SONY CORP
Form 6-K
June 03, 2005

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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 June 2005
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/ Katsumi Ihara
(Signature)
Katsumi Ihara
Executive Deputy President, Group Chief Strategy Officer and Chief Financial Officer

Date: June 3, 2005

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List of materials

Document attached hereto:

1. Consolidated Financial Statements for the fiscal year ended March 31, 2005

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Consolidated Financial Statements
For the year ended March 31, 2005

Sony Corporation
TOKYO, JAPAN

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Sony s Corporate Governance Practices

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

CautionaryStatement

Statements made in this release with respect to Sony s current plans, estimates, strategies and beliefs and other statements that are not historical facts are forward-looking statements about the future performance of Sony. Forward-looking statements include, but are not limited to, those statements using words such as believe, expect, plans, strategy, prospects, forecast, estimate, project, anticipate, may or might and words of similar meaning in connection with a discussion of future operations, financial performance, events or conditions. From time to time, oral or written forward-looking statements may also be included in other materials released to the public. These statements are based on management s assumptions and beliefs in light of the *information currently available to it. Sony cautions you that a number of important risks and uncertainties could cause actual results to differ materially from those discussed in the forward-looking statements, and therefore you should not place undue reliance on them. You also should not rely on any obligation of Sony to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Sony disclaims any such obligation. Risks and uncertainties that might affect Sony include, but are not limited to (i) the global economic environment in which Sony operates, as well as the economic conditions in Sony s markets, particularly levels of consumer spending; (ii) exchange rates, particularly between the yen and the U.S. dollar, the Euro and other currencies in which Sony makes significant sales or in which Sony s assets and liabilities are denominated; (iii) Sony s ability to continue to design and develop and win acceptance of its products and services, which are offered in highly competitive markets characterized by continual new product introductions, rapid development in technology and subjective and changing consumer preferences (particularly in the Electronics, Game, Music and Pictures segments); (iv) Sony s ability to implement successfully personnel reduction and other business reorganization activities in its Electronics, Music and Pictures segments; (v) Sony s ability to implement successfully its network strategy for its Electronics, Music, Pictures and Other segments and to develop and implement successful sales and distribution strategies in its Music and Pictures segments in light of the Internet and other technological developments; (vi) Sony s continued ability to devote sufficient resources to research and development and, with respect to capital expenditures, to correctly prioritize investments (particularly in the Electronics segment); and (vii) 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 Year ended March 31

Operating Results

	Yen in billions except per share amounts and number of employees 2004	**2005**	Percent change 2005/2004	Dollars in millions except per share amounts **2005**
FOR THE YEAR				
Sales and operating revenue	¥ 7,496.4	**¥ 7,159.6**	-4.5%	**$ 66,912**
Operating income	98.9	**113.9**	+15.2	**1,065**
Income before income taxes	144.1	**157.2**	+9.1	**1,469**
Income before cumulative effect of accounting changes	90.6	**168.6**	+86.0	**1,575**
Net income	88.5	**163.8**	+85.1	**1,531**
Per share of common stock:				
Income before cumulative effect of an accounting change				
Basic	¥ 98.26	**¥ 180.96**	+84.2%	**$ 1.69**
Diluted	89.03	**162.59**	+82.6	**1.52**
Net income				
Basic	95.97	**175.90**	+83.3	**1.64**
Diluted	87.00	**158.07**	+81.7	**1.48**
Cash dividends	25.00	**25.00**		**0.23**
AT YEAR-END				
Stockholders equity	¥ 2,378.0	**¥ 2,870.3**	+20.7%	**$ 26,826**
Total assets	9,090.7	**9,499.1**	+4.5	**88,777**
Number of employees	162,000	**151,400**		

Notes: 1. *U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥107 = U.S. $1, the approximate Tokyo foreign exchange market rate as of March 31, 2005.*

2. *In July 2003, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants (AcSEC) issued the Statement of Position (SOP) 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts . SOP 03-1 requires insurance enterprises to record additional reserves for long-duration life insurance contracts with minimum guarantee or annuity receivable options. Additionally, SOP 03-1 provides guidance for the presentation of separate accounts. This statement is*

effective for fiscal years beginning after December 15, 2003. Sony adopted SOP 03-1 on April 1, 2004. As a result of the adoption of SOP 03-1, Sony s operating income decreased by ¥5,156 million ($48 million) for the year ended March 31, 2005. Additionally, on April 1, 2004, Sony recognized ¥4,713 million ($44 million) of loss (net of income taxes of ¥2,675 million) as a cumulative effect of an accounting change. In addition, the separate account assets, which are defined by insurance business law in Japan and were previously included in Securities investments and other on the consolidated balance sheet, were excluded from the category of separate accounts under the provision of SOP 03-1. Accordingly, the assets previously treated as separate account assets are now treated within general account assets.

3. *In July 2004, the Emerging Issues Task Force (EITF) issued EITF Issue No. 04-8, The Effect of Contingently Convertible Instruments on Diluted Earnings per Share . In accordance with FAS No.128, Sony had not previously included in the computation of diluted earnings per share (EPS) the number of potential shares of common stock issuable upon the conversion of contingently convertible debt instruments (Co-Cos) that have not met the conditions to exercise the associated stock acquisition rights. EITF Issue No. 04-8 requires that the maximum number of shares of common stock that could be issued upon the conversion of Co-Cos be included in diluted EPS computations from the date of issuance regardless of whether the conditions to exercise such rights have been met. EITF Issue No. 04-8 is effective for reporting periods ending after December 15, 2004. Sony adopted EITF Issue No. 04-8 during the quarter ended December 31, 2004. As a result of the adoption of EITF Issue No. 04-8, Sony s diluted EPS of income before cumulative effect of an accounting change and its net income for the year ended March 31, 2004 were restated. Sony s diluted EPS of its income before cumulative effect of an accounting change and net income for the year ended March 31, 2005 were decreased by ¥7.26 ($0.07) and ¥7.06 ($0.07), respectively, compared to those before the adoption of EITF Issue No. 04-8.*

4. *In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No.46, Consolidation of Variable Interest Entities an Interpretation of Accounting Research Bulletins (ARB) No.51 , and the revised FIN No.46 was issued in December 2003. This interpretation addresses consolidation by a primary beneficiary of a variable interest entity (VIE). Sony adopted FIN No.46 on July 1, 2003. As a result of the adoption of FIN No.46, Sony recognized ¥2,117 million of loss as the cumulative effect of an accounting change. Additionally, Sony s assets and liabilities increased by ¥96,776 million and ¥97,950 million, respectively, including cash and cash equivalents of ¥1,521 million.*

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Operational Review

Consolidated Results for the Fiscal Year ended March 31, 2005

Unless otherwise specified, all amounts are on the basis of Generally Accepted Accounting Principles in the U.S. (U.S. GAAP).
U.S. dollar amounts have been translated from yen, for convenience only, at the rate of C107=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2005.

Sales and operating revenue (sales) decreased 4.5% compared with the previous fiscal year; on a local currency basis sales decreased 3%. (For all references herein to results on a local currency basis, see Note I on page 11.) This reflects both the establishment of Sony BMG Music Entertainment (Sony BMG) (please refer to note on Page 5) and a change in revenue recognition method at Sony Life Insurance Co., Ltd. (Sony Life).

Sales within the Electronics segment remained largely unchanged. Although sales of flat panel televisions, digital still cameras and LCD rear projection televisions increased, there was a decrease in sales primarily of CRT televisions and portable audio products. In the Game segment, an increase in software sales was more than offset by a decline in hardware sales mainly due to strategic price reductions, resulting in a decrease to overall segment sales. In the Music segment, although sales at Sony Music Entertainment (Japan) Inc. (SMEJ) increased, overall sales decreased due to the fact that Sony BMG, a recorded music business joint venture formed with Bertelsmann AG, has been accounted for by the equity method since August 2004 (please refer to the note on page 5). In the Pictures segment, despite the strong contribution of *Spider-Man 2*, there was a decrease in sales as a result of the appreciation of the yen. In the Financial Services segment, revenue decreased mainly due to a decrease in revenue from insurance premiums at Sony Life.

Operating income increased 15.2% (a 26% increase on a local currency basis) compared with the previous fiscal year.

In the Electronics segment, the operating loss increased mainly due to a continued deterioration in the cost of sales ratio associated with a decline in unit selling prices. In the Game segment, as a result of a decline in hardware sales, there was a decrease in operating income. The Pictures segment had record operating income primarily due to the substantial contribution from *Spider-Man 2*.

Restructuring charges, which are recorded as operating expenses, amounted to ¥90.0 billion ($841.1 million) for the fiscal year compared to ¥168.1 billion in the previous fiscal year. In the Electronics segment, restructuring charges were ¥81.8 billion ($764.5 million) compared to ¥145.4 billion in the previous fiscal year.

Income before income taxes increased 9.1% compared to the previous fiscal year. There was a deterioration in the net effect of other income and expenses compared to the previous fiscal year despite an improvement due to a smaller loss on the devaluation of securities investments compared to the previous year, and gains of ¥9.0 billion ($84 million) from a change in interest from Monex Inc., an equity affiliate of Sony, following its business integration by way of a share transfer with Nikko Beans, Inc., and total gains of ¥4.7 billion ($44 million) from the sale of stock and a change in interest in a subsidiary resulting from the initial public offering of So-net M3 Inc., a consolidated subsidiary of Sony Communication Network Corporation. This deterioration was mainly the result of the recording of a net foreign exchange loss in the current fiscal year, compared to the net foreign exchange gain recorded in the previous fiscal year.

Income taxes: Compared to an effective tax rate of 36.6% in the previous fiscal year, the effective tax rate was 10.2% in the current fiscal year. As fully discussed in Sony s Annual Report on Form 20-F for the fiscal year ended March 31, 2004, as a result of the recording of operating losses in the past, the U.S. subsidiaries of Sony have had valuation allowances against deferred tax assets for U.S. federal and certain state taxes. However, in the current fiscal year, based on both an improvement in recent years and a sound outlook for the operating performance at Sony s U.S. subsidiaries, Sony reversed ¥67.9 billion ($635 million) of such valuation allowances, resulting in a reduction to income tax expense. This reversal was the major factor impacting the effective tax rate decline for the fiscal year.

Equity in net income of affiliated companies increased ¥27.3 billion compared to the previous fiscal year. Sony Ericsson Mobile Communications AB (Sony Ericsson) contributed ¥17.4 billion ($163 million) to equity in net income, an increase of ¥11.0 billion compared to the previous fiscal year. Equity in net income of affiliated companies for the current fiscal year includes the recording of ¥12.6 billion ($118 million) as equity in net income from InterTrust Technologies Corporation (InterTrust). This amount reflects InterTrust s proceeds from a license agreement with Microsoft Corporation arising from the settlement of a patent-related lawsuit. In addition, an equity loss of ¥3.4 billion ($32 million) was recorded at Sony BMG, established in August 2004. Furthermore, equity in net loss was recorded at affiliates such as Star Channel Inc., a Japan-based subscription television company specializing in the broadcast of movies, and S-LCD Corporation, a joint-venture with Samsung Electronics Co., Ltd. for the manufacture of amorphous TFT LCD panels. (For operating results of major affiliates accounted for by the equity method, please refer to page 9.)

Net income, as a result, increased 85.1% compared to the previous fiscal year.

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Operating Performance Highlights by Business Segment

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

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

In the Music segment, results for this fiscal year only include the results of Sony Music Entertainment Inc. s (SMEI) recorded music business for the months of April through July 2004, and the twelve months results of SMEI s music publishing business and SMEJ. However, results for the previous fiscal year in the Music segment include the consolidated results for SMEI s recorded music business for all twelve months, as well as the full year s results for SMEI s publishing business and SMEJ.

Electronics	Year ended March 31			
	Yen in billions		Percent change	Dollars in millions
	2004	**2005**	2005/2004	**2005**
Sales and operating revenue	¥ 5,042.3	**¥ 5,021.6**	-0.4%	**$ 46,931**
Operating loss	(6.8)	**(34.3)**		**(321)**

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

Sales remained largely unchanged (a 1% increase on a local currency basis). Sales to outside customers decreased 1.1% compared to 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 portable audio, faced with a difficult competitive environment due to the shift towards hard disc- and flash-based memory players. However, there was an increase in sales of several products including flat panel televisions, which saw increased sales in all geographic areas, digital still cameras, where sales increased outside of Japan, and LCD rear projection televisions, which saw increased unit sales particularly in the U.S.

Operating loss increased by ¥27.5 billion compared with the previous fiscal year. Although there was a decrease in restructuring charges compared with the previous fiscal year, operating loss increased due to a significant deterioration in the cost of sales ratio as a result of a decline in unit selling prices. With regard to products within the Electronics segment, the decrease in sales of CRT televisions and portable audio, as well as the decline of unit selling prices of camcorders, contributed to the increase in operating loss.

Inventory, as of March 31, 2005, was ¥514.4 billion ($4,807 million), a ¥18.4 billion, or 3.7%, increase compared with the level as of March 31, 2004 and a ¥56.5 billion, or 9.9%, decrease compared with the level as of December 31, 2004.

Note: In association with the completion of business integration of Sony Group s semiconductor manufacturing businesses in July 2004, it was decided to account for semiconductor manufacturing operations inventory, which was previously recorded in the Game segment, within the Electronics segment as of the quarter beginning July 1, 2004. (Regarding the integration of Sony Group s semiconductor manufacturing operations, please refer to note 25 on page 95.)

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Game

	Year ended March 31			
	Yen in billions		Percent change	Dollars in millions
	2004	**2005**	2005/2004	**2005**
Sales and operating revenue	¥ 780.2	**¥ 729.8**	-6.5%	**$ 6,821**
Operating income	67.6	**43.2**	-36.1	**404**

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

Sales decreased 6.5% compared with the previous fiscal year (a 6% decrease on a local currency basis).

Hardware: In addition to a decline of PlayStation 2 (PS2) unit sales in Japan, the U.S. and Europe, strategic price reductions on the PS2 undertaken in each of the abovementioned territories resulted in a decline in sales.

Software: Overall software sales increased mainly as a result of an increase in unit sales of PS2 software, which recorded all-time record sales. Revenue increased in Japan, the U.S. and Europe.

PlayStation Portable, on sale in Japan from December 2004 and in the U.S. from March 2005, has recorded strong hardware and software unit sales.

Operating income decreased by ¥24.4 billion, or 36.1%, compared with the previous fiscal year as a result mainly of a decrease in hardware sales coupled with the start-up expenses for PlayStation Portable, despite being partially offset by an increase in software sales.

Worldwide hardware production shipments*:

® PS2: 16.17 million units (a decrease of 3.93 million units)

® PS one: 2.77 million units (a decrease of 0.54 million units)

® PlayStation Portable 2.97 million units

Worldwide software production shipments*:

® PS2: 252 million units (an increase of 30 million units)

® PlayStation: 10 million units (a decrease of 22 million units)

® PlayStation Portable 5.7 million units

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

Inventory as of March 31, 2005, was ¥77.5 billion ($724 million), a ¥53.4 billion, or 40.8%, decrease compared with the level as of March 31, 2004 and a ¥32.1 billion, or 70.7%, increase compared with the level as of December 31,

2004. (Regarding inventory, please refer to the note in the above Electronics segment.)

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Music

	Year ended March 31			
	Yen in billions		Percent change	Dollars in millions
	2004	**2005**	2005/2004	**2005**
Sales and operating revenue	¥ 440.3	**¥ 249.1**	-43.4%	$ **2,328**
Operating income (loss)	(6.0)	**8.8**		**82**

The amounts presented above are the sum of the yen-translated results of SMEI, a U.S. -based operation which aggregates the results of its worldwide subsidiaries on a U.S. dollar basis, and the results of SMEJ, a Japan-based operation which aggregates results in yen. In addition, please refer to the note on page 5 regarding the establishment of Sony BMG.

Sales decreased ¥191.2 billion or 43.4% compared with the previous fiscal year. Of the Music segment s sales, 62% were generated by SMEJ and 38% were generated by SMEI. As noted above, due to the establishment of the Sony BMG joint venture, there were no recorded music sales at SMEI after July 31, 2004. Therefore, SMEI s results are not comparable with results of the prior year.

SMEJ: Sales increased 6.9% compared with the previous fiscal year mainly due to an increase in album and single sales. Best-selling albums and singles during the year included *musiQ* by ORANGE RANGE, *SENTIMENTALovers* by Ken Hirai and *PORNO GRAFFITTI BEST BLUE S* by Porno Graffitti.

Operating income at SMEJ increased significantly compared to the previous fiscal year due to the higher sales noted above and an improvement in the cost of sales ratio. As noted above, SMEI s results are not comparable with the results in the prior year.

Pictures

	Year ended March 31			
	Yen in billions		Percent change	Dollars in millions
	2004	**2005**	2005/2004	**2005**
Sales and operating revenue	¥ 756.4	**¥ 733.7**	-3.0%	$ **6,857**
Operating income	35.2	**63.9**	+81.4	**597**

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

Sales decreased 3.0% compared with the previous fiscal year (1% increase on a U.S. dollar basis) due to the appreciation of the yen. Sales, on a U.S. dollar basis, increased primarily due to higher worldwide home entertainment, international television syndication and worldwide theatrical revenues on films. Worldwide home entertainment and international television syndication revenues were higher as a result of the performance of prior year films including *50 First Dates, Big Fish* and *Bad Boys 2*. For theatrical revenues, the success of the current year film slate, particularly *Spider-Man 2, Hitch* and *The Grudge*, more than offset the impact of releasing fewer films this year. The higher sales from films were partially offset by a decrease in television sales due to the absence in the current year of several transactions that occurred in the prior fiscal year. These included syndication sales of *King of Queens* and *Seinfeld* as well as the extension of a licensing agreement for *Wheel of Fortune*. Television sales in the current year benefited from the highly successful DVD release of *Seinfeld*.

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Operating income increased ¥28.7 billion to ¥63.9 billion ($597 million), compared with the previous fiscal year. This represented record operating income for SPE. The large increase in operating income is due to the strong overall performance of the current year film slate and the home entertainment and international television syndication carryover performance of the prior year films noted above. *Spider-Man 2* s worldwide success contributed substantially to this year s earnings offset somewhat by the disappointing theatrical performance of *Spanglish*. Television s operating income decreased due to the same factors noted above for revenue.

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

Financial Services

	Year ended March 31			
	Yen in billions		Percent change	Dollars in millions
	2004	**2005**	2005/2004	**2005**
Financial Services revenue	¥ 593.5	**¥ 560.6**	-5.6%	**$ 5,238**
Operating income	55.2	**55.5**	+0.6	**519**

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

Financial Services revenue decreased 5.6% compared with the previous fiscal year, mainly due to a decrease in revenue at Sony Life. Revenue at Sony Life was ¥474.3 billion ($4,433 million), a ¥38.7 billion, or 7.5% decrease compared with the previous fiscal year. The main reasons for this decrease were a change in the method of recognizing insurance premiums received on certain products, as of the third quarter beginning October 1, 2003, from being recorded as revenues to being offset against the related provision for future insurance policy benefits, coupled with a small decrease in valuation gains in the current fiscal year compared to the previous year in which significant valuation gains were recorded against stock conversion rights from convertible bonds.

Operating income increased by ¥0.3 billion or 0.6% compared with the previous fiscal year, as a result of the recording of losses in the previous fiscal year by Sony Finance International Inc., associated with reorganization proceedings instituted by Crosswave Communications Inc. under the Corporate Reorganization Law of Japan during the same year. Operating income at Sony Life decreased by ¥2.2 billion or 3.4% to ¥61.0 billion ($570 million), mainly due to a decrease in valuation gains against stock conversion rights from convertible bonds, although this was partially offset by an increase in revenue from insurance premiums excluding the effect of the change in revenue recognition method noted above.

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Other *Year ended March 31*

	Yen in billions 2004	Yen in billions 2005	Percent change 2005/2004	Dollars in millions 2005
Sales and operating revenue	¥ 268.3	**¥ 254.4**	-5.2%	$ **2,378**
Operating loss	(12.1)	**(4.1)**		**(38)**

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

Sales decreased 5.2% compared with the previous fiscal year. This was primarily the result of a decrease in intersegment sales due to contract changes at a Japanese subsidiary involved in the advertising agency business.

An operating loss of ¥4.1 billion ($38 million) was recorded, representing an improvement of ¥8.0 billion compared with the operating loss of ¥12.1 billion recorded in the previous fiscal year. This improvement was mainly due to a reduction of fixed costs, a gain from the sale of a retail and showroom building in Japan and the strong performance of a business engaged in the production and marketing of animation products during the current fiscal year, although this was partially offset by the recording of a one-time gain of ¥7.7 billion by a business operated by a U.S. subsidiary on the sale of rights related to a portion of the Sony Credit Card portfolio in the previous fiscal year.

Operating Results for Major Affiliates Accounted for by the Equity Method

The following operating results for significant companies accounted for by the equity method are not consolidated in Sony s consolidated financial statements. However, Sony believes that this disclosure provides additional useful analytical information to investors regarding operating performance. In addition, please note that the operating results of Sony Ericsson discussed below are reported on an International Financial Reporting Standards basis, and thereby differ from the operating results reported on a U.S. GAAP basis contained within Sony s equity in net income of affiliated companies. Furthermore, as Sony Ericsson and Sony BMG report their results on a calendar year basis, the operating results presented below have been adjusted according to Sony s fiscal year.

Sony Ericsson recorded sales for the one year period ended March 31, 2005 of Euro 6,475 million, representing a Euro 1,269 million or 24% increase compared to the same period of the previous year. Income before taxes was Euro 460 million, a Euro 380 million increase compared to the same period of the previous year, and net income of Euro 267 million was recorded, a Euro 167 million increase compared to the same period of the previous year. Sony Ericsson experienced a strong year led by consumer demand for mid and high-end GSM models. As a result, equity in net income of ¥17.4 billion ($163 million) was recorded by Sony.

Sony BMG recorded sales revenue of $3,258 million, loss before income taxes of $53 million, and a net loss of $66 million during the period that the venture began operations on August 1, 2004 through the end of Sony s fiscal year. Loss before income taxes includes $290 million of restructuring charges. As a result, equity in net loss of ¥3.4 billion ($32 million) was recorded by Sony.

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Cash Flow

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

n Cash Flow Consolidated (excluding Financial Services segment) Year ended March 31

Cash flow	Yen in billions 2004	Yen in billions **2005**	Change 2005/2004	Dollars in millions **2005**
- From operating activities	¥ 401.1	¥ **485.4**	¥ +84.3	$ **4,537**
- From investing activities	(352.5)	**(472.1)**	-119.6	**(4,412)**
- From financing activities	153.8	**(95.4)**	-249.1	**(892)**
Cash and cash equivalents at beginning of the fiscal year	438.5	**592.9**	+154.4	**5,541**
Cash and cash equivalents at end of the fiscal year	592.9	**519.7**	-73.2	**4,857**

Operating Activities: During the fiscal year ended March 31, 2005, although there was an increase in notes and accounts receivable, trade mainly within the Game segment, in addition to the recording of net income, excluding depreciation and amortization primarily within the Pictures and Game segments, there was a decrease in inventory within the Electronics and Game segments and an increase in notes and accounts payable, trade, within the Game segment.

Investing Activities: During the fiscal year ended March 31, 2005, Sony made significant capital investments in semiconductors, particularly the advanced microprocessor Cell, as well as investments associated with the amorphous TFT LCD panel manufacturing joint venture (S-LCD Corporation) established with Samsung Electronics Co., Ltd.

As a result, cash flow from operating activities exceeded cash flow from investing activities by ¥13.3 billion ($125 million).

Financing Activities: During the fiscal year ended March 31, 2005, Sony redeemed a portion of its long-term debt. In addition, of the ¥300.0 billion of convertible bonds due on March 31, 2005, ¥5.0 billion were redeemed on the maturity date with the remainder being converted into common stock.

Cash and Cash Equivalents: The total balance of cash and cash equivalents, accounting for the effect of foreign currency exchange rate fluctuations, was ¥519.7 billion ($4,857 million) as of March 31, 2005, a decrease of ¥73.2 billion compared to March 31, 2004.

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n Cash Flow Financial Services segment Year ended March 31

Cash flow	Yen in billions 2004	**2005**	Change 2005/2004	Dollars in millions **2005**
- From operating activities	¥ 241.6	**¥ 168.1**	¥ -73.5	**$ 1,571**
- From investing activities	(401.6)	**(421.4)**	-19.8	**(3,938)**
- From financing activities	141.7	**256.4**	+114.7	**2,396**
Cash and cash equivalents at beginning of the fiscal year	274.5	**256.3**	-18.2	**2,395**
Cash and cash equivalents at end of the fiscal year	256.3	**259.4**	+3.1	**2,424**

Operating Activities: The cash inflows from insurance premiums and other exceeded the related cash outflows, reflecting primarily an increase in insurance-in-force at Sony Life.

Investing Activities: Payments for investments and advances exceeded proceeds from maturities of marketable securities, sales of securities investments and collections of advances primarily as a result of both investments in mainly Japanese fixed income securities resulting from an increase in insurance-in-force at Sony Life, and a housing loan campaign carried out at Sony Bank.

Financing Activities: In addition to the increase in policyholders accounts at Sony Life, deposits from customers in the banking business increased primarily due to an increase in the number of accounts.

Cash and Cash Equivalents: As a result of the above, the balance of cash and cash equivalents was ¥259.4 billion ($2,424 million) as of March 31, 2005, which was an increase of ¥3.1 billion compared to March 31, 2004.

Notes

Note I: During the fiscal year ended March 31, 2005, the average value of the yen was ¥106.5 against the U.S. dollar and ¥133.7 against the Euro, which was 5.2% higher against the U.S. dollar and 1.9% lower against the Euro, compared with the average rates for the previous fiscal year. Operating results on a local currency basis described herein reflect sales and operating income obtained by applying the yen s average exchange rate in the previous fiscal year to local currency-denominated monthly sales, cost of sales, and selling, general and administrative expenses in the fiscal year. Local currency basis results are not reflected in Sony s financial statements and are not measures conforming with U.S. GAAP. In addition, Sony does not believe that these measures are a substitute for U.S. GAAP measures. However, Sony believes that local currency basis results provide additional useful analytical information to investors regarding operating performance.

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

Note lll:

In the third quarter ended December 31, 2004, Sony adopted Emerging Issues Task Force (EITF) Issue No. 04-8, The Effect of Contingently Convertible Instruments on Diluted Earnings per Share. As a result of adopting EITF Issue No. 04-8, diluted earnings per share of net income for the fiscal year ended March 31, 2004 have been restated (see Note 2 on page 31 regarding EITF Issue No. 04-8).

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Business Segment Information

	Yen in millions		Percent change	Dollars in millions
Year ended March 31	2004	**2005**	2005/2004	**2005**
Sales and operating revenue:				
Electronics				
Customers	¥4,838,268	**¥4,786,236**	-1.1%	**$ 44,731**
Intersegment	204,051	**235,411**		**2,200**
Total	5,042,319	**5,021,647**	-0.4	**46,931**
Game				
Customers	753,732	**702,524**	-6.8	**6,566**
Intersegment	26,488	**27,230**		**255**
Total	780,220	**729,754**	-6.5	**6,821**
Music				
Customers	409,487	**216,779**	-47.1	**2,026**
Intersegment	30,819	**32,326**		**302**
Total	440,306	**249,105**	-43.4	**2,328**
Pictures				
Customers	756,370	**733,677**	-3.0	**6,857**
Intersegment	0	**0**		**0**
Total	756,370	**733,677**	-3.0	**6,857**
Financial Services				
Customers	565,752	**537,715**	-5.0	**5,025**
Intersegment	27,792	**22,842**		**213**
Total	593,544	**560,557**	-5.6	**5,238**
Other				
Customers	172,782	**182,685**	+5.7	**1,707**
Intersegment	95,535	**71,742**		**671**
Total	268,317	**254,427**	-5.2	**2,378**
Elimination	(384,685)			