges) by the year ending March 31, 2008, and made a commitment to enhance the transparency around tracking our new plan so that the financial

Exchanging views with employees

community would have a clearer understanding of our progress.

I am pleased to report that the financial, operational, and structural commitments and targets we made to the financial community are on track with the original plan. Yet while our initial efforts have resulted in placing Sony on more sound footing for recovery, still, we have much more work to do. The year ending March 31, 2007 will be a pivotal year for Sony. Not only will we be continuing to execute our restructuring initiatives but we will also be introducing exciting new products, such as PLAYSTATION®3, and technology formats, such as the Blu-ray Disc (which is supported by numerous partners), to the market. In addition, we will focus on growth strategy initiatives which are expected to deliver near-term results and, at the same time, better position Sony for the medium-to-long term.

Now in its 60th year, Sony has entered a period of reemergence. We have taken steps to foster greater unity within the Sony Group. We are revitalizing our Electronics business while continuing to further strengthen our Game and Entertainment businesses. Our Financial Services division continues to deliver strong and consistent results. By bringing groundbreaking electronics together with the content that brings it to life, we are in a unique position to develop revolutionary products and services that excite a new generation of consumers and truly set us apart from our competitors.

When Sony began its business in Japan as Tokyo Tsushin Kogyo (Tokyo Telecommunications Engineering), Sony s founders, Masaru Ibuka and Akio Morita, created a company valuing a persistent pursuit of uniqueness as well as a sense of unity and teamwork. As Sony expanded, it never failed to focus on innovation in pursuit of new ideas and markets even in the face of tremendous challenges. From my travels to more than 20 Sony sites around the world since becoming CEO, I can assure you that our founders spirit is alive, thriving and resonating throughout our company today. I have been deeply touched by our employees
passion for reinvigorating our company. I can assure you that it is a passion that Sony s new management team shares. We have a sense of urgency and a sense of purpose. We can and will compete, vigorously, as Sony United, one company working together to be a leader in each of the areas on which we focus.

In this year s annual report, we take a look at the Sony Group s mid-term strategies, recent financial and operating results, and key operating company highlights. I hope you will find the report informative and that it will provide a glimpse of our path to Sony s promising future.

April 26, 2006

Howard Stringer
Chairman and CEO
Representative Corporate Executive Officer

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New Management s Mid-Term Corporate Strategy

Background

In June 2005, Sony formally established a new management team led by Howard Stringer (Chairman and CEO) and Ryoji Chubachi (President and Electronics CEO). Over its first 100 days, new management conducted an extensive business review, which concluded that Sony maintained a strong and diversified corporate portfolio but was facing certain market-based and self-imposed structural challenges that were affecting the company s ability to compete effectively. New management identified Sony s key challenges as:

- Eliminating the silo organizational structure;
- Strategically focusing our overly broad range of product offerings that dilute internal resources;
- Enhancing limited product interoperability;
- Strengthening software and service development; and
- Divesting non-strategic assets that divert management s focus.

These findings led to the development of a comprehensive revitalization plan that was publicly presented in both Tokyo and New York in September 2005. 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. From a financial perspective, the plan targeted a consolidated operating profit margin of five percent (before restructuring and one-time charges) for the year ending March 31, 2008.

The following is a summary of the key components of the revitalization plan upon which Sony s mid-term corporate strategy is being executed.

Organizational Structure

While Sony experienced tremendous growth over the past 60 years, its organizational structure had become fragmented, with limited integration and cooperation. Specifically, Sony suffered from a layered and cumbersome decision-making structure that led to inefficient resource allocation and significant redundancies.

In order to best execute our revitalization plan, fundamental organizational changes were required. As such, we created a new, more streamlined structure that abolished the Network Company system within Electronics in favor of a more centralized Electronics Business Group. As a result, key decision making and key functional areas such as product planning, technology, procurement, manufacturing, and sales and marketing have been consolidated under the Electronics CEO. This significant structural change was designed to eliminate the business silos that had prevented us from focusing resources on our most competitive champion products and to foster a more coordinated, efficient and rapid decision-making process. In addition, the new structure would enable us to prioritize R&D, and optimally maximize our resources for growth.

Path to Profitability Restructuring Initiatives

In tandem with implementing a new organizational structure, we committed to achieving:

- ¥200.0 billion in cost reductions (80 percent to be achieved by the year ending March 31, 2007; the remainder to be achieved by the year ending March 31, 2008):
  - 11 out of 65 manufacturing sites to be closed or consolidated;
  - 20 percent reduction in product model count; and
  - 10,000 person head-count reduction
- ¥120.0 billion in proceeds from non-strategic asset sales (e.g., real estate and minority equity stakes).

Of the ¥200.0 billion in cost reductions, ¥130.0 billion would come from streamlining business operations, reducing our product model count, consolidating our manufacturing sites and enacting action plans for 15 selected business categories. The additional ¥70.0 billion in cost reductions would be derived from organizational structure changes resulting in reduced headquarters and indirect overhead expenses.

Estimated charges for these structural reforms, originally expected to be approximately ¥210.0 billion but since revised to approximately ¥190.0 billion, are expected to be fully recouped by the year ending March 31, 2009.

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We also committed to significantly increasing the transparency around plan execution by giving quarterly updates to the financial community.

Strengthening Sony s Electronics Business

Strengthening Sony s Electronics business is our top priority given the significant impact a turnaround would have on our consolidated performance. Our key focus will be working to establish market-leading positions in such areas as televisions, digital imaging, video recorders and portable audio. This will be executed in tandem with efforts to strengthen Sony s semiconductor and key component businesses.

In particular, our efforts will concentrate on turning around Sony s television business by rationalizing manufacturing sites, increasing the ratio of internally sourced components and centralizing engineering functions. We target the television business to reach profitability in the second half of the year ending March 31, 2007.

Growth Initiatives

In addition to organizational and restructuring initiatives, broad-based growth initiatives are also an integral component of our plan.

Electronics

Our primary goal is to make the HD World a major integrated profit pillar. Sony is uniquely positioned to benefit from the transition to HD and already has an established range of broadcast and consumer hardware products, as well as content assets, that lead the industry in HD digitization. Blu-ray Disc the highest capacity, next-generation optical disc format, supported by leading companies in every key industry will also be a driver of Sony s HD business. In the year ending March 31, 2007, Sony will launch a range of Blu-Ray Disc-related products and HD content.

Other key Electronics growth focus areas include:

- Semiconductors for games and imaging, and key components for developing innovative technologies for system LSIs for home and mobile products and next-generation displays, as well as Blu-ray Disc-related devices;
- Continued enhancement of CCD and CMOS image sensors;
- Further development and evolution of organic light-emitting diode (OLED) displays through the establishment of the Display Device Development Group; and
- Strengthening software development to assure interoperability and superior user interfaces through the establishment of the Technology Development Group.

Game

Our top priority in the Game business is the successful introduction of PLAYSTATION®3, an event that will galvanize and strengthen all of Sony and further grow the market for next-generation computer entertainment, realized through the combination of Cell and RSX® processors. PSP® (PlayStation®Portable), which has become the fastest-selling platform in Sony Computer Entertainment s history, with 17.0 million units shipped as of March 31, 2006, will solidify its market position by building upon many of its existing functions, including WiFi LocationFree connectivity, and adding new features such as a camera and GPS receiver. Although we will continue to extensively rely on the broad-based ecosystem of content developers, we will also work to reinforce our game development strength and create new entertainment experiences under the initiative of SCE Worldwide Studios.

Entertainment

The advent of new media, such as UMD® and Blu-ray Disc, will provide enhanced platforms on which to leverage Sony Pictures Entertainment digital content assets and strengthen ties to other Sony business groups. At SONY BMG MUSIC ENTERTAINMENT, the positive effects of the joint venture will continue to be harnessed to strengthen the company s position, and the company will continue to pursue its successful digital distribution strategy. Sony Music Entertainment (Japan) continues to be extremely well positioned especially with its market-leading digital music business for future growth.

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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.

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 for his contribution to the broadcast industry. He became Chairman and CEO of Sony Corporation in June of 2005.

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Other

Other noteworthy growth initiatives include:

- Development of unique products by Sony Ericsson Mobile Communications (e.g., Walkman® phones) that leverage Sony s electronics and entertainment assets;
- Continued strong performance from Sony Financial Holdings including Sony Life, Sony Assurance and Sony Bank with its initial public offering (IPO) being planned for the fiscal year ending March 31, 2008, or thereafter;
- Enhancement of Sony s position in the mobile entertainment arena by regaining a competitive position in portable audio and assuming a leadership position in the burgeoning portable video market; and
- Development of Cell-based technology, products and applications through the establishment of the Cell Development Center.

Interim Progress Update

As of the year ended March 31, 2006, we are pleased to report we accomplished the following aspects of our structural reform initiatives:

- Established a new, streamlined organizational structure;
- Achieved ¥38.0 billion in cost reductions, including:
  - Nine manufacturing sites marked for closure or consolidation; and
  - 5,700 person head-count reduction
- Achieved ¥78.0 billion in proceeds from non-strategic asset sales (including the successful IPO of Sony Communication Network and the sale of a portion of Sony s interest in Monex Beans Holdings); and
- Established a clear and concise tracking system for investors (disclosed on a quarterly basis).

In addition, action plans have already been implemented for nine of 15 selected business categories, including plasma televisions, QUALIA products and entertainment robots.

For the year ended March 31, 2006, the Sony Group generated a consolidated operating profit margin of 3.4 percent (before restructuring and one-time charges), achieved in part through the positive contribution from Electronics, primarily due to the execution of our revitalization plan for the television business and the success of our BRAVIA LCD televisions.

Conclusion

We believe our extensive plan, with a mix of restructuring and growth initiatives, along with significant organizational changes, addresses those issues deemed most critical to revitalizing Sony, and we are intently focused on delivering upon the commitments and targets of this plan. As of the year ended March 31, 2006, our financial, operational, and structural commitments and targets are on track with our original plan. Still, within this highly dynamic and competitive environment, this revitalization plan does not end our capacity for change; rather, it begins it.

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The Revitalization of Electronics

An Interview with
Ryoji Chubachi,
Electronics CEO

Sony s resurgence depends on the electronics business recapturing its previous luster. Accordingly, we must focus on reinforcing product appeal, technological strength and operational power.

In these pages, Electronics CEO Ryoji Chubachi responds to questions about the tasks ahead for Sony as it revitalizes its electronics business. He also elaborates on the progress of structural reforms, measures to revive the television business and other efforts during the past year, as well as Sony s future direction.

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What important tasks face you in revitalizing Sony s electronics business?

It is crucial for us to reinforce product appeal, technological strength and operational power. Since I became Electronics CEO in April 2005, we have rigorously pursued three corporate initiatives designed to address these tasks and implemented a reorganization with the aim of strengthening the Sony Group s performance.

The first corporate initiative, the Customer Viewpoint Initiative, seeks to effect a change in mindset by encouraging our employees to view their work from the customer s perspective. A lack of sufficient consideration for the customer s perspective was one of the key factors behind the decline in product appeal in the first place. The second is the Technology No. 1 Initiative, which focuses on reinforcing our differentiated technologies in the areas targeted for the concentrated investment of resources, including televisions, home video equipment, digital imaging equipment and Walkman®. The third is the *Genba* Initiative, which aims to strengthen frontline operations (*genba* in Japanese), that is, our design locations, manufacturing facilities and sales offices.

The aim of our reorganization was to maximize the collective capabilities of the Sony Group from both the customer and Group perspective. Given the intensely competitive nature of the digital era, we sought to facilitate efficient, swift, responsive management by eliminating our internal Network Company system and adopting a new system based on business groups that clearly identifies key areas of focus. At the same time, we strengthened horizontal corporate functions. Specifically, while I, as Electronics CEO, have direct control over all business groups, we appointed four corporate executive officers including myself to oversee the coordination of product, technology, production, sales and procurement strategies. This new structure is designed to avoid the constraints of product-based and organizational silos, which have hindered the development and efficient delivery of attractive products.

Sony s Mid-Term Corporate Strategy approaches structural reform as an urgent task. What progress have you made so far?

Reforms are proceeding in line with the plan we presented at the September 2005 Corporate Strategy Meeting, which targets ¥200.0 billion in cost reductions by the end of the fiscal year ending March 31, 2008. In the period under review, we succeeded in reducing costs by ¥38.0 billion.

Our first step was to narrow the focus of the Electronics business. Following up on a comprehensive review based on profitability,
growth potential and relevance to our strategic direction, we announced that we had selected 15 product categories and would enact plans to restructure each of these categories through such measures as alliances with other companies, disposals and down-sizing. While I can t give you all the details, I can say that we subsequently determined and implemented concrete action plans for nine categories, including plasma televisions, QUALIA products and entertainment robots. These action plans are expected to contribute approximately ¥50.0 billion in improved profit during the fiscal year ending March 31, 2007. We are also striving wherever possible to shift personnel especially engineers from these categories to growth businesses to ensure the effective use of human resources.

Another move will be to reduce our total number of manufacturing sites by 11 by the end of the fiscal year ending March 31, 2008. We have already completed rationalization of nine of these through consolidation or closure two in the United States (Pittsburgh and San Diego), one each in the United Kingdom (Bridgend) and China (Beijing) and three in Japan (Iwatsuki, Sakado and Iwane).

You have said that without a recovery in televisions, Sony s electronics business will not recover. What specific measures are you implementing to revive the television business?

In addition to strengthening the Group s overall performance, we must rebuild our television business. In the period under review, the business posted a loss, owing to intense pricing competition in the market for flat panel televisions.

We are currently concentrating management resources on LCD and LCD rear-projection televisions and implementing essential measures to improve profitability, including reassessing manufacturing facilities for CRT televisions and centralizing basic engineering functions. Our target is to make televisions profitable in the second half of the fiscal year ending March 31, 2007.

We have made a very good start in our bid to revive the television business. BRAVIA LCD televisions have maintained the top share of the U.S. market for LCD televisions since their launch in the period under review. I believe this is because our engineers and manufacturing and salespeople, finding themselves against the wall, actually joined forces. The LCD panel used in the BRAVIA (the Sony Panel) a seventh-generation amorphous silicon thin-film transistor (TFT) LCD panel that is particularly suited for large flat panel televisions is manufactured by S-LCD Corporation, a joint venture between Sony and Samsung Electronics Co., Ltd. With the market shifting indisputably toward large-screen models, sales of BRAVIA televisions particularly those with 32-inch and larger

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screens are brisk, allowing us to maximize the benefits of seventh-generation TFT LCD panels. Looking at the rapid market penetration of LCD televisions, we can expect demand to continue increasing going forward. Accordingly, we will strive to improve the profitability of LCD televisions by developing differentiated technologies and enhancing the efficiency of our engineering system.

In the area of rear-projection LCD TVs, we will take steps to lower manufacturing costs, including expanding procurement of principal parts to include suppliers in China. We will also enhance our product lineup by introducing models mounted with Sony s exclusive Silicon X-tal (crystal) Reflective Display (SXRD) device, which achieves outstanding resolution, contrast and responsiveness.

What can you tell us about the two growth strategies you have referred to as HD World and creating value through new product categories ?

Sony has an extensive range of highly respected broadcast- and consumer-use high-definition (HD) hardware. The Electronics Revitalization Plan s first strategy is to further expand our efforts to promote the transition to HD.

From our perspective, demand for HD products is brisk in the consumer market as well. This is illustrated by the popularity of products like the consumer-use HDR-HC1 Handycam® high-definition camcorder, introduced in 2005, sales of which have vastly exceeded our initial plan. Sony is a global leader in the HD arena and is thus well positioned to maximize its technological strengths. Against a background of rising demand for HD in the consumer electronics market, in 2006 we plan to launch our first Blu-ray Disc player in the United States. We also plan to introduce a VAIO PC with a Blu-ray Disc drive. We expect the Blu-ray Disc format will be a driver of growth for HD-related businesses. Sony is the only company positioned to offer both a broad selection of HD hardware and a large library of HD content. Our goal is thus to grow this HD-related business into a major profit pillar.

We also have high hopes for the growth of product categories that create new value as a result of added communications functions. To date, we have thrilled customers with exciting offerings like Trinitron color televisions as well as Walkman® and Handycam® products. These products share certain attributes, such as superb quality, attractive appearance, compact size and light weight, and have created value by inspiring an emotional response in customers.

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As we have seen from the popularity of taking and sending photos using mobile phones, there is a growing market for products that capitalize on advances in networking to inspire communication and enable people to share joy and excitement. Accordingly, we expect that increases in computing power will make it easier to add intelligent functions.

One aspect of our approach to date that demands critical reflection is that for many people our network-related products have perhaps been difficult to use when considering our customers lifestyles and environments. With the Internet now reaching into most homes, changing the way we communicate, we are capitalizing on advances in electronics technology to boldly introduce easy-to-use products that are uniquely Sony that is, they reflect our unparalleled electronics technologies and entertainment and service capabilities and are still a half step ahead of their time.

R&D will be essential in supporting Sony s growth strategies. Can you tell us a little about your current R&D policy?

Sony has always distinguished itself through its technologies. We have identified areas of concentration and will continue to strategically allocate resources to strengthen technologies and ensure a leading global position. To support the growth strategies that are uniquely Sony, it is crucial that we enhance our capabilities in semiconductors and key component devices, next-generation display devices and software all of which reflect an industry shift toward added value. Of course, we must also reinforce our R&D organization.

In the area of semiconductors and key component devices, CCD and CMOS image sensors, in which we are already highly competitive, will remain a key focus. We will continue also to strengthen development programs for Blu-ray Disc-related devices, such as blue-violet laser diodes, that are essential to the realization of HD World.

To promote the development of next-generation display devices, we established the Display Device Development Group. We will focus on self-luminous organic light-emitting diode (OLED) displays, which deliver high-speed response to moving images and excellent color reproduction and are attracting attention for use in next-generation thin displays. We have already announced an agreement with Idemitsu Kosan Co., Ltd., for the joint development of superior new electroluminescent materials, a move that is expected to accelerate the creation of advanced displays and further efforts to commercialize interesting new applications.

For software, we set up the Technology Development Group to ensure the effective utilization of global resources. The Group is charged with strengthening software development to ensure smoother user interfaces in all areas, including middleware,
application programs, codecs (coder/decoders) and digital rights management (DRM) software.

Reinforcing our R&D structure is not the only important consideration. It is also crucial that our intellectual property, business and R&D units cooperate to ensure our R&D accomplishments, as vital intellectual property, are properly protected and effectively utilized.

In closing, can you tell us about your resolve for revitalizing Electronics?

The first prerequisite to realizing Howard s Sony United mission is to ensure that the electronics business recaptures its previous luster. To me, revitalization means the reestablishment of a positive workplace environment, a place where people who are excited about what they do can work together to identify latent customer needs and develop, manufacture and deliver products that are a half step ahead of their time. In other words, revitalization will allow us to remain a technology-driven company capable of responding to the expectations of customers for products that embody the Sony essence. In the period under review, we launched several products that fit this description, including the BRAVIA line of LCD TVs so it was indeed a promising beginning to the revitalization of our electronics business.

At last September s Corporate Strategy Meeting, we announced a target for the Electronics business of a four percent operating income margin (before restructuring and one-time changes) for the fiscal year ending March 31, 2008. In the period under review, the business operating margin, while on track, was still only half that level, but I think that given Sony s proven capabilities it is an entirely realistic target. In addition to overall growth, achieving this target will demand difficult decisions, including the rationalization of our businesses, the reduction of administrative staff and the integration and closure of manufacturing sites. Sony s shareholders and other stakeholders seek reassurance that we are making steady progress with the plan we have outlined. I look forward to reporting solid results a year and two years into the plan results that will once again earn us the confidence of our stakeholders. Expect great things of Sony as we move forward.

April 26, 2006

Ryoji Chubachi
President and Electronics CEO
Representative Corporate Executive Officer

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The World of
High Definition,
Created by Sony
BRAVIA

High-Resolution,
Slim-Profile LCD Televisions
for the Flat Panel Era

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HD World

The World of High Definition, Created by Sony

There it is. A football stadium filled with excited fans. Looks of anticipation and apprehension etched into the players expressions. Scenes so real you are pulled in right among them. Thrill to the vivid, high-resolution images that unfold before your eyes thanks to Sony HD technology.

Sony s vast range of electronics products and content enables it to expand the realm of high definition from the movie and broadcasting business to television, games and other home entertainment, making it possible for people everywhere to experience the excitement of HD first-hand.

PROFESSIONAL USE

Broadcasting

The adoption of Sony HD cameras, video tape recorders and editing equipment by major broadcasters is helping to speed the adoption of HD broadcasting worldwide. Cumulative shipments of HDCAM recording devices now the standard for HD content creation since the format s launch in 1997 have surpassed 24,000 units* worldwide. In Japan, for example, they have already been installed by all of the country s terrestrial broadcasters. They are also being used in such high profile live sports broadcasts as the Super Bowl and the Masters Golf Tournament in the United States, and in mobile HD broadcasting units around the world, generating a large and appreciative audience for the crisp, evocative images yielded by HD filming and broadcasting.

In April 2006, we released the blue-violet laser-based XDCAM HD Professional Disc system, which is used for newsgathering.

Development of the HDC-3300 Super Motion Camera

Yutaka Yoshida
Production Camera Department,
Camera & Storage System Division,
B&P Business Group Sony
Corporation

Content creators are constantly looking for new ways to enhance the viewing experience. Our desire to accomplish that goal is what has driven development of the HDC-3300 Super Motion Camera, which achieves 3x speed slow motion effects in full HD resolution (scheduled launch: October 2006). High-speed processing of HD content, which contains 3x as much picture information, is technologically difficult, but the outstanding resolution achieved by the HDC-3300 Super Motion Camera means you can even see the stitching on a baseball in a pitcher s hand! Viewers of HD sports broadcasting will be able to enjoy a whole range of new footage.

I am really excited about the HDC-3300 Super Motion Camera and the technologies it uses: circuitry technology that facilitates outstanding, low-noise resolution, optical transmission technology that enables transmission without deterioration of image quality, and the advanced digital signal processing technology that reflects our accumulated expertise in broadcasting cameras. I look forward to this camera going on the market, in our continuing effort to meet the customer s expectations.

The logo for Full HD 1080 covers Sony consumer products that record, display or replay HD images at 1080 pixels (scanning lines) or more of vertical resolution. We plan to attach this logo to a wide variety of products in this category.

CBS, one of the four major U.S. networks, has already decided to adopt this system. As the industry continues to move toward high definition, we intend to play a major support role by supplying the HD equipment suited to our customers operating environments and needs.

* As of March 31, 2006 (includes HDCAM-SR and CineAlta)

Digital Cinema

In 1999, Sony took the lead in the industry by commercializing CineAlta, a 24-frame-per-second HD professional movie production system. CineAlta paved the way for vast improvements in movie production efficiency by shifting from tape to recording in digital HD on tape, making it possible to shoot and edit digitally and achieve the same superb image quality as film. The system has been adopted extensively, and is already credited with the production of more than 400 movies to date. Genesis®, a CineAlta camera jointly developed by Sony and Panavision Inc., achieves even greater image quality thanks to an image sensor equivalent in size to 35-millimeter film.

Movie theaters in the United States and other locales have also begun replacing their conventional film projection equipment with high-intensity, high-contrast projectors incorporating our proprietary 4K Silicon X-tal (crystal) Reflective Display (SXRD) device. These projectors not only make it possible to screen movies at an image quality approximately four times that of Full HD TV, but also enable the entire filming process to be performed digitally from shooting

Major Motion Pictures Created with CineAlta

Star Wars Episode III: Revenge of the Sith (Lucasfilm Ltd./Twentieth Century Fox)

Sin City (Troublemaker Studios)

Superman Returns (Warner Bros. Entertainment)

Click (Sony Pictures Entertainment Inc.)

4K-SXRD

Sony s 4K-SXRD is a display device for high-resolution projectors that achieves an 8.85-megapixel density (4096 x 2160 pixels) more than four times that of Full HD TV and a high contrast of 4,000:1. Sony was able to achieve such stunning resolution and clarity by optimizing the driving circuit in each pixel and by using a thin liquid crystal cell layer and crystal alignment control technologies.

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CONTENT

and editing to projection preventing image deterioration while simultaneously reducing film print costs and shortening lead times for distribution and screening. With the latest digital video technologies such as this, Sony will continue contributing to the revitalization of the movie business as well as providing dazzling viewing experiences.

HOME ENTERTAINMENT

Sony brings the HD experience to home entertainment through a diverse array of hardware. For example, our HD LCD and SXRD rear-projection televisions reproduce HD broadcasts with brilliant hues. Just attach a Blu-ray Disc player and 5.1-channel surround sound system to create a high-definition, high-fidelity home theater for a cinema experience within the home.

Sony Computer Entertainment also plans to incorporate our high-performance processor, Cell, and the RSX graphics processor, into PLAYSTATION®3 next-generation computer entertainment systems to enable enjoyment of next-generation computer entertainment content in the home.

Consumers can also pair our Handycam® HD camcorders, which feature our proprietary ClearVID CMOS Sensor, with our high-end VAIO PCs, which support HD imaging, enabling them to edit their own personal movies at full image quality.

Cell

Cell is a high-performance processor under joint development by the Sony Group, IBM Corporation and Toshiba Corporation since 2001. Built on a multicore architecture, Cell features eight independent floating-point computing cores and a Power-based processor, enabling it to attain supercomputer-level floating-point computing speeds.

The keys to creating the HD World are high-definition content and the media on which such content will be recorded, Blu-ray Disc.

The Blu-ray Disc format offers a storage capacity approximately five times that of DVD enough for more than three hours of HD-quality MPEG-2 video. This makes it possible to store, for example, a full-length movie, in addition to director s cuts, interactive and other bonus content on a single disc. Blu-ray Disc also incorporates a robust content protection mechanism that features superior data encoding.

More than 180 partner companies from the consumer electronics, IT, game, movie and music industries currently support Blu-ray Disc. Sony Pictures Entertainment Inc. (SPE), Metro Goldwyn Mayer Inc. (MGM), The Walt Disney Company, Warner Bros. Entertainment, Twentieth Century Fox, Lions Gate and Paramount Pictures will release titles on Blu-ray Disc, and they will be able to be experienced on PCs, consumer electronics products as well as PLAYSTATION®3.

Major SPE Blu-ray Disc Titles

Hitch
House of Flying Daggers
The Fifth Element
Ultraviolet
Underworld: Evolution (shown to the left)

Blu-ray Disc

Blu-ray Disc is a next-generation optical disc format developed for high-definition video and high-capacity software applications. A single-layer Blu-ray Disc will hold up to 25 gigabytes of data and a dual-layer Blu-ray Disc will hold up to 50 gigabytes of data. This greater storage capacity enables the Blu-ray Disc to store over five times the amount of content than is possible with current DVDs, and is particularly well-suited for high-definition feature films with extended levels of additional bonus and interactive material. Blu-ray also features the most advanced copy protection, backward compatibility with the current DVD format (meaning Blu-ray players will play existing DVDs), connectivity and advanced interactivity.

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BRAVIA

High-Resolution, Slim-Profile LCD Televisions for the Flat Panel Era

Today, a half-century since the advent of the first televisions, the market for these devices is going through a period of significant change, as technology moves from analog to digital and from cathode ray tube (CRT) to flat panel. In Japan, annual shipments of flat panel televisions have already surpassed those of CRT models, and the trend is spreading rapidly to the United States and Europe.

In response to market change, in 2005 Sony rose to the challenge with the brand-new BRAVIA* line of high-resolution, slim-profile LCD televisions.

* BRAVIA is an acronym for Best Resolution Audio Visual Integrated Architecture.

In developing the BRAVIA line of LCD televisions, we brought together our design, manufacturing and sales capabilities, incorporating newly developed Sony Panels and other technologies designed to achieve outstanding image quality and implementing a full-scale advertising program. As a consequence, BRAVIA won major acceptance, particularly in the United States, Japan and Europe, earning the top share of the global LCD television market in the October December 2005 quarter.*

The BRAVIA launch also greatly increased the share of our LCD television sales accounted for by large-screen models. LCD televisions with 32-inch or larger screen sizes accounted for approximately 50% of our LCD television sales in the second quarter of the fiscal year ended March 31, 2006, prior to the BRAVIA launch. This jumped to 70% in the subsequent quarter, following the launch.

We will strive to continue capturing the hearts of consumers with the high-quality BRAVIA line of televisions that are uniquely suited to the digital, flat panel era.

* Source: DisplaySearch

Manufacturing

BRAVIA LCD televisions feature the Sony Panel*, an advanced LCD panel that was developed by S-LCD, our joint venture with Samsung, which also manufactures the panels. These panels incorporate proprietary high-resolution technologies developed by Sony. In the past, when all LCD panels were procured externally, we faced the risk of being unable to secure the necessary volume of panels when needed. With S-LCD coming on line, we were assured of a stable supply of Sony Panels a key factor behind the successful roll-out of BRAVIA in the U.S., Japanese and

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European markets, which was accomplished in a very short period. Moreover, owing to S-LCD s swift adoption of seventh-generation amorphous TFT LCD panels, production of large-screen displays is highly efficient and cost effective. Sony Panels are mounted onto television chassis at Sony EMCS Corporation s Inazawa TEC, an LCD television plant in Japan, while assembly into finished products is conducted at Sony manufacturing facilities worldwide. Inazawa TEC is set up to control all stages of the manufacturing process, from parts procurement to production and distribution, an approach that has enhanced operating efficiency, lowered costs by increasing internal sourcing and ensured a flexible supply. To further raise productivity, preparations are under way for S-LCD to ship panels directly to manufacturing facilities in the United States and Europe.

* Excludes some models

S-LCD

S-LCD, our joint venture with Samsung, produces seventh-generation amorphous TFT LCD panels. In July 2006, monthly output capacity increased to 75,000 panels. Moreover, we have set a monthly output target of 90,000 panels for the start of 2007. S-LCD is also preparing to commence production of eighth-generation amorphous TFT LCDs in autumn 2007, positioning it in response to demand for LCD televisions with increasingly large screens.

Technology

Sony Panels manufactured by S-LCD possess such advanced features as horizontal and vertical viewing angles of 178 degrees, outstanding contrast and a fast response time. High-end BRAVIA televisions incorporate the Full-Spec High Vision Panel (1,920 x 1,080 pixels), enabling them to receive HD broadcasts without modification, allowing for smooth reproduction and extraordinarily detailed images.

The BRAVIA line of LCD televisions also makes use of other proprietary Sony technologies, such as the BRAVIA Engine*, a state-of-the-art digital processor, and the Live Color Creation backlight system*, which significantly boosts the range of colors reproduced. BRAVIA s beautiful picture reflects these superior panels, along with Sony s 35-plus years of experience in the development of high-quality imaging technologies for Trinitron color televisions.

* Excludes some models

Wide Viewing Angle

178-degree viewing angle from all directions

With the Sony Panel, each pixel contains two distinct sub-pixels, in contrast to conventional LCDs, which use single-segment pixels. The sub-pixels are manipulated independently, facilitating wide viewing angles.

Outstanding Contrast

Contrast ratio: 1,300:1 (based on Japan Electronics and Information Technology Industries Association [JEITA] standards)

The Sony Panel s technology greatly improves contrast, yielding deeper blacks at minimum brightness and purer whites at maximum brightness.

Fast Response Time

8-millisecond response time

The Sony Panel s fast response time suppresses the afterimages characteristic of LCD televisions, enabling BRAVIA TVs to display sports and other fast-moving action clearly.

Marketing

In addition to attractive product features, effective advertising and marketing played a key role in the successful launch of the BRAVIA line.

We achieved high brand awareness in a short period of time by implementing a full-scale, global marketing program. We doubled our annual advertising budget in Europe and Japan and conducted our largest-ever promotions in North America. Moreover, close communication between the TV Business Group, regional sales companies and Inazawa TEC, the core manufacturing facility for BRAVIA, enabled us to adjust supply to market demand and alter product specifications and designs to match customer preferences in different markets.

European Marketing Campaign

Colour like.no.other

David Patton
Senior
Vice-President of
Marketing
Communications,
Sony Europe

To launch BRAVIA and bring the Colour like.no.other message to life in a truly memorable way, it was imperative that we create a TV commercial like no other. Rather than focus on technical detail, we sought to deliver an emotionally powerful experience that would engage and inspire consumers all across Europe. To communicate colour we chose a simple visual metaphor 250,000 brightly coloured bouncy balls and to make this commercial like no other, we filmed these balls being dropped down the steep streets of San Francisco. Crucially, we did this for real no computer graphics were used at any stage and we immediately captured the imagination of the public. Whilst we were still filming in San Francisco, home movies and blogs about our shoot were appearing all over the Internet and word quickly spread around the world to the extent that when the finished commercial was released, there was already a great sense of awareness and expectation of BRAVIA. In fact, Bouncy Balls has become one of the most talked about commercials in Europe this year. It s a great example of how creativity further differentiates our product lines while enhancing the Sony brand.

* like.no.other is a registered trademark of Sony Corporation.

Business Overview

Business	ELECTRONICS	GAME
Sales (Financial Services Revenue) and Operating Income (Loss) (Pie charts indicate percentage of sales and operating revenue.)		

Financial Highlights by Business	(Yen in billions, %)	2004	2005	**2006**	2006/2005 (Percent change)	(Yen in billions, %)	2004	2005	**2006**	2006/2005 (Percent change)
(Years ended March 31)	Sales	¥5,087.5	¥5,066.8	**¥5,150.5**	+1.7%	Sales	¥780.2	¥729.8	**¥958.6**	+31.4%
	Operating income (loss)	(8.1)	(34.3)	**(30.9)**		Operating income	67.6	43.2	**8.7**	79.7%
	Operating margin					Operating margin	8.7	5.9	**0.9**	
	Assets	3,036.4	3,476.5	**3,548.7**		Assets	684.2	482.0	**520.4**	

Notes: 1. Sales = Sales and operating revenue

2. Operating margin =

Operating income/Sales and operating revenue x 100

3. Includes internal transactions

	Electronics	Game
Description of Business	The Electronics business comprises audio, video, televisions, information and communications equipment, semiconductors, components and other products.	The Game business encompasses Sony s game console and software businesses, which are conducted by Sony Computer Entertainment Inc.
Fiscal Year in Review	Business sales increased 1.7%. Calculated using the same exchange rates as the previous period, however, sales declined 3%. Higher sales were recorded for liquid crystal display (LCD) televisions, including the BRAVIA line, which registered brisk sales worldwide, and LCD rear-projection televisions, which saw sales increase particularly in the United States. In contrast, sales of cathode ray tube (CRT) and plasma televisions fell. Despite a decrease in sales to outside customers, an increase in loss on sale, disposal or impairment of fixed assets and a deterioration in the cost of sales ratio associated with a decline in unit selling prices, the business operating loss improved as a result of the ¥64.5 billion net gain resulting from the transfer to the Japanese government of the substitutional portion of Sony s Employee Pension Fund, as well as favorable exchange rates. Products that recorded an increase in operating income included Handycam® video cameras and VAIO PCs. Operating income declined for such products as CRT televisions, image sensors and LCD televisions.	Sales in this business rose 31.4%. Calculated using the same exchange rates as the previous period, sales rose 27%. Hardware sales were up sharply, particularly in Europe and the United States, PSP® (PlayStation®Portable) was a major contributor to higher sales, recording brisk sales in all regions, while sales of PlayStation®2 (PS2) were on a par with the previous period. Despite a decline in sales of PS2 software, overall software sales in Japan, the United States and Europe were largely in line with the previous period, due to sales of PSP software. Operating income declined 79.7%. Although profits from the PS2 and PSP businesses exceeded those in the previous period, this decrease was mainly the result of continued high research and development costs associated with PLAYSTATION ®3 (PS3), as well as the recording of charges associated with preparation for the launch of the PS3 platform.

Note: 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 business segment, have been reclassified and are now included in the Electronics business segment. In addition, effective April 1, 2005, a similar change was made with respect to the Japan-based disc manufacturing businesses. (Continued on following page)

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2005	**2006**	2006/2005 (Percent change)
¥733.7	¥ **745.9**	+1.7%
63.9	**27.4**	-57.1%
8.7	**3.7**	
863.1	**1,029.9**	

ss encompasses motion
programming and other
d by Sony Pictures

reased 1.7% due to the
yen. On a U.S. dollar basis,
eased 4%.
es on a U.S. dollar basis was
er worldwide theatrical and
revenues on feature films.

FINANCIAL SERVICES

(Yen in billions, %)	2004	2005	**2006**	2006/2005 (Percent change)
Financial services revenues	¥ 593.5	¥ 560.6	¥ **743.2**	+32.6%
Operating income	55.2	55.5	**188.3**	+239.4%
Operating margin	9.3	9.9	**25.3**	
Assets	3,475.0	3,885.5	**4,565.6**	

The Financial Services business comprises the businesses of Sony Life Insurance Co., Ltd. (Sony Life), Sony Assurance Inc., Sony Bank Inc. and Sony Finance International, Inc.

Revenue in this business advanced 32.6%, primarily reflecting higher revenue at Sony Life.

Sony Life s revenue increase was due mainly to an improvement in gains and losses from investments prompted by favorable stock market conditions in Japan and higher revenue from insurance premiums, owing to an increase of insurance-in-force.

ALL OTHER

(Yen in billions, %)	2004	2005
Sales	¥662.8	¥459.9
Operating income (loss)	(16.2)	4.2
Operating margin		0.9
Assets	763.9	577.7

This comprises a variety of b
including the music content l
Music Entertainment (Japan)
music publishing business of
Entertainment Inc. (SMEI), t
business of Sony Communic
Corporation (SCN), and an a
production and marketing bu

Sales in this business decli
In the previous period, bus
sales of SMEI s recorded m
months, which was combine
BMG MUSIC ENTERTAIN
venture, accounted for using

al and home entertainment
esulted from the significant
er-Man 2 in the previous
the disappointing
tain films released during the
.
nd home entertainment
he principal reasons for a
erating income.

Operating income rose 239.4%, primarily as a result of the improvement in gains and losses from investments in the general account at Sony Life.

Sony Life s solid results were largely attributable to an improvement in valuation gains on stock conversion rights in convertible bonds, reflecting favorable Japanese stock market conditions.

Sales at SMEJ were largely
previous period.
Sales increased in business
Operating income increase
Operating income reflected
for SMEI s recorded music
registered a loss in the previo
accounted for as part of the S
MUSIC ENTERTAINMENT
well as a strong performance
Businesses other than mus
operating loss mainly due to
write-down associated with t
entertainment complex. This
extent by cost reductions at r
businesses within Sony Corp

(Continued from previous page)
As a result of these changes in the Music business segment, Sony no longer breaks out the Music business segment as a reportable business as it no longer meets the materiality threshold. Effective April 1, 2005, results for the Music business segment are included within All Other. Accordingly, results for the corresponding period of the year ended March 31, 2005, in the Electronics business segment and All Other have been restated to conform to the presentation for the period under review.

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Review of Operations
ELECTRONICS
http://www.sony.net/electronics/

Home Electronics

The fiscal year ended March 31, 2006, was a notable year for us as we successfully launched the new BRAVIA line of LCD televisions. This achievement coincided with a worldwide uptrend in demand for flat panel televisions (LCD televisions, plasma televisions and LCD rear-projection televisions).

During the year, the global market for LCD televisions reached approximately 20.6 million units, representing a threefold increase over the previous period. Sony introduced the BRAVIA line of LCD televisions worldwide starting with North America in August 2005, attaining the top share* worldwide for LCD televisions in the period from October to December. Sales of LCD televisions for the fiscal year topped approximately 2.8 million units, with televisions with 32-inch or larger screens accounting for approximately 50% of the total largely due to the popularity of BRAVIA.

* Source: DisplaySearch

The market for LCD televisions and especially for large-screen sets is expected to continue expanding. It is in this context that S-LCD, our joint venture with Samsung, plans to complement its manufacturing line for seventh-generation amorphous TFT LCD display panels with a line for eighth-generation devices. Sony will continue to grow its LCD television operations, pursuing further opportunities to enhance cost competitiveness and heighten the appeal of its products.

As with LCD televisions, the market for LCD rear-projection televisions and other micro-display device-based projection televisions is expanding. In the period under review, the market grew more than 44%, to approximately 2.6 million units. Sony maintained a high share of the U.S. market, the leading market for these televisions, and sold approximately 1.05 million sets worldwide during the period.

Going forward, we plan to expand our range of models featuring conventional high-temperature polysilicon LCDs with an expanded lineup of models incorporating our proprietary Silicon X-tal (crystal) Reflective Display (SXRD) device, which offers superb resolution, contrast and response time.

In the area of DVD recorders, we responded to increasingly diverse needs with generous additions to our Sugoroku lineup ranging from models with simple record and view features to those with high-end features including digital high-definition (HD) tuners. We have also included our new MPEG4-AVC video codec, allowing consumers to connect them to their PSP® (PlayStation®Portable) with a USB cable for convenient, on-the-go recorded programming.

On other fronts, the transition to HD broadcasting is proceeding swiftly, bolstering market penetration for large-screen flat panel televisions and spurring demand for HD content for the home. In response, we plan to roll out Blu-ray Disc players in 2006 in the U.S. market. We will continue expanding our lineup of products with the aim of realizing HD World, one of Sony s growth strategies.

LCD television KDL-46X1000	DVD recorder RDR-AX75	LCD rear-projection television KDF-50E1000

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NET JUKE Hard Disk Component Stereo System

In the home audio area, we launched the NAS-M7HD NET JUKE, the first-ever hard disk component stereo system with a built-in MiniDisc (MD) slot. NET JUKE allows consumers to download songs via the Internet directly from the Any Music download service in Japan without the use of a PC, as well as to listen to songs from music CDs and MDs at high fidelity levels. NET JUKE s hard disk can store up to 20,000 songs. The song data can also be transferred to Walkman® models with internal hard disks or flash memory, making it easy to take your music wherever you go. We will continue to broaden our lineup of products that can link to networks and store data on hard disks without the need for PCs, deliver excellent listening quality and can transfer data to Walkman® to make entertainment mobile.

Mobile Electronics

The digital camera market continued to grow in the year ended March 31, 2006, climbing 8%, to approximately 65.0 million units. Sony recorded brisk sales of approximately 13.5 million units, centered on its Cyber-shot DSC-T9, particularly popular for its optical stabilization features and high sensitivity.

On March 31, 2006, we acquired the rights to the α (alpha) mount system * from Konica Minolta Photo Imaging, Inc., as well as a portion of the company s assets namely, its digital single-lens reflex (SLR) camera development, design and manufacturing operations with the intent of bolstering our digital imaging business. This allowed us to accelerate development of a new line of SLR cameras based on the α mount system, which we launched in summer 2006. We believe that the digital SLR market offers serious potential for expansion, and we will introduce new digital lines to complement our existing camera lineup to secure an unassailable position in this market.

* The proprietary system created by Konica Minolta for camera bodies, lens and accessories used on its α series SLR cameras

Hard disk component stereo with MD slot NAS-M7HD	Digital single-lens reflex camera DSLR-A100	Digital camera DSC-T9

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The global market for video cameras also expanded, rising 3% from the previous period, to 18.0 million units, of which Sony accounted for 7.6 million units. DVD Handycam® camcorders achieved buoyant sales in all regions, reflecting the ease with which consumers can enjoy their recorded video compared with conventional tape camcorders. We topped our initial sales targets for HDR-HC1 digital high-definition Handycam® camcorders, particularly in the Japanese market. These units incorporate HDV 1080i technology to produce professional-quality HD video in a compact package. Further, in March 2006 we introduced the HDR-HC3, the world s smallest and lightest camcorder in the HDV 1080i format*, which uses our proprietary ClearVid CMOS Sensor, achieving the previously difficult task of incorporating both high sensitivity and a large pixel count for still images in a compact camcorder.

We are intent on continuing our legacy as the global leader in the digital video camera market and will introduce a diverse array of products meeting the needs of each region.

We continued to expand our portable audio lineup by introducing the Walkman® A Series of digital music players, which incorporate a hard disk or flash memory. Stylishly executed in a design featuring three-dimensional curves, the Walkman® A Series delivers a host of new features that connect listeners more closely to their music, such as the Artist Link function, which selects subsequent artists and songs based on the genre of the artist and song currently played. Similarly, the Intelligent Shuffle feature allows people to switch only between the songs they listen to the most or to randomly listen to only songs released in a particular year.

* As of February 2006

DVD digital video camera DCR-DVD403	Walkman® A Series	Digital high-definition video camera HDR-HC1

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VAIO

At a mere 21 millimeters thick and weighing only 1.25 kg, the VAIO T-Series notebook PC is a miracle of advanced engineering, thanks to high-density mounting technologies, an ultra-thin and light display and carbon composites. Owing to newly developed batteries, the VAIO T-Series standard battery lasts for approximately nine hours, while its large-capacity battery offers approximately 14.5 hours* of outstanding performance. This model is made still more attractive by an 11.1-inch LCD monitor and a DVD super multi-drive capable of handling nearly all DVD media. A mobile computer, the VAIO T-Series is nonetheless loaded with features, earning approval from customers worldwide for its outstanding performance.

September 2005 saw us take the further step of starting the VAIO Owner Made program in Japan. This allows individual customers to ask for VAIO PCs with customized specifications suited to their individual lifestyles and preferences.

* When using a model with a Pentium M processor and at least 512 MB of memory

LocationFree Base Station

We were honored to receive the NetKADEN Grand Prize 2005 from Japan s Ministry of Economy, Trade and Industry for our LF-PK1 LocationFree base station packs. This new award was established by the Ministry to recognize home electronics products and services that create new value by their ability to connect to networks (dubbed NetKADEN by the Ministry). We launched LF-PK1 LocationFree base station packs in October 2005. The LF-PK1, when used in conjunction with a PC or PSP®, can remotely access television or video playing in the home from a remote location inside or outside the home via an Internet connection or wireless LAN connection. We will make LocationFree software development kits available to third-party developers in the mobile phone and personal digital assistant (PDA) markets to stimulate the development of more mobile devices compatible with this liberating technology, which is spurring the creation of new lifestyles.

Sony Ericsson Mobile Communications AB, established in October 2001 as a 50 50 joint venture between Sony Corporation and LM Ericsson, maintained a high average selling price and continued to grow shipments and sales during the fiscal year ended March 31, 2006. The company continued to invest for growth, mainly in the area of R&D but also in marketing and brand-building activities, and increased full-time employee head count by approximately 20%, to around 6,000 people worldwide during the period. The additional investment led to a considerable expansion of the company s product portfolio with the emphasis on offering a deeper product lineup, with mid- and low-range pricing, and becoming a full portfolio player.

A highlight of the year was the launch in August 2005 of the first Walkman®-branded mobile phone, the W800, which quickly established the Walkman® brand at the forefront of music on the mobile phone. By the end of March 2006, Sony Ericsson expanded the Walkman® phone lineup to eight handsets, and the five models on sale by this time sold over 5.5 million units in total. In addition, the K750 2 megapixel, auto-focus camera phone set a new standard for digital imaging on a mobile phone, winning the prestigious TIPA award (Technical Image Press Association award) for Best Mobile Imaging Device in 2005. Sony Ericsson s imaging technology was further strengthened at the beginning of 2006 with the announcement of the first Cyber-shot-branded mobile phone, the K800, a 3.2 megapixel Universal Mobile Telecommunications System (UMTS) phone with auto-focus and Xenon flash.

VAIO T-Series	LocationFree base station pack LF-PK1	Walkman® mobile phone W810

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GAME
http://www.scei.co.jp/global/

The PlayStation®2 platform sees increased penetration and further expansion

In the six years since its March 2000 launch in Japan by Sony Computer Entertainment Inc. (SCE), PlayStation®2 (PS2) has grown into the biggest-ever home entertainment platform, with cumulative worldwide shipments surpassing the 100 million-unit mark, exceeding the total number of PlayStation® (PS) consoles shipped. More than 7,000 software titles were released for PS2 from third-party developers and SCE, and, as of March 31, 2006, cumulative software shipments had exceeded 1.0 billion units.

In the year ended March 31, 2006, unit sales of PS2 hardware and software were high particularly in Europe and the United States reflecting the release of major hit titles worldwide in the year-end/ New Year peak selling season. PS2 remained in high demand, with shipments of hardware reaching 16.22 million units, surpassing shipments in the previous period.

SCE will continue to promote greater market penetration and higher sales of PS2 by working with content developers worldwide to broaden the lineup of software titles available, thereby ensuring that PS2 is a platform that users will continue to enjoy.

PSP® (PlayStation®Portable) expands the world of portable entertainment

Since launching PSP® (PlayStation®Portable) in Japan in December 2004, SCE has released this platform globally. As of March 31, 2006, PSP had shipped a cumulative total of more than 17.0 million units worldwide, outpacing growth for any other platform in SCE s history. With a large screen and high-resolution liquid crystal display (LCD), which enable users to enjoy a wide range of entertainment content, PSP has gained huge support from a broad range of users around the world as a new handheld entertainment platform.

As of March 31, 2006, there were more than 500 titles in the PSP software lineup worldwide and cumulative shipments exceeded 47.0 million units. Attractive new titles are expected to be released steadily by third-party developers and publishers around the world and by SCE Worldwide Studios. With PSP s expanded software lineup, SCE will vigorously promote even greater market penetration.

Since its launch, PSP has evolved continuously with system software updates adding such new and attractive features as Internet browsing and playback of high-quality video. By continuing to add new features, including a function that will allow users to enjoy a huge selection of popular PS titles from the past, SCE will provide new ways for users to enjoy PSP. SCE will also expand the location base of its PlayStation Spot stations, where PSP s wireless LAN function enables simultaneous transmission of data to multiple PSPs, enabling users to try out demo versions of new game titles and a wide range of other content easily and free-of-charge.

To expand the potential of PSP hardware, SCE will introduce a new camera and global positioning system (GPS) receiver. When

PlayStation®2

PSP® (PlayStation®Portable)

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combined with software, these attractive peripherals will create a whole new world of PSP entertainment.

PLAYSTATION®3 to be launched in November 2006

PLAYSTATION®3 (PS3), SCE s next-generation computer entertainment system will be launched in Clear Black in November 2006. With a monthly production capacity of one million units, SCE will push forward a powerful product launch to spread the platform rapidly throughout the world, together with a strong and attractive lineup of PS3 game titles.

PS3 is the most advanced computer system for the enjoyment of next-generation computer entertainment content in the home, realized through the combination of Cell and RSX processors. It is also backward compatible with PS and PS2 software. A Gigabit Ethernet and a preinstalled hard disk drive (HDD) are standard features, enabling users to download a variety of content as well as access online games and services over the network. PS3 supports a broad range of displays, from conventional television standards to Full HD, bringing enjoyment of advanced computer entertainment to homes around the world. With the overwhelming processing capabilities of the Cell, PS3 is capable of playing back content recorded on Blu-ray Disc with unparalleled image and sound quality.

The controller included as standard equipment has been created by refining the PlayStation® controller which has shipped several hundred million units worldwide and adding a high-precision, highly sensitive six-axis sensing system. These features facilitate conventional analog/digital operation as well as natural, intuitive operation that makes the controller feel like an extension of the player s arm. This eliminates the need for any additional settings, including those on the display system, and will make it possible to control PS3 from outside the home over the network in the future.

While further enhancing the joy of entertainment on PS2 and PSP, SCE will vigorously promote PS3 as the next-generation computer entertainment platform.

SCE reinforces software development

With the aim of providing robust support for the development of software for the upcoming PS3, in September 2005 SCE acquired SN Systems Limited of the United Kingdom, a developer of programming tools for game software developers, and signed strategic licensing agreements with the game content tool and middleware development companies Epic Games Inc., of the United States; Havok (Telekinesys Research Limited), based in Ireland and the United States; and AGEIA Technologies, Inc., of the United States. This enabled SCE to start its tools and middleware licensing program in October 2005, thereby providing potent support for the efforts of software developers, as it did for PS2 and PSP.

PLAYSTATION®3

Hot Shots Golf: Open Tee

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To strengthen its own software development capabilities, in September 2005 SCE combined its games development studios in Japan, the United States and Europe, to form SCE Worldwide Studios (SCE WWS). The studios within the SCE Group have been producing numerous exciting software titles that match the taste of consumers of each region, while at the same time communicating closely to produce worldwide hit franchises. SCE WWS will further accelerate the creation of global hit titles and will facilitate greater interaction and integration and the effective positioning of people in each studio. Going forward, SCE WWS will spearhead efforts to further consolidate and shape the SCE Group s software resources.

As part of its long-term strategy, SCE also acquired Guerrilla B.V., a Netherlands-based software developer with a global reputation, in December 2005 and Zipper Interactive of the United States in January 2006. The acquisitions will enable SCE WWS to capitalize on the creative capabilities of these two studios to develop attractive new software titles.

SCE will work with content creators around the world to strengthen its software portfolio for the November 2006 launch of PS3, as well as to take advantage of the exciting entertainment potential of the PS2, PSP and PS3.

TALKMAN

Yoshiteru Yamamoto
Producer
SCE WWS Japan Studio
Sony Computer Entertainment Inc.

TALKMAN is a communication tool developed exclusively for the PSP that makes conversation in foreign languages fun and easy. I knew from the start that what I wanted to create was not a plain electronic dictionary, but rather a fun catalyst for breaking down barriers and promoting interaction between people. I call TALKMAN a conversation ice breaker.

Using TALKMAN is simple. All you need to do is speak into the PSP s custom microphone and Max, the multilingual bird, appears on the screen to translate your words into the foreign language of your choice, complete with lovable, amusing gestures. For example, if you say, Let s meet again in English, Max will convey this sentiment on your behalf while presenting a flower. You can hold up your PSP to show Max repeating the phrase. It really is a whole new way of having fun with PSP.

The original version of TALKMAN, launched in November 2005, offers four languages English, Japanese, Chinese (Mandarin) and Korean. In May 2006, we introduced TALKMAN EURO (shown above), with capabilities in French, German, Italian and Spanish, in addition to English and Japanese, for a total of six languages.

My hope is for people who aren t particularly good at foreign languages and don t really want to study them to use TALKMAN as a way to easily enjoy communicating with people around the world, and to experience a new style of entertainment that cannot be offered by a simple electronic dictionary.

Ratchet: Deadlocked

EyeToy: Play 3

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ENTERTAINMENT
PICTURES
http://www.sonypictures.net/

Sony Pictures Entertainment Inc. (SPE) increased its revenues for the fiscal year ended March 31, 2006, advanced its position in the emerging digital entertainment marketplace and made substantial gains in the growth of its global film and television production and distribution businesses.

In motion pictures, the studio had box office success both in the United States and overseas with the $100 million hit *Fun With Dick and Jane* and Screen Gems titles *The Exorcism of Emily Rose* and *Underworld: Evolution*. SPE ended calendar year 2005 with over $1 billion in ticket sales in North America for the fourth year in a row, securing its position as the No. 1 studio in U.S. box office receipts over the 2002 2005 period. In addition, the studio had five films open at No. 1 in the U.S. in the first four months of calendar year 2006.

As part of a long-standing strategy to meet growing demand for films internationally, in the fiscal year ended March 31, 2006, SPE continued to expand its local language business by launching a joint film production venture in India and is in the process of launching one in Russia as well, two of the most dynamic movie markets in the world.

On the home entertainment front, Sony Pictures Home Entertainment (SPHE) has been a significant driver of growth for SPE s motion picture and television businesses. SPE continues to lead the way in digitizing its film and television library with more titles available for digital distribution than any other studio. During the fiscal year ended March 31, 2006, in addition to its successful DVD business, SPHE distributed content on Universal Media Disc (UMD) and prepared for the release of films on Blu-ray Disc. SPHE launched its new digital sell-through distribution business in April 2006, making films available for sale via the Internet on sites including Movielink and CinemaNow. SPHE also continued to focus on international expansion and its third-party acquisition as well as production program and direct-to-video filmmaking.

Leading the way in the digital revolution is Sony Pictures Digital (SPD). Imageworks, SPD s Academy Award®-winning state-of-the-art visual effects and digital production studio, was recognized by the Academy of Motion Pictures Arts and Sciences with an Oscar® nomination for *The Chronicles of Narnia: The Lion, The Witch & The Wardrobe*. Sony Online Entertainment continues its success in massively multiplayer online gaming with over 680,000 active accounts worldwide for mega-hits like EverQuest, EverQuest II, Star Wars Galaxies and PlanetSide. And SPD s newest addition, Sony Pictures Animation, will release its first full-length CGI feature, *Open Season*, in September 2006 and *Surf s Up* in the summer of 2007.

During the fiscal year ended March 31, 2006, Sony Pictures Television (SPT) continued its U.S. daytime drama television leadership with the No. 1 and No. 2 shows (*The Young and the Restless* and *Days of our Lives*) and its syndication success with the No. 1 and No. 2 U.S. syndicated game shows (*Wheel of Fortune* and *Jeopardy!*), and the enormously popular *Seinfeld*. In 2006, SPT received seven awards at the 33rd Annual Daytime Emmy Awards, and its program *The Shield* was named a Peabody Award winner at the 2006 Annual Peabody Awards.

SPT also produces *The King of Queens*, *Dragon Tales*, *Kidnapped* and *Til Death* and has nine network pilots in the current development season. On cable, SPT remained the No. 1 producer of original scripted series for U.S. basic cable during fiscal year 2005 with more original dramas on the air than any other studio, including four of the top 15 (*The Shield, Rescue Me, Stargate SG-1* and *Stargate Atlantis*).

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Sony Pictures Television International

Sony Pictures Television International (SPTI) is the division of Sony Pictures Entertainment responsible for all television businesses outside of the United States. On the heels of a successful year ended March 31, 2006, SPTI continues to expand by launching new channels, producing local language TV programs and signing new distribution deals with international broadcasters and other media outlets. SPTI is responsible for licensing Sony Pictures feature films and television programming to television, mobile and digital content delivery outlets outside the U.S.

During the year ended March 31, 2006, SPTI s distribution business achieved significant growth. SPTI recently added oversight and management of rights in new media outside the U.S., including mobile, wireless, on-demand and Internet protocol television, allowing SPTI to create new licensing opportunities with current and new clients.

SPTI solidified its position as the leading local language television producer among all major Hollywood studios with hit original scripted shows in such countries as Germany, Italy, Chile, Spain and Russia. *The Nanny*, *Married with Children* and *Who s the Boss?* are among the many shows localized by SPTI s production group, responsible for over 9,000 hours of programming in 25 countries.

The networks group also experienced significant growth in the fiscal year ended March 31, 2006. Beginning with the launch of Sony Entertainment Television (SET) in September 1995, a 24-hour Spanish-language general entertainment network seen throughout Latin America, SPTI s networks portfolio has grown to include over 40 channels outside the U.S. SPTI s channels can be seen in more than 100 countries, reaching over 240 million homes worldwide and delivered in nine languages. SPTI s branded networks include SET; Animax, the destination for the ultimate anime experience; and AXN, an action-adventure entertainment channel.

SPTI s international networks group s biggest success story is in India, where SPTI s business began in October 1995 with SET, a Hindi-language general entertainment channel, and has now grown into a broadcasting powerhouse including MAX, a Hindi-language events and cricket channel; SAB, a Hindi-language general entertainment channel for India s heartland; and PIX, a new English-language movie channel.

Known for its mix of innovative concepts, glamorous events and Bollywood blockbusters, SET reaches over 45 million households in India. SET is also available in the United States, the United Kingdom, Africa, the Middle East, Europe, Canada, Australia, New Zealand, Singapore, Nepal, Bangladesh, the Maldives and Malaysia.

SET s Hindi version of the Colombian soap opera *Yo Soy Betty, La Fea* (I Am Betty, the Ugly) was so popular that the lead character was featured as the cancellation insignia used by the post office in India, an honor usually reserved for prominent political and historical figures. Will Smith, who has starred in many Sony Pictures feature films, traveled to India in February 2006 to help SPTI launch PIX. Smith even appeared on *Indian Idol*, the local version of *American Idol*. Among the most popular shows on SET India are local versions of the reality show *Fear Factor* and the game show *Deal or No Deal*, as well as original scripted dramas. In October 2005, Sony Chairman Howard Stringer recognized SPTI s success in India by paying a visit to SET India s Mumbai headquarters to help the network celebrate its 10th anniversary.

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MUSIC

SONY BMG MUSIC ENTERTAINMENT

http://www.sonybmg.com/

During the year ended March 31, 2006, the SONY BMG MUSIC ENTERTAINMENT (SONY BMG) joint venture largely completed the integration of its various divisions, and focused on its core business of identifying and developing the best new artists, while at the same time expanding the fan base for its established and superstar artists.

Established artists delivering top-selling releases during the year included the Foo Fighters, Shakira, Kenny Chesney, System Of A Down and Destiny s Child. Artist development success stories for the year included Il Divo, Carrie Underwood, Jamie Foxx, Kelly Clarkson, who earned two GRAMMY® Awards, and John Legend, who won three GRAMMY® Awards, including the coveted Best New Artist award. Overall the joint venture earned a total of 22 awards spanning a wide range of categories.

In February of 2006 Rolf Schmidt-Holtz, former Chairman of the Board of Directors, assumed the role of CEO for SONY BMG, and Andrew Lack, the joint venture s first CEO, moved to the post of Chairman of the Board.

Digital Music

SONY BMG has been at the forefront of developing the digital market for its entertainment content, and during calendar year 2005 music sales through online outlets and mobile phones accounted for 7% of the joint venture s overall revenues.

During the period under review, a number of the company s artists saw digital revenues become as significant as those for physical albums. SONY BMG/Jive Records artist T-Pain, for example, sold close to 3.3 million master ringtones which are actual recordings that replace the standard mobile phone ringer and over 929,000 online singles. As a result, digital sales represented over 49% of revenues from this artist during the period. Similarly, SONY BMG/ Epic Records artist Natasha Bedingfield sold nearly 1.4 million online tracks, and an additional 310,000 master ringtones, putting digital sales of her album at 27% of total revenues for the period.

Digital music sales have continued to grow, and during the first calendar quarter of 2006 they represented 14% of SONY BMG s global revenues, and 22% of total revenues in the United States.

In general, however, the digital market is still in its infancy, and third-generation mobile services which enable consumers to download full-length tracks and videos to their mobile phones have just been launched in the U.S. As these services gain traction in various markets, SONY BMG anticipates that demand for digital entertainment will continue to grow.

Sony Music Entertainment (Japan)

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

Sony Music Entertainment (Japan) Inc. (SMEJ), encompassing not only production of recordings but also artist management and music publishing among other operations, once again turned in favorable results in the year ended March 31, 2006. Sales and income gains in the period reflected substantial contributions from such best-selling SMEJ artists as Ken Hirai, ORANGE RANGE, Mika Nakashima and PORNO GRAFFITTI. Efforts to foster the development of new artists, a top priority for the company, yielded solid results with promising newcomers including K, Yuna Ito, DEPAPEPE, and HIGH and MIGHTY COLOR, all of whom recorded brisk sales in their debut year. At the 20th Japan Gold Disc Award 2006, in the category of Japanese New Artist of the Year which recognizes outstanding artists in their debut year seven out of 13 honored were from SMEJ.

SMEJ also continued to take aggressive steps to enhance its network services business. These efforts led sales in this business to more than double, becoming a solid source of income second to CDs and other packaged media. The network services business focuses on download services for mobile phones. In the period under review, Chaku-Uta® and Chaku-Uta Full® master ringtone download services contributed significantly to sales.

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FINANCIAL SERVICES
http://www.sonyfh.co.jp/money/english/

Sony Financial Holdings

Sony Financial Holdings Inc. (SFH) is the financial holding company for Sony Life Insurance Co., Ltd. (Sony Life), Sony Assurance Inc. (Sony Assurance) and Sony Bank Inc. (Sony Bank). Since its establishment in April 2004, SFH has coordinated the overall operations of the SFH Group, maximizing the opportunities for synergy and strengthening the ties between operating companies while facilitating the joint provision of products and services by SFH Group companies.

Sony Life s Lifeplanner* life insurance sales professionals sell Sony Assurance s automobile insurance products and introduce Sony Bank s mortgage loans to their own customers. Similarly, Sony Bank sells Sony Life s individual annuities, Sony Life underwrites group credit life insurance products and Sony Assurance underwrites fire insurance to Sony Bank mortgage holders. During the fiscal year ended March 31, 2006, SFH continued to strengthen these intragroup ties. As an example, Sony Life s Lifeplanner sales force generated approximately 10% of the new automobile insurance policies at Sony Assurance.

SFH shareholdings in Sony Bank rose during the period, from 84.2% at the start to 88.0%, through the acquisition of Sony Bank shares in September 2005 and the acceptance of newly issued shares for which it paid ¥2.5 billion in February 2006 as a measure to strengthen the bank s financial soundness.

All three operating companies in the SFH Group scored well in a neutral third-party evaluation of customer satisfaction and credit-worthiness. Earnings for the period continued to grow steadily as SFH s preparations to list publicly proceeded on course. SFH will continue to monitor its operating environment and choose the optimal time for its initial public offering (IPO) in the fiscal year ending March 31, 2008, or thereafter.

Sony Life

Sony Life provides individualized security and reassurance to its customers with detailed consultation and follow-up services offered by its Lifeplanner highly trained life insurance professionals and Partners (independent agencies). Customers value Sony Life s unique consultation and follow-up services, as evidenced by its low cancellation rates. Continued growth for the period under review was further evidence. Despite the fact that the total value of policies in force is shrinking for the industry in Japan, as of March 31, 2006, the total value of Sony Life s policy amount in force totaled ¥29,084.5 billion, up 4.5% from a year earlier. Operating income jumped sharply, reflecting an increase in income from insurance premiums and the solid performance of existing investment assets, which was further fortified by valuation gains due to robust markets. Sony Life maintained a sound financial position with a solvency margin ratio** of 1,547.0% as of March 31, 2006. The company also continued to enhance disclosure, adding such important indicators as Embedded Value (EV)**, a measure used to evaluate a life insurance company s operational earnings and corporate value.

Over the medium term, competition in the Japanese life insurance market is expected to intensify further as privatization of the country s postal service and the lifting of restrictions on insurance sales by banks combine with demographic trends, notably declining birthrates and the rapid aging of Japan s society. In this climate, Sony Life will continue to differentiate itself by offering individually tailored life insurance products that provide unique Lifeplanner Value* , as well as extensive follow-up services through its Lifeplanner sales force, thereby ensuring the satisfaction of life-long customers.

* Lifeplanner and Lifeplanner Value are registered trademarks of Sony Life Insurance Co., Ltd.

** Sony Life s solvency margin ratio and EV figures are calculated and disclosed on the basis of Japanese statutory accounting standards.

Sony Assurance

Sony Assurance, which is structured on a 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.

During the period under review, Sony Assurance enhanced customer convenience by upgrading its web site to enable its clients to complete a variety of procedures online. In May 2005, the company enhanced its medical and cancer insurance by increasing its whole-life insurance product selection to two SURE Basic and SURE Wide, which offer different levels of coverage and providing two daily indemnity options. In the area of medical and cancer insurance, Sony Assurance also continued to market 10-year renewable products, enabling it to broaden the choice of coverage options in response to increasingly diverse customer needs.

Going forward, the company will remain committed to continuous offerings and improvements of high-quality insurance products and services through direct dialogue with customers.

As of March 31, 2006, the combined number of automobile and medical and cancer insurance policies in force exceeded 800 thousand, an increase of approximately 20% from the previous fiscal year-end.

Sony Bank

As an Internet bank, Sony Bank targets retail customers with a variety of highly convenient financial products and services. In May 2005, the bank broadened its mortgage loans lineup, introducing new options with fixed-interest terms of 15 years and beyond. The bank also added Swiss franc and Hong Kong dollars to its foreign currency deposit products, enabling it to now offer deposits in eight currencies. In September 2005, the bank extended the terms for yen time deposits up to 10 years, increasing the investment options for consumers, while in December 2005 it launched credit card services and teamed up with securities firm Monex, Inc., to offer a securities intermediary service. The bank also added five
new investment trust products to its lineup, bringing the total number of funds it handles to 45 as of the end of March 2006.

Online security was fortified with various functions aimed at preventing illicit information retrieval through spyware and similar programs. Sony Bank also capitalized on the convenience of Internet banking for customers by introducing a podcast voice messaging service.

As Sony Bank expands its products and services, its financial indicators are keeping pace. Deposited assets (the total of deposits and investment trusts) amounted to ¥675.1 billion at fiscal year-end, up 17%, while loans outstanding climbed 89%, to ¥239.4 billion. The number of accounts at March 31, 2006, increased 17%, or about 60 thousand, from the previous fiscal year-end, to approximately 430 thousand.

Sony Finance International

Sony Finance International, Inc. is involved in credit card, e-commerce payment processing and leasing operations. The company issues exclusive eLIO-branded cards, which were created specifically for Internet shopping and incorporate FeliCa, Sony s contactless IC card technology. As of March 31, 2006, the number of eLIO card members totaled approximately 800,000. Efforts to increase the number of merchants and affiliated partners and enhance services are also contributing to growth in the value of transactions. A simple and secure service, eLIO enables card members to shop over the Internet by placing their card on an electronic reading device, thereby removing the need to input credit card numbers. eLIO cards can be used in a variety of shopping situations. They are compatible with the Edy prepaid e-money service operated by bitWallet, Inc. and also function as conventional VISA® cards. In December 2005, the company expanded its eLIO card lineup by launching SonyCard Gold, a premium version of My Sony Card, the official credit card of the Sony Group. In November 2005, the company introduced a service whereby eLIO card members can exchange points earned for purchases made on their eLIO cards to Sony Points, which can be redeemed for exciting rewards throughout the Sony Group.

MONEYKit

SonyCard Gold

Sony Bank s online banking service site

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ALL OTHER

Sony Communication Network Corporation (SCN) is primarily engaged in extending So-net-branded Internet services in two categories, Connection Services and Portal Services, in Japan.

Japan s market for broadband Internet services continues to grow. According to the Ministry of Internal Affairs and Communications, subscribers to constant-connection broadband services including asymmetric digital subscriber lines (ADSLs), fiber-to-the-home (FTTH) and cable television numbered 22.38 million as of December 31, 2005, with market penetration reaching 44% of households. As of March 31, 2006, So-net provided services to 3.03 million subscribers, up 580,000 from 2.45 million from a year earlier. Broadband services accounted for 830,000 of these subscribers, an increase of 190,000, reflecting intensive sign-up campaigns, particularly for FTTH.

In July 2005, SCN launched Portable TV (P-TV) in Japan. This video-on-demand (VOD) service that enables subscribers to download movies, television dramas, animation and other high-quality content to a Memory Stick via their PC for replay on a PSP® (PlayStation®Portable). P-TV is billed as mobile VOD, that is, a VOD service that enables subscribers to download a wide variety of top-quality video content from many prominent providers, including animation and comedies, to a Memory Stick for replay anywhere and anytime.

SCN has offered Internet connection services since 1996. Believing that SCN would be better able to realize its full potential within the Sony Group with greater independence and the flexibility to adopt its own management structures and growth strategies to raise corporate value, Sony delisted its subsidiary tracking stock and in December 2005 listed shares of SCN s common stock on the Tokyo Stock Exchange s Mothers market (market of high-growth and emerging stocks). In October 2006, SCN plans to change its name to So-net Entertainment Corporation. This move is designed to promote consistency between the company s name and its well-known So-net brand name and, by adding entertainment, to underscore its goal of providing network-based services that offer dreams, excitement and fun.

SCN affiliates So-net M3, Inc., and DeNA Co., Ltd. both of which were listed on Mothers in the year ended March 31, 2005 continue to see steady expansion of their businesses. So-net M3 provides pharmaceutical marketing support centered on m3.com, a portal for physicians in Japan. In May 2006, the subscriber base for m3.com reached more than half of Japan s 257,000 licensed physicians. DeNA offers e-commerce services, including Mobaoku, an auction site for mobile phone users, and bidders, an auction and shopping site. In March 2006, the number of subscribers for the rapidly growing Mobaoku topped 600,000.

Aniplex Inc., a Sony Group animated film planning and production company, launched *BLOOD+*, a television series based upon its full digital theatrical release *BLOOD THE LAST VAMPIRE*, which earned critical acclaim in Hollywood. The companies of the Sony Group are lending their full support to *BLOOD+* and Aniplex s business on a global scale. In addition to the launch of a *BLOOD+* video package and Internet transmission of *BLOOD+* by other Group companies, Sony Music Entertainment (Japan) provided the opening and closing theme music for the series and Sony Pictures Entertainment will handle distribution outside of Japan, while Sony Computer Entertainment plans to release games for PlayStation®2 and PSP®.

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Research and Development

Research and Development

We view revitalizing our electronics business as a high priority within our Mid-Term Corporate Strategy. Strengthening technology and product development capabilities is a major element of this revitalization and our future growth strategies, and the R&D to support these plans will remain crucial over the long term.

Key Technological Fields and Concrete Strategies

We have identified three key technological fields for Sony going forward: platforms for home and mobile electronics; semiconductor and device technologies, from which our electronics products derive their distinctive, value-added features; and software.

We are looking to strengthen the platforms for home and mobile electronics in anticipation of gaining efficiencies in designing system large-scale integrated circuits (LSIs), the core components of the high-performance products supporting high-definition (HD) content, which is expected to find broad acceptance in the years ahead.

In semiconductors, we are developing technologies for consumer electronics applications for Cell, our high-performance processor, a key focus of recent R&D investment. In October 2005, we established the Cell Development Center, under a structure that reports directly to the CEO, to develop new applications and products that take advantage of Cell s outstanding processing capabilities. We are also reinforcing our technological capabilities for CMOS image sensors, for which applications are expected to expand significantly, with the aim of establishing an industry-leading position as we have done for CCDs. In the area of device technologies, we are concentrating on Blu-ray Disc-related technologies, such as blue-violet laser diodes, as part of our effort to realize the HD World concept, a major Sony initiative. In addition, in October 2005 we launched the Display Device Development Group to spur development of technologies for organic electroluminescent (EL) materials, much anticipated for use in next-generation displays.

In the software realm, we bolstered our development capabilities for middleware that enhances interaction between electronics products and offers better user interfaces, as well as for application programs, codecs (coder/decoders) and digital rights management (DRM) software. To implement these measures, in October 2005 we established the Technology Development Group.

R&D Highlights for the Fiscal Year Ended March 31, 2006

New Agreements

Joint development with other companies has become indispensable for reducing the risk associated with investing in state-of-the-art semiconductor and display technologies, as well as for accelerating the pace of development as competition intensifies globally. During the period under review, Sony entered into the following cooperative agreements.

Organic EL Materials

In November 2005, Sony and Idemitsu Kosan Co., Ltd. announced plans for the joint development of new organic EL materials for next-generation displays. The two companies will develop new high-performance EL materials in order to realize features such as high luminescence efficiency for lower power consumption, high brightness and color generation for HD images, high response times and long durability.

Semiconductor Manufacturing Technologies

In January 2006, Sony Corporation, IBM Corporation and Toshiba Corporation announced a five-year joint technology development effort for advanced semiconductor manufacturing technologies. Together, we will conduct basic research into manufacturing processes for circuit widths at a 32-nanometer design rule and beyond as part of a comprehensive cooperative arrangement.

Sony s high-performance processor, Cell

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The following month, we announced collaboration with Toshiba and NEC Electronics Corporation to develop system LSI manufacturing processes for 45 nanometer-generation products. This cooperative effort is intended to overcome the challenges of developing the sophisticated manufacturing technologies necessary for design rules below 45 nanometers.

Optical Disc Drive Joint Venture

NEC Corporation and Sony signed a contract in February 2006 to establish an optical disc drive joint venture. This partnership will draw on NEC s LSI technologies and Sony s optical pick-up expertise as well as the design capabilities of both firms to create a robust business.

R&D Achievements

A major breakthrough emerging from our laboratories in the period under review was the ClearVid CMOS Sensor. This sensor has its photo pixels arranged at 45-degree angles, simultaneously boosting digital camera imaging resolution and sensitivity, which up until now had been difficult to achieve. In combination with our new Enhanced Imaging Processor, an image signal engine, the new technology doubles the effective pixel count for still images from 2.0 to 4.0 megapixels.

At the International Solid-State Circuits Conference (ISSCC) in February 2006, we announced to great acclaim the development of CMOS sensors that can output 6.4 megapixels of image data up to 60 times per second, compared to 20 60 times per second, the speed supported by existing consumer CCDs.

Intellectual Property

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

In the digital network age, many basic technologies have become standardized. We license such technologies to other companies through patent pools, providing broad accessibility within the industry. We are also stepping up efforts to protect intellectual property related to our differentiating technologies a source of added value.

To make effective use of patented assets, we are pursuing cross-licensing agreements and alliances with other companies. In addition to patents, we are utilizing copyrights, registering designs and trademarks and otherwise securing intellectual property protection to protect our proprietary differentiating technologies.

R&D Expenses for the Fiscal Year under Review

R&D expenses for the period increased 5.9% from the prior fiscal year, to ¥531.8 billion. This is equivalent to 7.9% of net sales, excluding the Financial Services business, which was up from 7.6% a year earlier. R&D expenses in the Electronics business declined 3.5%, to ¥418.1 billion, while the Game business figure rose 58.7%, to ¥108.7 billion. Approximately 64% of R&D expenses in the Electronics business was directed toward prototype development and 36% to semiconductors, communications, displays and next-generation optical disc technologies.

R&D Expenses

ClearVid CMOS Sensor

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Corporate Governance/New Directors and Corporate Executive Officers

Sony is committed to strong corporate governance. As part of such efforts, 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 Director s 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 bodies comprise the Board of Directors, three committees (the Nominating Committee, Audit Committee and Compensation Committee) and the Corporate Executive Officers. In addition to these statutory bodies, Sony has Corporate Executives who carry out business operations within designated areas.

Primary Roles of the Bodies

Board of Directors:

Determines the fundamental management policies of the Sony Group

Oversees the management of the Sony Group s business operations

Appoints and dismisses the statutory committee members

Appoints and dismisses Corporate Executive Officers

Nominating Committee:

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

Audit Committee:

Audits the performance of duties by Directors and Corporate Executive Officers (with regard to 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 of, approves the compensation of, and oversees and evaluates the work of Sony s independent auditors

Compensation Committee:

Determines compensation for individual Directors, Corporate Executive Officers, Corporate Executives and Group Executives

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

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

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 outside Directors may serve 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)
Prohibiting the appointment of the CEO or COO of the Sony Group (or person at any equivalent position) to the Compensation Committee
Discouraging the concurrent appointment of Audit Committee members to other committees
At least two Directors of the Nominating Committee shall be Corporate Executive Officers
As a general rule, at least one Director of the Compensation Committee shall be a Corporate Executive Officer

Meeting Record

During the fiscal year ended March 31, 2006 (fiscal year 2005), the Board of Directors convened eight times. The Nominating Committee met five times, the Audit Committee 11 times and the Compensation Committee seven times. In fiscal year 2005, each incumbent Director attended at least 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 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 to the Audit Committee (in fiscal year 2005, five times) 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.

(Reference)

For an explanation as to the significant differences between the New York Stock Exchange s corporate governance standards and Sony s corporate governance practices, please visit us on the Internet at:
http://www.sony.net/SonyInfo/IR/NYSEGovernance.html

Structure of Sony Corporate Governance System
Supervision
Board of Directors

Determination of the fundamental management policies for the Sony Group
Oversight of management of Sony Group s business operations
Appointment and dismissal of the statutory committee members
Appointment and dismissal of 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	**Yoshihiko Miyauchi***	Director, Representative Executive Officer, Chairman and Chief Executive Officer, ORIX Corporation
Ryoji Chubachi	Sony Corporation President and Electronics CEO		
Katsumi Ihara	Sony Corporation Executive Deputy President, Officer in charge of Procurement Strategies and TV & Video Business	**Yoshiaki Yamauchi*** **Sir Peter Bonfield***	Director, Sumitomo Mitsui Financial Group, Inc. Member of the Board, Telefonaktiebolaget LM Ericsson
Akishige Okada*	Advisor, Sumitomo Mitsui Banking Corporation	**Fueo Sumita***	Chief of Sumita Accounting Office
Hirobumi Kawano*	Senior Vice President, JFE Steel Corporation	**Fujio Cho***	Chairman, Toyota Motor Corporation
Yotaro Kobayashi*	Chief Corporate Advisor, Fuji Xerox Co., Ltd.	**Ned Lautenbach***	Operating Partner, Clayton, Dubilier & Rice, Inc.
Sakie T. Fukushima*	Representative Director & Regional Managing Director Japan, Korn/Ferry International Member of the Board, Korn/Ferry International, U.S.A.	**Göran Lindahl**	Chairman & CEO, LivSafe AB Chairman & CEO, LivSafe, Inc. Director, INGKA Holding B.V.

Nominating Committee	Audit Committee	Compensation Committee
Yotaro Kobayashi* (Chairman)	**Yoshiaki Yamauchi* (Chairman)**	**Akishige Okada* (Chairman)**
Hirobumi Kawano*	**Sakie T. Fukushima***	**Yoshihiko Miyauchi***
Sir Peter Bonfield*	**Fueo Sumita***	**Fujio Cho***
Sir Howard Stringer		**Göran Lindahl**
Ryoji Chubachi		

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

Execution
Corporate Executive Officers

Execution of Sony Group Business activities within the scope of authority delegated by the Board of Directors

Sir Howard Stringer**	Chairman and Chief Executive Officer	**Keiji Kimura**	Executive Vice President, Officer in charge of

Ryoji Chubachi**	President and Electronics CEO		Technology Strategies and Intellectual Property
Katsumi Ihara**	Executive Deputy President, Officer in charge of Procurement Strategies and TV & Video Business	**Nicole Seligman** **Yutaka Nakagawa**	Executive Vice President and General Counsel Executive Vice President, Officer in charge of
Nobuyuki Oneda	Executive Vice President and Chief Financial Officer		Products Strategies, Digital Imaging Business and Audio Business

**Representative Corporate Executive Officer concurrently serving as Director
(Names and positions of new Directors and Corporate Executive Officers as of July 30, 2006)

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Corporate Social Responsibility

The Sony CSR Policy

The core responsibility of the Sony Group is to pursue enhancement of corporate value through innovation and sound business practices. The Sony Group recognizes that its businesses have direct and indirect impact on the societies in which it operates. Sound business practices require that business decisions give due consideration to the interests of Sony s 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 Groupwide initiatives on a number of fronts, including strengthening our corporate governance, compliance and quality management structures; maintaining sound labor and employment practices and a healthy work environment; conserving the environment by reducing emissions of greenhouse gases, raising resource productivity, improving chemical substance management and protecting nature; and contributing to our communities through social contribution programs. In March 2003, a group responsible for CSR was established to formulate policies, introduce relevant frameworks and formulate rules concerning our responsibilities to society and communication with stakeholders.

In June 2005, we established the Sony Supplier Code of Conduct, which outlines our basic policies on compliance, environmental conservation, occupational health and safety, respecting human rights and ensuring a healthy work environment, as part of an effort to include suppliers in our CSR activities.

Compliance System Improvements

Ethical business conduct and compliance with applicable laws and regulations are a fundamental aspect of Sony s corporate culture.

In 2001, we established the Compliance Office, charged with exercising overall control over compliance activities across the Sony Group, to emphasize the importance of business ethics and compliance with applicable laws, regulations and internal policies. The Compliance Office establishes compliance policies and structures for the Group and performs crisis management functions.

In July 2003, we set up regional compliance offices (for the Americas, Europe, Japan, East Asia and Pan-Asia). These offices are charged with exercising regional control over compliance activities.

Sony Group Code of Conduct

In May 2003, Sony 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 in order to emphasize and further strengthen corporate governance, business ethics and compliance systems throughout the entire Sony Group.

This 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.

Following the implementation of the Sony Group Code of Conduct, we have centralized development and management of key internal rules to help ensure consistent compliance with the provisions of the code.

Internal Hotline System

With the adoption of the Sony Group Code of Conduct, Sony also established the Sony Group Compliance Hotline, as a resource for employees to report concerns or seek guidance about possible violations of laws or internal policies, and to allow the Sony Group to respond speedily to potential risks of such violations. The Sony Group Compliance Hotline is available in the Americas, Europe, Japan, East Asia and Pan-Asia, and is ready to receive the concerns of any Sony Group employee in any part of the world by phone, e-mail or letter.

In addition to periodic reports to senior management and the Audit Committee summarizing the Hotline calls, important Hotline calls are reported individually to the Audit Committee as appropriate. Calls received are handled in line with established procedures. Anonymous reports are also accepted, and callers who report issues in good faith are protected from any possibility of recrimination.

Sony CSR Report 2006 http://www.sony.net/csr/
Please refer to the Sony CSR Report 2006 for full details of our CSR activities.

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Hotline contacts generally cover issues relating to employment, labor, work environment, information management, environmental protection and accounting. All contacts received are investigated for the purpose of verification. In certain cases, these contacts have prompted investigations that have resulted in the monitoring and review of internal organizations and procedures, respectively, and the strengthening of enforcement of internal rules.

Improving Quality

Sony is wholeheartedly committed to earning the satisfaction, trust and confidence of its customers by improving product and service quality from the customer s perspective. Sony sees its ultimate goal, as well as its obligation, as being a highly trusted partner for its customers.

In line with this belief, we are engaged in a variety of undertakings aimed at enhancing customer satisfaction. In 2001, for example, we promulgated the Sony CS Charter to firmly instill the importance of customer satisfaction awareness, while in 2005 we implemented the Customer Viewpoint Initiative.

Quality Standards and Quality Management System

Sony recognizes enhancing quality as a crucial management task and is striving to incorporate quality and reliability improvement considerations into product development, planning, engineering, production, sales and service activities. To improve our product quality management system, in 2004 we formulated corporate quality standards that outline minimum requirements for all Sony products. We have also established the CS Strategy Committee, which comprises Sony s president, the heads of electronics divisions and the top executives in charge of manufacturing and marketing, and meets regularly as the ultimate decision-making body for customer satisfaction-and quality-related issues in the electronics business. Through our Customer Information Centers, which allow customers to express opinions or report malfunctions at any time after purchase, we are able to promptly and accurately identify problems and work with design and engineering groups to make appropriate improvements. We have also established the Product Quality Information Channel, a reporting channel the objective of which is to gather product quality-related information and opinions from Sony Group employees, thereby helping us to detect problems early and respond promptly.

Customer Service System

Sony established its first Customer Information Center in Japan in 1963 to provide customers with timely and appropriate responses to their inquiries. Customer Information Center services are now available worldwide. To further improve the quality of service, Customer Information Centers in Japan and Hong Kong obtained COPC-2000* certification, an international standard for call centers. We have built a global service network encompassing more than 10,000 sites. At these sites, we focus on providing training programs to improve repair skills, sharing product information and promoting better communication between repair technicians and customers. We are also taking steps to raise customer satisfaction by, among others, shortening distribution and repair times and reviewing repair fees.

* COPC-2000 is a management standard specifically for call centers and fulfillment (delivery) work based on the American National Management Quality Award.

Environmental Activities

With the aim of contributing to sustainable development, Sony formulated the Sony Group Environmental Vision and is promoting environmental management activities throughout the Sony Group. Guided by this vision, Sony is undertaking numerous activities from a medium-to long-term perspective and has formulated a new action plan, Green Management 2010, which stipulates key medium-term targets to be attained by 2010.

A New Global Environmental Management System

To date, Sony sites throughout the world have pursued and obtained certification under ISO 14001, the global standard for environmental management systems. In the fiscal year ended March 31, 2006, however, we completed the shift to a new, integrated Group management system, under which 402 sites

A Sony Customer Information Center

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within the Sony Group were accredited under a single certification. This new management system has made it possible to monitor progress in achieving environmental targets on a global basis and ensure more efficient management.

Promoting Environmentally Conscious Products

We strive to lower the environmental impact of our products by reducing operating and standby power consumption and resource use and by managing chemical substance content. The BRAVIA E series of LCD projection televisions, launched in 2005, features a newly developed optical engine equipped with a lamp reflector that greatly increases the engine s light efficiency, reducing power consumption to less than half that of a comparable plasma television.*

To facilitate the management of chemical substances in our products, we endeavor to work with parts and raw materials suppliers to monitor chemical substance content from the procurement stage. In addition, we have established a system that ensures we purchase only parts and materials that contain no specified chemical substances recognized as harmful to the environment, such as lead. In Europe, such substances will be banned in electrical and electronic equipment brought to market after July 1, 2006. As of the end of the period under review, Sony had succeeded in almost entirely eliminating these substances from Sony products shipped worldwide, not just in Europe.

* This is accurate for a 50V model. Comparison is with the rated power consumption for a Sony KDE-P50HVX plasma television.

Social Contribution Activities

Sony undertakes a wide variety of activities aimed at contributing to society in fields where it is best able to do so, to help address the needs of communities in regions around the world where it conducts business. Sony Group companies, offices and foundations in Japan, the United States, Europe, Canada and Australia engage in a range of activities in such fields as education, science and the arts. These activities vary in accordance with local considerations.

Sony also operates a variety of volunteer programs to encourage all employees to participate in such activities, thereby encouraging employees to get involved in their communities. In the period under review, nearly 30,000 Sony Group employees in 21 countries took part in such programs.

For the Next Generation

Sony is aiming to support the next generation through a variety of programs designed to enhance the creativity of children through memorable experiences.

In the fiscal year ended March 31, 2006, the Sony Foundation for Education sponsored the first Wellspring of Science Inspiration Children s Schoolhouse of Dreams program. Led by Dr. Hideki Shirakawa, recipient of the Nobel Prize in Chemistry, the program comprises a variety of science-related activities aimed at helping children to learn from nature, increase their understanding of humanity and discover the joy of learning. The Sony Music Foundation maintains an annual program designed to give children the opportunity to enjoy performances by world-class musicians. In the period under review, the Foundation sponsored a special performance of Mozart s opera *Don Giovanni* for children in cooperation with the Royal Opera House of Belgium (La Monnaie), which made its first tour of Japan.

Emergency Humanitarian Assistance

Sony aims to take immediate action to provide emergency humanitarian assistance to the victims of large-scale disasters. In the period under review, Sony participated in relief efforts for victims of a number of disasters, including Hurricane Katrina in the United States and the massive earthquake that struck Pakistan. Assistance included donations by employees, which were matched by Sony.

LCD rear-projection television KDF-50E1000	Wellspring of Science Inspiration Children s Schoolhouse of Dreams, aimed at elementary and junior high school students

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Financial Section

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Operating and Financial Review
Sony Corporation and Consolidated Subsidiaries
OPERATING RESULTS
Operating Results for the Fiscal Year Ended March 31, 2006 compared with the Fiscal Year Ended March 31, 2005
OVERVIEW
After translation of Sony s financial results into yen (the currency in which Sony s financial statements are prepared), in accordance with Generally Accepted Accounting Principles in the U.S. (U.S. GAAP), Sony s sales and operating revenue (sales) for the fiscal year ended March 31, 2006 increased 4.4% compared with the previous fiscal year. On a local currency basis (regarding references to results of operations expressed on a local currency basis, refer to *Foreign Exchange Fluctuations and Risk Hedging* below), sales for the fiscal year increased slightly. The 4.4% increase is mainly due to an increase in revenues within the Financial Services segment, as a result of an improvement in gains and losses on investments at Sony Life Insurance Co., Ltd. (Sony Life) due to the favorable Japanese domestic equity market conditions, and increased sales within the Game segment, as the result of the contribution from PSP® (PlayStation®
Portable) (PSP). In the Electronics segment, although sales benefited from the depreciation of the yen and there was an increase in sales of liquid crystal display (LCD) televisions, sales to outside customers decreased 0.9% compared with the previous fiscal year. There was a decline in sales of CRT televisions, due to a continued shift in demand towards flat panel televisions, and in plasma televisions, where new product development has been terminated.

Operating income increased 67.9% compared with the previous fiscal year. On a local currency basis, operating income increased approximately 23% compared with the previous fiscal year. Operating income includes a one-time net gain of ¥73.5 billion, which resulted from the transfer to the Japanese Government of the substitutional portion of Sony s Employee Pension Fund. Of this, a gain of ¥64.5 billion was recorded within the Electronics segment. In the Financial Services segment, operating income increased due to an improvement in gains and losses on investments at Sony Life resulting from the above-mentioned favorable Japanese domestic equity market conditions. In the Electronics segment, although restructuring charges increased compared with the previous fiscal year, the amount of operating loss decreased as a result of a net gain resulting from the transfer to the Japanese Government of the substitutional portion of Sony s Employee Pension Fund mentioned above and favorable exchange rates. Operating income within the Game segment declined primarily as a result of an increase in research and development costs associated mainly with PLAYSTATION®3 (PS3). In the Pictures segment, operating income also declined due to lower worldwide theatrical and home entertainment revenues on feature films.
RESTRUCTURING
In the fiscal year ended March 31, 2006, Sony recorded restructuring charges of ¥138.7 billion, a increase from the ¥90.0 billion recorded in the previous fiscal year. The primary restructuring activities were in the Electronics segment and All Other.

Of the total ¥138.7 billion, Sony recorded ¥48.3 billion in personnel-related costs. This expense was incurred because 5,700 people, mainly in Japan, the U.S. and Western Europe, left Sony primarily through early retirement programs.

For more detailed information about restructuring, please refer to Note 18 of Notes to the Consolidated Financial Statements.

n ELECTRONICS
Restructuring charges in the Electronics segment for the fiscal year ended March 31, 2006 were ¥125.8 billion, compared to ¥83.2 billion in the previous fiscal year.

Due to the worldwide market shrinkage and demand shift from CRT television to plasma and LCD panel television, Sony has been implementing a worldwide plan to rationalize CRT and CRT television production facilities and has been downsizing its business over several years. In the fiscal year ended March 31, 2006, as part of this restructuring program, Sony recorded a non-cash impairment charge of ¥25.5 billion for CRT TV display manufacturing facilities located in the U.S. The impairment charge was calculated as the difference between the carrying value of the asset group and the present value of estimated future cash flows. The charge was recorded in loss on sale, disposal or impairment of assets, net in the consolidated statements of income.

In addition to the above restructuring efforts, Sony undertook several headcount reduction programs to further reduce operating costs in the Electronics segment. As a result of these programs, Sony recorded restructuring charges of ¥45.1 billion for the fiscal year ended March 31, 2006, and these charges were included in selling, general and administrative expenses in the consolidated statements of income. These staff reductions were achieved worldwide mostly through the implementation of early retirement programs. The remaining liability balance as of March 31, 2006 was ¥19.4 billion and will be paid through the fiscal year ending March 31, 2007. Sony will continue seeking the appropriate headcount level to optimize the workforce in the Electronics segment.

n ALL OTHER

Restructuring charges within All Other for the fiscal year ended March 31, 2006 were ¥10.4 billion, compared to ¥5.3 billion recorded in the previous fiscal year. The main component of

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the restructuring charges recorded during the fiscal year ended March 31, 2006 was an ¥8.5 billion asset impairment write-down associated with the sale of the Metreon, a U.S. entertainment complex.

OPERATING PERFORMANCE

Years ended March 31	Yen in billions 2005	**2006**	Percent change 2006/2005
Sales and operating revenue	7,159.6	**7,475.4**	+4.4%
Operating income	113.9	**191.3**	+67.9
Income before income taxes	157.2	**286.3**	+82.1
Equity in net income of affiliated companies	29.0	**13.2**	54.6
Net income	163.8	**123.6**	24.5

SALES

Sales for the fiscal year ended March 31, 2006 increased by ¥315.8 billion, or 4.4%, to ¥7,475.4 billion compared with the previous fiscal year. A further breakdown of sales figures is presented under *Operating Performance by Business Segmen*t below.

Sales in this analysis of the ratio of selling, general and administrative expenses to sales refers only to the net sales and other operating revenue portions of consolidated sales and operating revenue, and excludes Financial service revenue. This is because Financial service expenses are recorded separately from cost of sales and selling, general and administrative expenses. Furthermore, in the analysis of cost of sales, including research and development costs, to sales, only net sales are used. This is because cost of sales is an expense associated only with net sales. 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, 2006 increased by ¥151.3 billion, or 3.0%, to ¥5,151.4 billion compared with the previous fiscal year, and increased from 76.2% to 77.0% as a percentage of sales. Year on year, the cost of sales ratio increased from 81.8% to 81.9% in the Electronics segment, increased from 73.0% to 80.4% in the Game segment, and increased from 58.7% to 60.2% in the Pictures segment.

In the Electronics segment, there was a deterioration in the cost of sales ratio for several products, in particular image sensors and CRT televisions. In the Game segment, there was an increase in the cost of sales ratio as a result of research and development costs associated with PS3. In the Pictures segment, the cost of sales ratio also increased primarily due to lower worldwide theatrical and home entertainment revenues on feature films.

There was a decrease in personnel-related costs included in cost of sales of ¥9.8 billion, primarily within the Electronics segment, compared with the previous fiscal year.

Research and development costs (all research and development costs are included within cost of sales) for the fiscal year ended March 31, 2006 increased by ¥29.8 billion to ¥531.8 billion compared with the previous fiscal year. The ratio of research and development costs to sales was 7.9% compared to 7.6% in the previous fiscal year.

Selling, general and administrative expenses for the fiscal year ended March 31, 2006 decreased by ¥8.0 billion, or 0.5%, to ¥1,527.0 billion compared with the previous fiscal year. The ratio of selling, general and administrative expenses to sales improved from 23.2% in the previous fiscal year to 22.6%. Year on year, the ratio of selling, general and administrative expenses to sales improved from 19.0% to 18.1% in the Electronics segment and from 21.0% to 18.7% in the Game segment. On the other hand, the ratio of selling, general and administrative expenses to sales increased from 32.5% to 36.0% in the Pictures segment.

Personnel-related costs in selling, general and administrative expenses decreased by ¥60.4 billion compared with the previous fiscal year mainly due to a decrease in severance-related expenses in the Electronics segment resulting from the implementation of restructuring initiatives. In addition, advertising and publicity expenses for the fiscal year increased by ¥59.8 billion compared with the previous fiscal year. This was due to the fact that advertising and publicity expenses increased, primarily within the Pictures and Game segments.

Loss on sale, disposal or impairment of assets, net was ¥73.9 billion, compared with ¥28.0 billion in the previous fiscal year. This increase was a result of losses recorded 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.

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Research and development expenses and as a percentage of sales	Cost of sales and selling, general and administrative (SGA) expenses as a percentage of sales
*Years ended March 31 *Excluding the Financial Services segment	*Years ended March 31 *Excluding the Financial Services segment

OPERATING INCOME

Operating income for the fiscal year ended March 31, 2006 increased by ¥77.3 billion, or 67.9%, to ¥191.3 billion compared with the previous fiscal year. The operating income margin increased from 1.6% to 2.6%. In descending order by amount of financial impact, the Financial Services segment, the Pictures segment, All Other and the Game segment contributed to operating income. On the other hand, although there was a net gain from the transfer to the Japanese Government of the substitutional portion of Sony s Employee Pension Fund and the depreciation of the yen, the Electronics segment recorded an operating loss mainly due to a decrease in sales to outside customers, an increase in loss on sale, disposal or impairment of assets and a deterioration in the cost of sales ratio associated with a decline in unit selling prices. For a further breakdown of operating income for each segment, please refer to *Operating Performance by Business Segment* below.

OTHER INCOME AND EXPENSES

In the consolidated results for the fiscal year ended March 31, 2006, other income increased by ¥56.0 billion, or 57.4%, to ¥153.6 billion, while other expenses increased by ¥4.2 billion, or 7.7%, to ¥58.5 billion, compared with the previous fiscal year. The net amount of other income and other expenses was net other income of ¥95.1 billion, an increase of ¥51.8 billion, compared with the previous fiscal year.

The gain on change in interest in subsidiaries and equity investees increased by ¥44.5 billion, or 272.7% compared to the previous fiscal year to ¥60.8 billion. This was mainly the result of a gain of ¥21.5 billion on the change in interest in subsidiaries and equity investees resulting from the initial public offering of Sony Communication Network Corporation (SCN), a gain of ¥20.6 billion on the change in interest resulting from the partial sale of Sony s investment in Monex Beans Holdings, Inc., and gains of ¥12.0 billion and ¥6.6 billion respectively on the change of interest at So-net M3 Inc., a consolidated subsidiary of SCN and at DeNA Co., Ltd., an equity affiliate of SCN accounted for by the equity method.

Interest and dividends of ¥24.9 billion was recorded in the fiscal year ended March 31, 2006 an increase of ¥10.2 billion, or 69.5%, compared with the previous year. This increase was mainly the result of an increase in interest received resulting from an improvement in the rate of return on overseas investments.

For the fiscal year ended March 31, 2006, interest payments totaling ¥29.0 billion were recorded, an increase of ¥4.4 billion, or 18.0%, compared with the previous year.

In addition, a net foreign exchange loss of ¥3.1 billion was recorded in the fiscal year ended March 31, 2006, compared to a net foreign exchange loss of ¥0.5 billion recorded in the previous fiscal year. The net foreign exchange loss was recorded because the value of the yen, especially during the first and third quarters of the fiscal year ended March 31, 2006, 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, 2006 increased ¥129.1 billion, or 82.1%, to ¥286.3 billion compared with the previous fiscal year, as a result of the increase in operating income and the increase in the net amount of other income and other expenses mentioned above.

INCOME TAXES

Income taxes for the fiscal year ended March 31, 2006 increased by ¥160.5 billion to ¥176.5 billion. Compared to an effective tax rate of 10.2% in the previous fiscal year, the effective tax rate was 61.6% in the current fiscal year. This effective tax rate exceeded the Japanese statutory tax rate primarily due to the recording of additional valuation allowances against deferred tax assets by Sony Corporation and several of Sony s Japanese domestic and overseas consolidated subsidiaries, mainly within the Electronics segment, due to continued losses recorded at these businesses and the recording of an additional tax provision for the undistributed earnings of certain foreign subsidiaries. The effective tax rate was significantly lower than the Japanese statutory rate in the previous fiscal year as a result of the reversal of valuation allowances at Sony s U.S. subsidiaries associated with an improvement in operating performance.

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On June 30, 2006, Sony Corporation and SCEI each received notification from the Tokyo Regional Taxation Bureau (TRTB) of a reassessment of the profits they reported from transactions between SCEI and its subsidiary Sony Computer Entertainment America Inc. (SCEA), for the fiscal years ended March 31, 2000 through 2005. On the same date, Sony Corporation also received notification of a reassessment of the profits reported from transactions related to CD and DVD disc manufacturing operations with a number of its overseas subsidiaries for the fiscal years ended March 31, 2004 and 2005.

Sony Corporation and SCEI believe that their allocation of income for the periods in question was appropriate and that they have paid the proper amount of taxes in each of the jurisdictions. Therefore Sony Corporation and SCEI disagree with the position of the TRTB and have lodged an objection. In addition, Sony Corporation and SCEI plan to formally request bilateral consultations (where available) to obtain relief from double taxation under the applicable tax treaties of various countries.

Transfer pricing was reassessed in accordance with the notification from the TRTB, resulting in additional Japanese income of ¥74.4 billion, which led to Sony Corporation and SCEI incurring an estimated additional cash tax (including corporate tax and others) of approximately ¥27.9 billion. Sony Corporation and SCEI believe that double taxation will be avoided through the above procedures, and therefore Sony does not expect any material impact on its consolidated profit and loss as a result of this reassessment.

RESULTS OF AFFILIATED COMPANIES ACCOUNTED FOR UNDER THE EQUITY METHOD

Equity in net income of affiliated companies during the fiscal year ended March 31, 2006 was ¥13.2 billion, a decrease of ¥15.9 billion, or 54.6% compared to the previous fiscal year. Equity in net income of affiliated companies for the previous fiscal year included the recording of ¥12.6 billion as equity in net income for InterTrust Technologies Corporation (InterTrust), which reflected InterTrust s proceeds from a license agreement arising from the settlement of a patent-related suit. In the current fiscal year, Sony Ericsson Mobile Communications AB (Sony Ericsson), as a result of increased sales of products including camera phone and Walkman® phone models, contributed ¥29.0 billion to equity in net income, an increase of ¥11.6 billion compared to the previous fiscal year. Sony recorded equity income of ¥5.8 billion for SONY BMG MUSIC ENTERTAINMENT (SONY BMG), during the current fiscal year, compared to an equity loss of ¥3.4 billion in the previous fiscal year as a result of a reduction in restructuring charges and the realization of incremental cost savings. However, Sony recorded an equity in net loss of ¥7.2 billion for S-LCD Corporation (S-LCD), a joint-venture with Samsung Electronics Co., Ltd. for the manufacture of amorphous TFT LCD panels and equity in net loss of ¥16.9 billion for MGM Holdings, Inc. (MGM Holdings). The equity in net loss for MGM Holdings includes non-cash interest of ¥6.0 billion on cumulative preferred stock.

MINORITY INTEREST IN INCOME (LOSS) OF CONSOLIDATED SUBSIDIARIES

In the fiscal year ended March 31, 2006, minority interest in loss of consolidated subsidiaries of ¥0.6 billion was recorded compared to minority interest in income of ¥1.7 billion previous year. This loss was primarily due to the recording of loss at ST Mobile Display Corporation, a joint venture with Toyota Industries Corporation for the manufacture of low-temperature polysilicon thin film transistor liquid crystal display panels for mobile products.

NET INCOME

Net income for the fiscal year ended March 31, 2006 decreased by ¥40.2 billion, or 24.5%, to ¥123.6 billion compared with the previous fiscal year. This decrease was primarily the result of the above-mentioned increase in income taxes and decrease in equity in net income of affiliated companies. As a percentage of sales, net income decreased from 2.3% to 1.7%. Return on stockholders equity decreased from 6.2% to 4.1%. (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, 2006.)

Basic net income per share was ¥122.58 compared with ¥175.90 in the previous fiscal year, and diluted net income per share was ¥116.88 compared with ¥158.07 in the previous fiscal year. Refer to Notes 2 and 22 of Notes to Consolidated Financial Statements.

Net income and ROE

Net income per share of common stock

*Years ended March 31

*Years ended March 31

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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 25 of Notes to Consolidated Financial Statements.

BUSINESS SEGMENT INFORMATION

Years ended March 31	Yen in billions 2005	Yen in billions **2006**	Percent change 2006/2005
Sales and operating revenue			
Electronics	5,066.8	**5,150.5**	+1.7%
Game	729.8	**958.6**	+31.4
Pictures	733.7	**745.9**	+1.7
Financial Services	560.6	**743.2**	+32.6
All Other	459.9	**408.9**	11.1
Elimination	(391.1)	**(531.6)**	
Consolidated	7,159.6	**7,475.4**	+4.4
Operating income (loss)			
Electronics	(34.3)	**(30.9)**	
Game	43.2	**8.7**	79.7%
Pictures	63.9	**27.4**	57.1
Financial Services	55.5	**188.3**	+239.4
All Other	4.2	**16.2**	+286.4
Sub-Total	132.5	**209.8**	+58.3
Elimination and unallocated corporate expenses	(18.6)	**(18.5)**	
Consolidated	113.9	**191.3**	+67.9

Shares of sales and operating revenue by business segment

* Years ended March 31
* Including intersegment transactions

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,

a separate reporting segment until the end of the previous fiscal year, 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. Effective April 1, 2005, a similar change was made with respect to Sony s Japan-based disc manufacturing business. Results for the fiscal year ended March 31, 2005 in the Electronics segment have been restated to account for these reclassifications.

Effective April 1, 2005, Sony no longer breaks out its music business as a reportable segment as it no longer meets the materiality threshold. Accordingly, the results for Sony s music business are now included within All Other and the results for the fiscal year ended March 31, 2005 have been reclassified to All Other for comparative purposes. Results for the fiscal year ended March 31, 2006 in All Other include the results of Sony Music Entertainment Inc. s (SMEI) music publishing business and Sony Music Entertainment (Japan) Inc. (SMEJ), excluding Sony s Japan-based disc manufacturing business which, as noted above, has been reclassified to the Electronics segment. However, results for the previous fiscal year in All Other include the consolidated results for SMEI s recorded music business for the period through August 1, 2004, as well as the results for SMEI s music publishing business and SMEJ excluding Sony s Japan-based disc manufacturing business.

<ELECTRONICS

Sales for the fiscal year ended March 31, 2006 increased ¥83.6 billion, or 1.7%, to ¥5,150.5 billion compared with the previous fiscal year. An operating loss of ¥30.9 billion in the Electronics segment was recorded compared to the operating loss of ¥34.3 billion in the previous fiscal year. Sales to outside customers on a yen basis decreased 0.9% compared to the previous fiscal year. Regarding sales to outside customers by geographical area, although sales decreased in Japan by 12%, in the U.S. by 1% and in Europe by 4%, sales increased by 11% in non-Japan Asia and other geographic areas (Other Areas).

In Japan, although there was a significant increase in the sales of LCD televisions, as well as increased sales for flash memory and hard drive digital audio players, sales decreased for such products as mobile phones, principally to Sony Ericsson, CRT televisions and plasma televisions. In the U.S., although there was an increase in sales of LCD and rear projection televisions, sales decreased for such products as CRT and plasma televisions. In Europe, although sales increased for such products as LCD televisions, there was a decline in sales of such products as CRT and plasma televisions, and mobile phones, primarily to Sony Ericsson. In Other Areas, sales of such products as LCD televisions and PCs increased, while sales of such products as CD-R/RW drives and CRT televisions decreased.

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Sales and operating income
(loss) in the Electronics Segment
*Years ended March 31

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 25 of Notes to Consolidated Financial Statements.

Audio sales decreased by ¥35.7 billion, or 6.2%, to ¥536.2 billion. Sales of flash memory and hard drive digital audio players increased significantly, in conjunction with an increase in shipments to approximately 4.5 million units, compared to approximately 850,000 unit shipments recorded in the previous fiscal year. On the other hand, there was a significant decrease in the unit shipments of both CD and MD format headphone stereos due to a shift in market demand. In addition, car audio experienced a decrease in sales, and there was a slight decrease in home audio sales.

Video sales decreased by ¥15.0 billion, or 1.4%, to ¥1,021.3 billion. In addition to a decrease in sales of digital cameras in Japan, the U.S. and Europe, there was a decrease in sales of VHS video recorders. Sales of digital cameras decreased, coupled with a decrease in worldwide shipments by approximately 0.5 million units to approximately 13.5 million units. Worldwide shipments of DVD recorders increased by approximately 300,000 units to approximately 2.0 million units, while sales increased slightly. Worldwide shipments of home-use video cameras increased by approximately 250,000 units to approximately 7.6 million units. DVD-Video player unit shipments decreased by approximately 1.5 million units to approximately 8.0 million units.

Televisions sales increased by ¥6.6 billion, or 0.7%, to ¥927.8 billion. There was a significant increase in worldwide sales of LCD televisions, as worldwide shipments of LCD televisions increased by approximately 1.8 million units, to approximately 2.8 million units. Sales of projection televisions increased as the sales percentage of higher priced units increased, although worldwide shipments remained largely unchanged at approximately 1.2 million units. On the other hand, there was a significant decrease in worldwide sales of CRT televisions, primarily as a result of both a decrease in worldwide shipments of CRT televisions by approximately 2.7 million units to approximately 6.8 million units due to the continued shift in demand towards flat panel televisions, as well as a fall in unit prices due to the continued shift in demand towards flat panel televisions. In addition, sales of plasma televisions, where new product development has been terminated, also decreased worldwide.

Information and Communications sales increased by ¥26.4 billion, or 3.2%, to ¥842.5 billion. Although sales of desktop PCs decreased, overall sales increased as a result of favorable worldwide sales of notebook PCs. Worldwide unit shipments of PCs increased approximately 400,000 units to approximately 3.7 million units. Sales of broadcast- and professional-use products increased as a result of favorable sales of high-definition related products.

Semiconductors sales decreased by ¥5.5 billion, or 2.3%, to ¥240.8 billion. The decrease was due to a decrease in sales of CCDs as the result of pricing pressures.

Components sales increased by ¥37.3 billion, or 6.0%, to ¥656.8 billion. This increase was primarily due to an increase in sales of lithium-ion batteries, primarily for use in PCs and power tools, and Memory Sticks. 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 decreased by ¥57.0 billion, or 9.6%, to ¥538.2 billion. This decrease was the result of a decrease in sales of mobile phones, primarily to Sony Ericsson.

In the Electronics segment, cost of sales for the fiscal year ended March 31, 2006 increased by ¥67.5 billion, or 1.6% to ¥4,184.5 billion compared with the previous fiscal year. The cost of sales ratio deteriorated by 0.1% to 81.9% compared to 81.8% in the previous fiscal year. Although there was an improvement in the cost of sales ratio for such products as video cameras and PCs, products that contributed to the deterioration in the cost of sales ratio included image sensors and CRT televisions, which experienced decreased sales. Restructuring charges recorded in cost of sales amounted to ¥23.8 billion, an increase of ¥14.2 billion compared with the ¥9.6 billion recorded in the previous fiscal year. Research and development costs decreased ¥15.2 billion, or 3.5%, from ¥433.3 billion in the previous fiscal year to ¥418.1 billion.

Selling, general and administrative expenses decreased by ¥27.2 billion, or 2.8%, to ¥933.0 billion compared with the previous fiscal year. The primary reason for this decrease was the recording of a ¥64.5 billion net gain resulting from the transfer to the Japanese Government of the substitutional portion of Sony s Employee Pension Fund. Of the restructuring charges recorded in the Electronics segment, the amount recorded in selling, general and administrative expenses decreased by ¥4.1 billion from ¥53.6 billion in the previous fiscal year to ¥49.5 billion. 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 ¥45.1 billion, a decrease of ¥5.8 billion compared with the previous fiscal year. On the other hand, royalty expenses decreased ¥17.2 billion. The ratio of selling, general and administrative expenses to sales decreased 0.9 percentage point from the 19.0% recorded in the previous fiscal year, to 18.1%.

Loss on sale, disposal or impairment of assets, net increased ¥40.0 billion to ¥63.9 billion compared with the previous fiscal year. This amount includes ¥52.5 billion in restructuring charges, which includes ¥25.5 billion of restructuring charges related to CRT and CRT television manufacturing facilities in the U.S. The amount of restructuring charges included in loss on sale, disposal or impairment, net in the previous fiscal year was ¥19.2 billion.

The amount of operating loss recorded in the Electronics segment for the fiscal year ended March 31, 2006 decreased as a result of the net gain resulting from the transfer to the Japanese Government of the substitutional portion of Sony s Employee Pension Fund, despite the recording of increased restructuring charges. 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, operating losses recorded by CRT televisions and LCD televisions increased, in addition to a decrease in operating income recorded by image sensors. On the other hand, the amount of operating loss recorded by DVD recorders (including PSX) decreased. In addition, there was an increase in operating income for video cameras and PCs.

In August 2006, Dell Inc. (Dell) and Apple Computer Inc. (Apple), each announced voluntary recalls of lithium-ion battery packs used in certain notebook computers sold by these two companies. The recalled packs contain battery cells originally manufactured by Sony. Sony supports these recalls by our customers Dell and Apple.

As of August 31, 2006, Sony anticipates no further recalls of battery packs using these particular battery cells.

The recall arises because, on rare occasions, microscopic metal particles in the recalled battery cells may come into contact with other parts of the battery cell, leading to a short circuit within the cell. Typically, a battery pack will simply power off when a cell short circuit occurs. However, under certain rare conditions, an internal short circuit may lead to cell overheating and potentially flames. The potential for this to occur can be affected by variations in the system configurations found in different notebook computers. Sony has introduced a number of additional safeguards into its battery manufacturing process to address this condition and to provide a greater level of safety and security.

As of August 31, 2006, Sony estimates that the overall cost to Sony in supporting the recall programs of Apple and Dell will amount to between ¥20 billion and ¥30 billion. This overall cost is an estimate based on the costs of replacement battery packs and any other related costs to be incurred by Sony.

= Manufacturing by Geographic Area

Slightly more than 50% of the Electronics segment s total annual production during the fiscal year ended March 31, 2006 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 65% of the annual production in Japan was destined for other regions. China accounted for slightly more than 10% of total annual production, approximately 70% of which was destined for other regions. Asia, excluding Japan and China, accounted for slightly more than 10% of total annual production, with approximately 60% destined for Japan, the U.S. and Europe. The Americas and Europe together accounted for the remaining slightly less than 25% of total annual production, most of which was destined for local distribution and sale.

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

In the Electronics segment, operating results benefited from the positive effect of the depreciation of the yen against the U.S. dollar and the Euro. Sales for the fiscal year ended March 31, 2006 increased, on a yen basis, by 1.7%, but decreased on a local currency basis by approximately 3%. In terms of operating performance, there was a decrease in the amount of operating loss compared to the previous fiscal year, but if calculated on a local currency basis, this operating loss was larger when compared to the actual results on a yen basis.

Sales to outside customers by geographic area on a yen basis decreased in Japan by 12%, in the U.S. by 1% and in Europe by 4%. However, sales increased in Other Areas by 11%. Sales on a local currency basis for regions outside Japan decreased in the U.S. and Europe by 7%, but increased by 2% in Other Areas.

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< GAME

Sales for the fiscal year ended March 31, 2006 increased by ¥228.9 billion, or 31.4%, to ¥958.6 billion compared with the previous fiscal year. Operating income decreased by ¥34.4 billion, or 79.7%, to ¥8.7 billion compared with the previous fiscal year, and the operating income margin decreased from 5.9% to 0.9%.

Sales in the Game segment on a local currency basis increased approximately 27%. In addition, on a local currency basis, operating income decreased approximately 62% compared to the previous fiscal year. By region, although sales decreased slightly in Japan, there was a significant increase in sales in the U.S. and Europe.

There was a significant increase in hardware sales compared to the previous fiscal year. Sales increased significantly, mainly in the U.S. and Europe, and sales in Japan remained relatively unchanged compared to the previous fiscal year, primarily due to a significant contribution to sales from PSP, which experienced favorable growth in all geographic areas and the fact that PlayStation®2 (PS2) sales were on a par with those in the previous fiscal year. In addition, although PS2 software sales decreased, as a result of the contribution to sales from PSP software, software sales in Japan, the U.S. and Europe were relatively unchanged compared to the previous fiscal year.

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

Worldwide hardware production shipments:*

PS2	16.22 million units (an increase of 0.05 million units)
PSP	14.06 million units (an increase of 11.09 million units)

Worldwide software production shipments:*/**

PS2	223 million units (a decrease of 29 million units)
PSP	41.6 million units (an increase of 35.9 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 income decreased significantly compared with the previous fiscal year. Although profits from the PS2 and PSP businesses exceeded those in the previous fiscal year, the decrease in operating income was mainly the result of continued high research and development costs associated with PS3, as well as the recording of charges associated with preparation for the launch of the PS3 platform including a write-down of approximately ¥25.0 billion for semiconductor components for use in PS3.

The cost of sales to sales ratio deteriorated by 7.4%, from 73.0% in the previous fiscal year, to 80.4% for the reasons mentioned above for operating income. The ratio of selling, general and administrative expenses to sales decreased by
2.3%, compared to 21.0% in the previous fiscal year, to 18.7%, as a result of the sales increase.

Charges related to the launch of the PS3 platform are anticipated to result in a significant loss within the Game segment for the fiscal year ending March 31, 2007, reflecting primarily an expected negative margin as a result of strategic pricing on PS3 hardware sales.

Sales and operating income
in the Game Segment
*Years ended March 31

<PICTURES

Sales for the fiscal year ended March 31, 2006 increased by ¥12.2 billion, or 1.7%, to ¥745.9 billion compared with the previous fiscal year. Operating income decreased by ¥36.5 billion, or 57.1%, to ¥27.4 billion, and the operating income margin decreased from 8.7% to 3.7%. 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 decreased approximately 4% and operating income decreased by approximately 61%. Sales decreased primarily due to lower worldwide theatrical and home entertainment revenues on feature films, partially offset by an increase in television product revenues. The lower theatrical and home entertainment revenues primarily resulted from the strong performance of *Spider-Man 2* in the prior fiscal year coupled with the disappointing performance of certain films in the current fiscal year film slate, particularly *Stealth, Zathura* and the *Legend of Zorro*. Sales for the fiscal year release slate decreased $967 million as compared to the previous fiscal year. Television product revenues increased by approximately $220 million primarily due to higher advertising and subscription sales from several of SPE s international channels, higher sales of television library product and the extension of a licensing agreement for *Wheel of Fortune*.

Operating income for the segment decreased significantly, primarily due to the disappointing overall performance of the current fiscal year s film slate in both the theatrical and home entertainment markets. Operating loss from the current fiscal year release slate increased $623 million as compared to the prior fiscal year s release slate due to the same factors contributing to the decrease in film revenue noted above. Partially offsetting this was an increase in operating income of $83 million for television product due to the same factors noted above for revenue.

As of March 31, 2006, unrecognized license fee revenue at SPE was approximately $1.2 billion. SPE expects to record this amount in the future having entered into contracts with television broadcasters to provide those broadcasters with completed motion picture and television product. The license fee revenue will be recognized in the fiscal year that the product is available for broadcast.

Sales and operating income in
the Pictures segment

*Years ended March 31

< FINANCIAL SERVICES

Please note that the revenue and operating income at Sony Life, Sony Assurance Inc. (Sony Assurance) and Sony Bank Inc. (Sony Bank) discussed below on a U.S. GAAP basis differ from the results that Sony Life, Sony Assurance and Sony Bank disclose on a Japanese statutory basis.

Financial Services revenue for the fiscal year ended March 31, 2006 increased by ¥182.7 billion, or 32.6%, to ¥743.2 billion compared with the previous fiscal year. Operating income increased by ¥132.8 billion, or 239.4%, to ¥188.3 billion and the operating income margin increased to 25.3% compared with the 9.9% of the previous fiscal year.

At Sony Life, revenue increased by ¥170.8 billion, or 36.0%, to ¥645.0 billion compared with the previous fiscal year.

The main reasons for this increase were an improvement in gains and losses from investments at Sony Life, primarily within the general account, as well as an increase in revenue from insurance premiums reflecting an increase of insurance-in-force. The improvement in gains and losses from investments in the general account was principally a result of an improvement in valuation gains from stock conversion rights in convertible bonds resulting from the aforementioned favorable Japanese domestic stock market conditions. Operating income at Sony Life increased by ¥127.4 billion, or 208.8%, to ¥188.4 billion, mainly as a result of a significant improvement in gains and losses on investments in the general account mentioned above.

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 to premiums).

At Sony Bank, which started operations in June 2001, although foreign exchange losses were recorded as a result of the depreciation of the yen on part of Sony Bank s foreign currency deposits, revenue rose as there was an increase in interest revenue associated with an increase in the balance of assets from investing activities, in addition to revenues from other investing activities. The amount of the operating loss decreased compared with the previous fiscal year, as a result of the increase in revenue.

At Sony Finance International, Inc. (Sony Finance), a leasing and credit financing business subsidiary in Japan, revenue increased due to an increase in leasing and credit card revenue. In terms of profitability, a reduced operating loss was recorded compared to the previous fiscal year, as a result of improved profitability at a credit card business at Sony Finance.

Revenue and operating income in
the Financial Services segment

*Years ended March 31

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

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

CONDENSED STATEMENTS OF INCOME SEPARATING OUT THE FINANCIAL SERVICES SEGMENT

Yen in millions

	Financial Services		Sony without Financial Services		Consolidated	
Fiscal Years Ended March 31	2005	**2006**	2005	**2006**	2005	**2006**
Financial Services revenue	560,557	**743,215**			537,715	**720,566**
Net sales and operating revenue			6,632,728	**6,763,907**	6,621,901	**6,754,870**
	560,557	**743,215**	6,632,728	**6,763,907**	7,159,616	**7,475,436**
Costs and expenses	505,067	**554,892**	6,575,354	**6,762,375**	7,045,697	**7,284,181**
Operating income	55,490	**188,323**	57,374	**1,532**	113,919	**191,255**
Other income (expenses), net	10,204	**24,522**	40,639	**71,952**	43,288	**95,074**
Income before income taxes	65,694	**212,845**	98,013	**73,484**	157,207	**286,329**
Income taxes and other	25,698	**80,586**	(37,043)	**82,127**	(11,344)	**162,713**
Income before cumulative effect of an accounting change	39,996	**132,259**	135,056	**(8,643)**	168,551	**123,616**
Cumulative effect of an accounting change	(4,713)				(4,713)	
Net income	35,283	**132,259**	135,056	**(8,643)**	163,838	**123,616**

< ALL OTHER
During the fiscal year ended March 31, 2006, sales within All Other were comprised mainly of sales from SMEJ, a Japanese domestic recorded music business; SMEI s music publishing business; SCN, an Internet-related service business subsidiary operating mainly in Japan; a retailer of imported general merchandise in Japan; an in-house facilities management business in Japan; and an advertising agency business in Japan. Results for the first four months of the previous fiscal year in All Other incorporated the results for SMEI s recorded music business, which, as noted above, was combined with Bertelsmann AG s recorded music business to form the SONY BMG joint venture which is accounted for by the equity method.

Sales for the fiscal year ended March 31, 2006 decreased by ¥51.0 billion, or 11.1%, to ¥408.9 billion, compared with the previous fiscal year. Of total segment sales, 80% were sales to outside customers. In terms of profit performance, operating income for All Other increased for the fiscal year from ¥4.2 billion to ¥16.2 billion.

During the fiscal year, the sales decrease within All Other reflects the fact that, as noted above, the results for the first four months of the previous fiscal year in All Other incorporated the results for SMEI s recorded music business.

Sales at SMEJ were relatively unchanged compared with the previous fiscal year. Best selling albums during the fiscal year included *Ken Hirai 10th Anniversary Complete Single Collection 95 05 Uta Baka* by Ken Hirai, *NATURAL* by ORANGE RANGE and *BEST* by Mika Nakashima.

Excluding sales recorded within Sony s music business, there was an increase in sales within All Other. This increase was mainly due to strong sales at a business engaged in the production and marketing of animation products, favorable sales both at SCN and its subsidiaries, as well as an increase in sales recorded at an imported general merchandise retail business.

Regarding profit performance within All Other, operating income of ¥16.2 billion was recorded, an ¥12.0 billion increase compared to the ¥4.2 billion of operating income recorded in the previous fiscal year. This increase was mainly the result of the fact that the results for SMEI s recorded music business, which recorded an operating loss in the previous fiscal year, are now recorded as part of the results of the SONY BMG joint venture, and the continued strong performance at SMEJ, where operating income increased approximately 40% compared to the previous fiscal year mainly due to an improvement in the cost of sales ratio and the recording of a net gain resulting from the transfer to the Japanese government of the substitutional portion of Sony s Employee Pension Fund.

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Excluding the operating income recorded in the music business, a loss was recorded within All Other mainly as the result of an asset impairment write-down associated with the sale of the Metreon, a U.S. entertainment complex. This was offset to some extent by cost reductions at network-related businesses within Sony Corporation.

In June 2006, Sony Corporation transferred 51% stock of StylingLife Holdings Inc., a holding company covering six retail companies within Sony previously included within All Other, to a wholly-owned subsidiary of Nikko Principal Investments Japan Ltd. As a result of this transaction, Sony recognized a ¥18.0 billion gain on change in interest in subsidiaries and equity investees during the first quarter of the fiscal year ending March 31, 2007.

Sales and operating income (loss)
in All Other

*Years ended March 31

FOREIGN EXCHANGE FLUCTUATIONS AND RISK HEDGING

During the fiscal year ended March 31, 2006, the average value of the yen was ¥112.3 against the U.S. dollar, and ¥136.3 against the Euro, which was 5.1% lower against the U.S. dollar and 2.0% lower against the Euro, respectively, compared with the average of the previous fiscal year. Operating results on a local currency basis described in Overview and Operating Performance show results of sales and operating revenue and operating income obtained by applying the yen s monthly average exchange rate in the previous fiscal year to monthly local currency-denominated sales, cost of sales, and selling, general and administrative expenses for the fiscal year ended March 31, 2006, as if the value of the yen had remained constant.

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 local currency basis and results on a U.S. dollar basis are not on the same basis as Sony s consolidated financial statements and do not conform with U.S. GAAP. In addition, Sony does not believe that these measures are a substitute for U.S. GAAP measures. However, Sony believes that local currency basis results provide additional useful information to investors regarding operating performance.

Sony s consolidated results are subject to foreign currency 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 cycle 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, 2006 were ¥1,489.2 billion, ¥457.4 billion and ¥163.7 billion, respectively.

ASSETS, LIABILITIES AND STOCKHOLDERS EQUITY

ASSETS

Total assets on March 31, 2006 increased by ¥1,108.7 billion, or 11.7%, to ¥10,607.8 billion, compared with the previous fiscal year-end. Total assets on March 31, 2006 in all segments excluding the Financial Services segment increased by ¥364.4 billion, or 6.0%, to ¥6,392.3 billion and total assets on March 31, 2006 in the Financial Services segment increased by ¥680.1 billion, or 17.5%, to ¥4,565.6 billion, compared with the previous fiscal year-end. Total assets on March 31, 2006 in all segments excluding the Financial Services segment would have increased by approximately 2% compared with the previous fiscal year-end if the value of the yen had remained the same on March 31, 2006 as it was on March 31, 2005.

n CURRENT ASSETS

Current assets on March 31, 2006 increased by ¥213.4 billion, or 6.0%, to ¥3,769.5 billion compared with the previous fiscal year-end. Current assets on March 31, 2006 in all segments excluding the Financial Services segment increased by ¥363.7 billion, or 14.0%, to ¥2,956.5 billion.

Cash and cash equivalents on March 31, 2006 in all segments excluding the Financial Services segment increased ¥65.7
billion, or 12.6%, to ¥585.5 billion compared with the previous fiscal year-end. This is primarily a result of an increase in cash equivalents in association with the issuance of straight bonds carried out by Sony Corporation and the initial public offering of SCN.

Notes and accounts receivable, trade (net of allowance for doubtful accounts and sales returns) on March 31, 2006 excluding the Financial Services segment increased ¥21.0 billion, or 2.2%, compared with the previous fiscal year-end to ¥973.7 billion.

Inventories on March 31, 2006 increased by ¥173.4 billion, or 27.5%, to ¥804.7 billion compared with the previous fiscal year-end. This increase was primarily a result of both increased semiconductor inventory, primarily for use in PS3, and LCD television inventory in the Electronics segment and increased inventory in the Game segment resulting from the world-wide full-scale introduction of the PSP platform. The inventory to cost of sales turnover ratio (based on the average of inventories at the end of each fiscal year and previous fiscal year) was 1.67 months compared to 1.56 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, 2006 in the Financial Services segment decreased by ¥138.7 billion, or 14.0%, to ¥851.5 billion, compared with the previous fiscal year-end. This decrease was primarily attributable to the fact that cash and cash equivalents were utilized for investments and advances.

n INVESTMENTS AND ADVANCES

Investments and advances on March 31, 2006 increased by ¥774.2 billion, or 28.2%, to ¥3,519.9 billion, compared with the previous fiscal year-end.

Investments and advances on March 31, 2006 in all segments excluding the Financial Services segment increased by ¥31.6 billion, or 7.1%, to ¥477.1 billion. This was primarily a result of an increase in investments and advances towards affiliated companies such as MGM Holdings.

Investments and advances on March 31, 2006 in the Financial Services segment increased by ¥749.8 billion, or 31.5%, to ¥3,128.7 billion, compared with the previous fiscal year-end. This increase was primarily due to investments mainly in Japanese fixed income securities resulting from an increase in insurance premiums at Sony Life, and an increase in mortgage loans at Sony Bank.

Also see Investments below.

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n PROPERTY, PLANT AND EQUIPMENT (AFTER DEDUCTION OF ACCUMULATED DEPRECIATION)
Property, plant and equipment on March 31, 2006 increased by ¥16.1 billion, or 1.2%, to ¥1,388.5 billion, compared with the previous fiscal year-end.

Property, plant and equipment on March 31, 2006 in all segments excluding the Financial Services segment increased by ¥17.3 billion, or 1.3%, to ¥1,351.1 billion, 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, 2006 increased by ¥27.5 billion, or 7.7%, to ¥384.3 billion compared with the previous fiscal year. Capital expenditures in the Electronics segment increased by ¥17.5 billion, or 5.6%, to ¥328.6 billion but decreased in the Game segment by ¥10.4 billion, or 55.3%, to ¥8.4 billion. Capital expenditures in the semiconductor businesses within the Electronics segment, including capital expenditures related to the Cell microprocessor, amounted to ¥140.0 billion. Capital expenditures in the Pictures segment increased by ¥4.3 billion, or 73.8%, to ¥10.1 billion. In All Other, which includes Sony s consolidated music business, ¥4.2 billion of capital expenditures were recorded, compared to the ¥9.0 billion of capital expenditures recorded in the previous fiscal year.

Property, plant and equipment on March 31, 2006 in the Financial Services segment decreased by ¥1.1 billion, or 2.9%, to ¥37.4 billion compared with the previous fiscal year-end. Capital expenditures in the Financial Services segment increased by ¥0.6 billion, or 15.9%, to ¥4.5 billion.

n OTHER ASSETS
Other assets on March 31, 2006 increased by ¥23.5 billion, or 1.5%, to ¥1,569.4 billion, compared with the previous fiscal year-end.

Other assets on March 31, 2006 in all segments excluding the Financial Services segment decreased by ¥129.6 billion to ¥1,059.8 billion.

Deferred tax assets on March 31, 2006 decreased by ¥61.6 billion, or 25.6%, to ¥178.8 billion compared with the previous fiscal year-end. This was due to the recording of additional valuation allowances against deferred tax assets by Sony Corporation and several of Sony s Japanese domestic and overseas consolidated subsidiaries, mainly within the Electronics segment due to continued losses recorded at these businesses.

Other assets in the Financial Services segment on March 31, 2006 increased by ¥70.2 billion, or 14.7%, to ¥548.0 billion compared with the previous fiscal year-end.

LIABILITIES

Total current and long-term liabilities on March 31, 2006 increased by ¥761.9 billion, or 11.5%, to ¥7,366.8 billion compared with the previous fiscal year-end. Total current and long-term liabilities on March 31, 2006 in all segments excluding the Financial Services segment increased by ¥185.5 billion, or 5.5%, to ¥3,551.9 billion. Total current and long-term liabilities in the Financial Services segment on March 31, 2006 increased by ¥512.3 billion, or 14.8%, to ¥3,977.6 billion, compared with the previous fiscal year-end. Total current and long-term liabilities on March 31, 2006 in all segments excluding the Financial Services segment would have increased by approximately 2% compared with the previous fiscal year-end if the value of the yen had remained the same on March 31, 2006 as it was on March 31, 2005.

n CURRENT LIABILITIES
Current liabilities on March 31, 2006 increased by ¥390.9 billion, or 13.9%, to ¥3,200.2 billion compared with the previous fiscal year-end. Current liabilities on March 31, 2006 in all segments excluding the Financial Services segment increased by ¥191.8 billion, or 9.0%, to ¥2,329.3 billion.

Short-term borrowings and current portion of long-term debt on March 31, 2006 in all segments excluding the Financial Services segment increased ¥21.1 billion, or 10.3%, to ¥225.1 billion compared with the previous fiscal year-end. This was principally a result of an increase in the current portion of long-term debt.

Notes and accounts payable, trade on March 31, 2006 in all segments excluding the Financial Services segment increased by ¥3.1 billion, or 0.4%, to ¥804.4 billion compared with the previous fiscal year-end.

Current liabilities on March 31, 2006 in the Financial Services segment increased by ¥209.7 billion, or 29.6%, to ¥918.3 billion, mainly due to an increase in short-term borrowing and an increase in deposits from customers at Sony Bank.

n LONG-TERM LIABILITIES

Long-term liabilities on March 31, 2006 increased by ¥371.0 billion, or 9.8%, to ¥4,166.6 billion compared with the previous fiscal year-end.

Long-term liabilities on March 31, 2006 in all segments excluding the Financial Services segment decreased by ¥6.3 billion, or 0.5%, to ¥1,222.6 billion. In addition, Long-term debt on March 31, 2006 in all segments excluding the Financial Services segment increased ¥74.0 billion, or 11.8%, to ¥701.4 billion.

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Long-term debt increased primarily due to the issuance of straight bonds in order to redeem bonds maturing during the fiscal years ending March 31, 2006 and March 31, 2007. Long-term liabilities decreased as accrued pension and severance costs decreased by ¥169.3 billion, or 50.1%, to ¥168.8 billion, principally as a result of the transfer to the Japanese Government of the substitutional portion of Sony s Employee Pension Fund.

Long-term liabilities on March 31, 2006 in the Financial Services segment increased by ¥302.6 billion, or 11.0%, to ¥3,059.3 billion. 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 ¥280.0 billion, or 11.4%, to ¥2,744.3 billion.

n TOTAL INTEREST-BEARING DEBT

Total interest-bearing debt on March 31, 2006 increased by ¥192.0 billion, or 21.1%, to ¥1,101.2 billion, compared with the previous fiscal year-end. Total interest-bearing debt on March 31, 2006 in all segments excluding the Financial Services segment increased by ¥95.1 billion, or 11.4%, to ¥926.5 billion.

Interest-bearing liabilities

*As of March 31

STOCKHOLDERS EQUITY

Stockholders equity on March 31, 2006 increased by ¥333.5 billion, or 11.6%, to ¥3,203.9 billion compared with the previous fiscal year-end. Retained earnings increased ¥96.6 billion compared with the previous fiscal year-end, and accumulated other comprehensive income (net of tax) was ¥156.4 billion. This was primarily due to comprehensive income of ¥140.5 billion
arising from foreign currency translation adjustments in current fiscal year due to the depreciation of the yen against the U.S. dollar, partially offset by the recording of a change in accumulated other comprehensive income of ¥38.1 billion arising from unrealized gains on securities in the current fiscal year. The ratio of stockholders equity to total assets remained unchanged at 30.2% compared to the previous fiscal year-end.

Stockholders equity and stockholders equity ratio

Stockholders equity per share of common stock

*As of March 31

*As of March 31

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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	
Years ended March 31	2005	**2006**	2005	**2006**	2005	**2006**
Assets						
Current assets	990,191	**851,454**	2,592,849	**2,956,522**	3,556,171	**3,769,524**
Cash and cash equivalents	259,371	**117,630**	519,732	**585,468**	779,103	**703,098**
Marketable securities	456,130	**532,895**	4,072	**4,073**	460,202	**536,968**
Notes and accounts receivable, trade	77,023	**17,236**	952,692	**973,675**	1,025,362	**985,508**
Other	197,667	**183,693**	1,116,353	**1,393,306**	1,291,504	**1,543,950**
Film costs			278,961	**360,372**	278,961	**360,372**
Investments and advances	2,378,966	**3,128,748**	445,446	**477,089**	2,745,689	**3,519,907**
Investments in Financial Services, at cost			187,400	**187,400**		
Property, plant and equipment	38,551	**37,422**	1,333,848	**1,351,125**	1,372,399	**1,388,547**
Other assets	477,809	**547,983**	1,189,398	**1,059,786**	1,545,880	**1,569,403**
Deferred insurance acquisition costs	374,805	**383,156**			374,805	**383,156**
Other	103,004	**164,827**	1,189,398	**1,059,786**	1,171,075	**1,186,247**
	3,885,517	**4,565,607**	6,027,902	**6,392,294**	9,499,100	**10,607,753**
Liabilities and stockholders equity						
Current liabilities	708,613	**918,338**	2,137,480	**2,329,285**	2,809,368	**3,200,228**
Short-term borrowings	45,358	**136,723**	204,027	**225,082**	230,266	**336,321**

Notes and accounts payable, trade	7,099	**11,707**	801,252	**804,394**	806,044	**813,332**
Deposits from customers in the banking business	546,718	**599,952**			546,718	**599,952**
Other	109,438	**169,956**	1,132,201	**1,299,809**	1,226,340	**1,450,623**
Long-term liabilities	2,756,679	**3,059,251**	1,228,927	**1,222,597**	3,795,547	**4,166,572**
Long-term debt	135,750	**128,097**	627,367	**701,372**	678,992	**764,898**
Accrued pension and severance costs	14,362	**13,479**	338,040	**168,768**	352,402	**182,247**
Future insurance policy benefits and other	2,464,295	**2,744,321**			2,464,295	**2,744,321**
Other	142,272	**173,354**	263,520	**352,457**	299,858	**475,106**
Minority interest in consolidated subsidiaries	5,476	**4,089**	18,471	**32,623**	23,847	**37,101**
Stockholders equity	414,749	**583,929**	2,643,024	**2,807,789**	2,870,338	**3,203,852**
	3,885,517	**4,565,607**	6,027,902	**6,392,294**	9,499,100	**10,607,753**

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.

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

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

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

Yen in millions

March 31, 2006	Cost	Unrealized gain	Unrealized loss	Fair market value
Financial Services Business:				
Available for sale				
Debt securities				
Sony Life	2,062,410	10,702	(15,122)	2,057,990
Other	453,926	6,285	(7,561)	452,650
Equity securities				
Sony Life	155,878	112,230	(1,137)	266,971
Other	9,323	4,176	(33)	13,466
Held to maturity				
Debt securities				
Sony Life				
Other	33,189	132	(221)	33,100
Total Financial Services	2,714,726	133,525	(24,074)	2,824,177
Non-Financial Services:				
Available for sale securities	68,406	55,549	(546)	123,409
Held to maturity securities	4			4
Total Non-Financial Services	68,410	55,549	(546)	123,413
Consolidated	2,783,136	189,074	(24,620)	2,947,590

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. Most securities were rated BBB or better by Standard &

Poor s, Moody s or others. As of March 31, 2006, Sony Life had debt and equity securities which had gross unrealized losses of ¥15.1 billion and ¥1.1 billion, respectively. Of the unrealized loss amounts recorded by Sony Life, less than 1% relate to securities being in an unrealized loss position of greater than 12 months. These unrealized losses related to numerous investments, with no single investment being in a material unrealized loss position. In addition, there was no individual security with unrealized losses that met the test discussed above for impairment as the declines in value were observed to be small both in amounts and percentage, and therefore, the decline in value for those investments was still determined to be temporary in nature.

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The percentage of non-investment grade securities held by Sony Life represents approximately 1% of Sony Life s total investment portfolio, while the percentage of unrealized losses that relate to those non-investment grade securities was approximately 2% of Sony Life s total unrealized losses as of March 31, 2006.

For fixed maturity securities with unrecognized losses held by Sony Life as of March 31, 2006 (¥15.1 billion), maturity dates vary as follows:

n Within 1 year	5%
n 1 to 5 years	44%
n 5 to 10 years	50%

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, 2006 was ¥59.6 billion. 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, 2004, 2005 and 2006, total impairment losses were ¥16.7 billion, ¥4.2 billion and ¥4.0 billion of which ¥0.2 billion, ¥0.5 billion and ¥0.2 billion, respectively, were recorded by Sony Life in Financial Services revenue (refer to Financial Services under *Operating Performance by Business Segment* for the fiscal years ended March 31, 2006 and March 31, 2005). Impairment losses other than at Sony Life in each of the three fiscal years were reflected in non-operating expenses and primarily relate to the certain strategic investments in non-financial services businesses. These investments primarily relate to the certain strategic investments in Japan, the U.S. and Europe with which Sony has strategic relationships for the purposes of developing and marketing new technologies. The impairment losses were recorded for each of the three 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 were individually material to Sony, except for the devaluation of securities explained in Other Income and Expenses for the fiscal years ended March 31, 2004.

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

Sony Life and Sony Bank s investments constitute the majority of the investments in the Financial Services segment. Sony Life and Sony Bank account for approximately 82% and 16% 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 Asset Liability Management (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, 2006, when stock prices in Japan remained low, Sony Life invested mainly in convertible bonds, while in the second half of the fiscal year ended March 31, 2006, when interest rates in Japan started to trend upward, Sony Life invested mainly in long-term Japanese government bonds.

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.

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CONTRACTUAL OBLIGATIONS, COMMITMENTS, AND CONTINGENT LIABILITIES

The following table summarizes Sony s contractual obligations and major commitments as of March 31, 2006. References to Note below represents a particular note 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 12)					
Capital lease obligations (Notes 9 and 12)	**38,280**	16,966	12,642	4,342	4,330
Other long-term debt (Note 12)	**920,173**	176,589	306,063	172,851	264,670
Minimum rental payments required under operating leases (Note 9)	**195,537**	47,500	61,244	27,861	58,932
Purchase commitments for property, plant and equipment and other assets (Note 24)	**69,286**	65,135	4,124	27	
Expected cost for the production or purchase of films and television programming or certain rights (Note 24)	**76,736**	50,578	25,926	213	19
Partnership program contract with Fédération Internationale de Football Association (Note 24)	**34,639**	3,875	7,750	8,660	14,354

* The total amount of expected future pension payments is not included in the above table or the total amount of commitments outstanding at March 31, 2006 discussed below as such amount is not currently determinable. Sony expects to contribute approximately ¥33.0 billion to the Japanese pension plans and approximately ¥6.0 billion to the foreign

pension plans during the fiscal year ending March 31, 2007 (Note 15).

* The total unused portion of the line of credit extended under loan agreements in the Financial Services segment is not included in the above table or the amount of commitments outstanding at March 31, 2006 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 ¥326.7 billion as of March 31, 2006 (Note 24).
* The 5 year Revolving Credit Agreement with Sony BMG, which matures on August 5, 2009 and provides for a base commitment of $300 million and additional incremental borrowings of up to $150 million, is not included in

the above table or the amount of commitments outstanding at March 31, 2006 discussed below as such amount is not currently determinable. Sony s outstanding commitment under this Credit Agreement as of March 31, 2006 was ¥26.3 billion (Note 24).

The total amount of commitments outstanding at March 31, 2006 was ¥285.8 billion (Refer to Note 24 of Notes to Consolidated Financial Statements). The commitments include major purchase obligations as shown above.

In the ordinary course of business, Sony makes commitments for the purchase of property, plant and equipment. As of March 31, 2006, such commitments outstanding were ¥69.3 billion.

A subsidiary in the Pictures segment has committed to fund a portion of the production cost of completed films and is responsible for all distribution and marketing expenses relating to these films under a distribution agreement with a third party. Further, certain subsidiaries in the Pictures segment have entered into agreements with creative talent for the development and production of films and television programming as well as agreements with third parties to acquire completed films, or certain rights therein. As of March 31, 2006, 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 ¥76.7 billion.

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, 2006, Sony Corporation was committed to make payments under such contract of ¥34.6 billion.

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 raise funds from the global capital markets and from banks when necessary.

The following table summarizes Sony s contingent liabilities as of March 31, 2006.

	Yen in millions
	Total amounts of contingent liabilities
Contingent Liabilities (Note 24):	
Loan guarantees to related parties	9,325
Other	11,747
Total contingent liabilities	21,072

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 new accounts receivable sales programs that provide for the accelerated receipt of up to ¥47.5 billion 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

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accounted for as a sale in accordance with FAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities , because Sony has relinquished control of the receivables. Accordingly, accounts receivable sold under these transactions are excluded from receivables in the accompanying consolidated balance sheet. The initial sale of these receivables was in March 2005, and Sony sold a total of ¥10.0 billion for the fiscal year ended March 31, 2005. Sony sold a total of ¥146.2 billion of receivables during the fiscal year ended March 31, 2006. 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.