SONY CORP
Form 6-K
June 03, 2008

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 2008
Commission File Number: 001-06439
SONY CORPORATION
(Translation of registrant s name into English)
7-1, KONAN 1-CHOME, MINATO-KU, TOKYO 108-0075, 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-__________

Consolidated Financial Statements

For the year ended March 31, 2008

Sony Corporation

TOKYO, JAPAN

Contents

Management s Annual Report on Internal Control over Financial Reporting

Sony's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Sony s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable generally accepted accounting principles. Sony s internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of Sony;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of Sony are being made only in accordance with authorizations of management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Sony s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Sony's management evaluated the effectiveness of Sony s internal control over financial reporting as of March 31, 2008 based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the evaluation, management has concluded that Sony maintained effective internal control over financial reporting as of March 31, 2008.

Our independent registered public accounting firm, PricewaterhouseCoopers Aarata, has issued an audit report on our internal control over financial reporting as of March 31, 2008, presented on page 3.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of

Sony Corporation (Sony Kabushiki Kaisha)

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, cash flows and changes in stockholders equity present fairly, in all material respects, the financial position of Sony Corporation and its subsidiaries (Sony) at March 31, 2007 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2008 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Sony maintained, in all material respects, effective internal control over financial reporting as of March 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Sony's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting . Our responsibility is to express opinions on these financial statements and on Sony's internal control over financial reporting based on our audits which were integrated audits in the years ended March 31, 2007 and 2008. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2 to the consolidated financial statements, Sony changed its methods of accounting for defined benefit pensions and other postretirement benefits, stock-based compensation and certain hybrid financial instruments during the fiscal year ended March 31, 2007 and its method of accounting for income taxes during the fiscal year ended March 31, 2008.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers Aarata

Tokyo, Japan

June 2, 2008

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Consolidated Balance Sheets

Sony Corporation and Consolidated Subsidiaries - March 31

	Yen in millions	
	2007	2008
ASSETS		
Current assets:		
Cash and cash equivalents	799,899	1,086,431
Marketable securities	493,315	427,709
Notes and accounts receivable, trade	1,490,452	1,183,620
Allowance for doubtful accounts and sales returns	(120,675)	(93,335)
Inventories	940,875	1,021,595
Deferred income taxes	243,782	237,073
Prepaid expenses and other current assets	699,075	1,146,570
Total current assets	4,546,723	5,009,663
Film costs	308,694	304,243
Investments and advances:		
Affiliated companies	448,169	381,188
Securities investments and other	3,440,567	3,954,460
	3,888,736	4,335,648
Property, plant and equipment:		
Land	167,493	158,289
Buildings	978,680	903,116
Machinery and equipment	2,479,308	2,483,016
Construction in progress	64,855	55,740
	3,690,336	3,600,161
Less Accumulated depreciation	2,268,805	2,356,812
	1,421,531	1,243,349
Other assets:		
Intangibles, net	233,255	263,490
Goodwill	304,669	304,423
Deferred insurance acquisition costs	394,117	396,819
Deferred income taxes	216,997	198,666
Other	401,640	496,438
	1,550,678	1,659,836
Total assets:	11,716,362	12,552,739

(Continued on following page.)

Consolidated Balance Sheets

	Yen in millions	
	2007	2008
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings	52,291	63,224
Current portion of long-term debt	43,170	291,879
Notes and accounts payable, trade	1,179,694	920,920
Accounts payable, other and accrued expenses	968,757	896,598
Accrued income and other taxes	70,286	200,803
Deposits from customers in the banking business	752,367	1,144,399
Other	485,287	505,544
Total current liabilities	3,551,852	4,023,367
Long-term debt	1,001,005	729,059
Accrued pension and severance costs	173,474	231,237
Deferred income taxes	261,102	268,600
Future insurance policy benefits and other	3,037,666	3,298,506
Other	281,589	260,032
Total liabilities:	8,306,688	8,810,801
Minority interest in consolidated subsidiaries	38,970	276,849
Stockholders equity:		
Common stock, no par value		
2007 Authorized 3,600,000,000 shares, outstanding 1,002,897,264 shares	626,907	
2008 Authorized 3,600,000,000 shares, outstanding 1,004,443,364 shares		630,576
Additional paid-in capital	1,143,423	1,151,447
Retained earnings	1,719,506	2,059,361
Accumulated other comprehensive income		
Unrealized gains on securities	86,096	70,929
Unrealized losses on derivative instruments	(1,075)	(3,371)
Pension liability adjustment	(71,459)	(97,562)
Foreign currency translation adjustments	(129,055)	(341,523)
	(115,493)	(371,527)
Treasury stock, at cost		
Common stock		
2007 834,859 shares	(3,639)	
2008 1,015,596 shares		(4,768)
	3,370,704	3,465,089
Commitments and contingent liabilities		
Total liabilities and stockholders equity:	11,716,362	12,552,739

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

Sony Corporation and Consolidated Subsidiaries Fiscal Year Ended March 31

	Yen in millions		
	2006	2007	2008
Sales and operating revenue:			
Net sales	6,692,776	7,567,359	8,201,839
Financial service revenue	720,566	624,282	553,216
Other operating revenue	97,255	104,054	116,359
	7,510,597	8,295,695	8,871,414
Costs and expenses:			
Cost of sales	5,151,397	5,889,601	6,290,022
Selling, general and administrative	1,527,036	1,788,427	1,714,445
Financial service expenses	531,809	540,097	530,306
(Gain) loss on sale, disposal or impairment of assets, net	73,939	5,820	(37,841)
	7,284,181	8,223,945	8,496,932
Operating income	226,416	71,750	374,482
Other income:			
Interest and dividends	24,937	28,240	34,272
Foreign exchange gain, net	-	-	5,571
Gain on sale of securities investments, net	9,645	14,695	5,504
Gain on change in interest in subsidiaries and equity investees	60,834	31,509	82,055
Other	23,039	20,738	22,045
	118,455	95,182	149,447
Other expenses:			
Interest	28,996	27,278	22,931
Loss on devaluation of securities investments	3,878	1,308	13,087
Foreign exchange loss, net	3,065	18,835	-
Other	22,603	17,474	21,594
	58,542	64,895	57,612
Income before income taxes	286,329	102,037	466,317
Income taxes:			
Current	96,400	67,081	183,438
Deferred	80,115	(13,193)	20,040
	176,515	53,888	203,478
Income before minority interest and equity in net income of affiliated companies	109,814	48,149	262,839
Minority interest in income (loss) of consolidated subsidiaries	(626)	475	(5,779)
Equity in net income of affiliated companies	13,176	78,654	100,817
Net income	123,616	126,328	369,435

(Continued on following page.)

Consolidated Statements of Income

	Yen 2006	2007	2008
Per share data:			
Common stock			
Net income			
Basic	122.58	126.15	368.33
Diluted	116.88	120.29	351.10
Cash dividends	25.00	25.00	25.00

The accompanying notes are an integral part of these statements.

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Consolidated Statements of Cash Flows

Sony Corporation and Consolidated Subsidiaries Fiscal Year Ended March 31

	Yen in millions		
	2006	2007	2008
Cash flows from operating activities:			
Net income	123,616	126,328	369,435
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization, including amortization of deferred insurance acquisition costs	381,843	400,009	428,010
Amortization of film costs	286,655	368,382	305,468
Stock-based compensation expense	150	3,838	4,130
Accrual for pension and severance costs, less payments	(7,563)	(22,759)	(17,589)
Gain on the transfer to the Japanese Government of the substitutional portion of employee pension fund, net	(73,472)	-	-
(Gain) loss on sale, disposal or impairment of assets, net	73,939	5,820	(37,841)
(Gain) loss on sale or devaluation of securities investments, net	(5,767)	(13,387)	7,583
(Gain) loss on revaluation of marketable securities held in the financial service business for trading purpose, net	(44,986)	(11,857)	56,543
Gain on change in interest in subsidiaries and equity investees	(60,834)	(31,509)	(82,055)
Deferred income taxes	80,115	(13,193)	20,040
Equity in net (income) losses of affiliated companies, net of dividends	9,794	(68,179)	(13,527)
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable, trade	17,464	(357,891)	185,651
Increase in inventories	(164,772)	(119,202)	(140,725)
Increase in film costs	(339,697)	(320,079)	(353,343)
Increase (decrease) in notes and accounts payable, trade	(9,078)	362,079	(235,459)
Increase (decrease) in accrued income and other taxes	29,009	(14,396)	138,872
Increase in future insurance policy benefits and other	143,122	172,498	166,356
Increase in deferred insurance acquisition costs	(51,520)	(61,563)	(62,951)
(Increase) decrease in marketable securities held in the financial service business for trading purpose	(35,346)	31,732	(57,271)
Increase in other current assets	(8,792)	(35,133)	(24,312)
Increase in other current liabilities	105,865	73,222	51,838
Other	(49,887)	86,268	48,831
Net cash provided by operating activities	399,858	561,028	757,684

(Continued on following page.)

Consolidated Statements of Cash Flows

	Yen in millions		
	2006	2007	2008
Cash flows from investing activities:			
Payments for purchases of fixed assets	(462,473)	(527,515)	(474,552)
Proceeds from sales of fixed assets	38,168	87,319	144,741
Payments for investments and advances by financial service business business	(1,368,158)	(914,754)	(2,283,491)
Payments for investments and advances (other than financial service business)	(36,947)	(100,152)	(103,082)
Proceeds from maturities of marketable securities, sales of securities investments and collections of advances by financial service business	857,376	679,772	1,441,496
Proceeds from maturities of marketable securities, sales of securities investments and collections of advances (other than financial service business)	24,527	22,828	51,947
Proceeds from sales of subsidiaries and equity investees stocks	75,897	43,157	307,133
Other	346	(6,085)	5,366
Net cash used in investing activities	(871,264)	(715,430)	(910,442)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	246,326	270,780	31,093
Payments of long-term debt	(138,773)	(182,374)	(34,701)
Increase (decrease) in short-term borrowings, net	(11,045)	6,096	15,838
Increase in deposits from customers in the financial service business, net	190,320	273,435	485,965
Increase (decrease) in call money and bills sold in the banking business, net	86,100	(100,700)	-
Dividends paid	(24,810)	(25,052)	(25,098)
Proceeds from the issuance of shares under stock-based compensation plans	4,681	5,566	7,484
Proceeds from the issuance of shares by subsidiaries	6,937	2,217	28,943
Other	128	(2,065)	(4,006)
Net cash provided by financing activities	359,864	247,903	505,518
Effect of exchange rate changes on cash and cash equivalents	35,537	3,300	(66,228)
Net increase (decrease) in cash and cash equivalents	(76,005)	96,801	286,532
Cash and cash equivalents at beginning of the fiscal year	779,103	703,098	799,899
Cash and cash equivalents at end of the fiscal year	703,098	799,899	1,086,431
Supplemental data:			
Cash paid during the fiscal year for			
Income taxes	70,019	104,822	126,339
Interest	24,651	23,000	18,817
Non-cash investing and financing activities			
Obtaining assets by entering into capital lease	19,682	13,784	7,017

The accompanying notes are an integral part of these statements.

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Consolidated Statements of Changes in Stockholders Equity

Sony Corporation and Consolidated Subsidiaries Fiscal Year Ended March 31

	Yen in millions						
	Subsidiary tracking stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total
Balance at March 31, 2005	3,917	617,792	1,134,222	1,506,082	(385,675)	(6,000)	2,870,338
Exercise of stock acquisition rights		931	932				1,863
Conversion of convertible bonds		1,484	1,484				2,968
Conversion of subsidiary tracking stock	(3,917)	3,917					-
Comprehensive income:							
Net income				123,616			123,616
Other comprehensive income, net of tax							
Unrealized gains on securities:							
Unrealized holding gains (losses) arising during the period					79,630		79,630
Less : Reclassification adjustment included in net income					(41,495)		(41,495)
Unrealized losses on derivative instruments:							
Unrealized holding gains (losses) arising during the period					7,865		7,865
Less : Reclassification adjustment included in net income					(7,424)		(7,424)
Minimum pension liability adjustment					50,206		50,206
Foreign currency translation adjustments							
Translation adjustments arising during the period					140,473		140,473
Less : Reclassification adjustment included in net income					(17)		(17)
Total comprehensive income							352,854
Stock issue costs, net of tax				(780)			(780)
Dividends declared				(24,968)			(24,968)
Purchase of treasury stock						(394)	(394)
Reissuance of treasury stock				(1,296)		3,267	1,971
Balance at March 31, 2006	-	624,124	1,136,638	1,602,654	(156,437)	(3,127)	3,203,852

(Continued on following page.)

Consolidated Statements of Changes in Stockholders Equity

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

(Continued on following page.)

Consolidated Statements of Changes in Stockholders Equity

	Yen in millions						
	Subsidiary tracking stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total
Balance at March 31, 2007	-	626,907	1,143,423	1,719,506	(115,493)	(3,639)	3,370,704
Exercise of stock acquisition rights		3,538	3,685				7,223
Conversion of convertible bonds		131	131				262
Stock based compensation			4,192				4,192
Comprehensive income:							
Net income				369,435			369,435
Cumulative effect of an accounting change, net of tax				(4,452)			(4,452)
Other comprehensive income, net of tax							
Unrealized gains on securities:							
Unrealized holding gains (losses) arising during the period					3,043		3,043
Less : Reclassification adjustment included in net income					(18,210)		(18,210)
Unrealized losses on derivative instruments:							
Unrealized holding gains (losses) arising during the period					(1,807)		(1,807)
Less : Reclassification adjustment included in net income					(489)		(489)
Pension liability adjustment					(26,103)		(26,103)
Foreign currency translation adjustments							
Translation adjustments arising during the period					(213,160)		(213,160)
Less : Reclassification adjustment included in net income					692		692
Total comprehensive income							108,949
Stock issue costs, net of tax				(48)			(48)
Dividends declared				(25,080)			(25,080)
Purchase of treasury stock						(1,231)	(1,231)
Reissuance of treasury stock			16			102	118
Balance at March 31, 2008	-	630,576	1,151,447	2,059,361	(371,527)	(4,768)	3,465,089

The accompanying notes are an integral part of these statements.

Index to Notes to Consolidated Financial Statements

Sony Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

Sony Corporation and Consolidated Subsidiaries

1. Nature of operations

Sony Corporation and its consolidated subsidiaries (hereinafter collectively referred to as Sony) are engaged in the development, design, manufacture, and sale of various kinds of electronic equipment, instruments, and devices for consumer and industrial markets. Sony also develops, produces, manufactures, and markets home-use game consoles and software. Sony s manufacturing facilities are located in Japan, the United States of America, Europe, and Asia. Its electronic products are marketed throughout the world and game products are marketed mainly in Japan, the United States of America and Europe by sales subsidiaries and unaffiliated local distributors as well as direct sales via the Internet. Sony is engaged in the development, production, manufacture, marketing, distribution and broadcasting of image-based software, including film, video and television products. Sony is also engaged in various financial service businesses, including insurance operations through a Japanese life insurance subsidiary and a non-life insurance subsidiary, banking operations through a Japanese internet-based banking subsidiary and leasing and credit financing operations in Japan. In addition to the above, Sony is engaged in the development, production, manufacture, and distribution of recorded music, a network service business, an animation production and marketing business, and an advertising agency business in Japan.

2. Summary of significant accounting policies

Sony Corporation and its subsidiaries in Japan maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan while its foreign subsidiaries maintain their records and prepare their financial statements in conformity with accounting principles generally accepted in the countries of their domiciles. Certain adjustments and reclassifications have been incorporated in the accompanying consolidated financial statements to conform with accounting principles generally accepted in the United States of America (U.S. GAAP). These adjustments were not recorded in the statutory books.

(1) Newly adopted accounting pronouncements:

Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts -

In September 2005, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued the Statement of Position (SOP) 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts. SOP 05-1 provides guidance on accounting for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in Statement of Financial Accounting Standards (FAS) No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sales of Investments. Sony adopted SOP 05-1 on April 1, 2007. The adoption of SOP 05-1 did not have a material impact on Sony s results of operations and financial position.

Accounting for Servicing of Financial Assets -

In March 2006, the Financial Accounting Standards Board (FASB) issued FAS No. 156, Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140. This statement amends FAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities with respect to the accounting for separately recognized servicing assets and servicing liabilities. Sony adopted FAS No. 156 on April 1, 2007. The adoption of FAS No. 156 did not have a material impact on Sony s results of operations and financial position.

Accounting for Uncertainty in Income Taxes -

In June 2006, the FASB issued FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FAS No. 109, Accounting for Income Taxes. FIN No. 48 prescribes a minimum recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Effective April 1, 2007, Sony adopted the provision of FIN No. 48. As a result of the adoption, a charge against beginning retained earnings totaling 4,452 million yen was recorded. As of April 1, 2007, the total unrecognized tax benefits were 223,857 million yen, of which 129,632 million yen, if recognized, would affect Sony s effective tax rate.

How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement -

In June 2006, the Emerging Issues Task Force (EITF) issued EITF Issue No. 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement. EITF Issue No. 06-3 requires disclosure of the accounting policy for any tax assessed by a governmental authority that is imposed concurrently on a specific revenue-producing transaction between a seller and a customer. Sony adopted EITF Issue No. 06-3 on April 1, 2007. The adoption of EITF Issue No. 06-3 did not have a material impact on Sony s results of operations.

(2) Significant accounting policies:

Basis of consolidation and accounting for investments in affiliated companies -

The consolidated financial statements include the accounts of Sony Corporation and its majority-owned subsidiary companies, general partnerships in which Sony has a controlling interest, and variable interest entities for which Sony is the primary beneficiary. All intercompany transactions and accounts are eliminated. Investments in business entities in which Sony does not have control, but has the ability to exercise significant influence over operating and financial policies generally through 20-50% ownership, are accounted for under the equity method. In addition, investments in general partnerships in which Sony does not have a controlling interest and limited partnerships are also accounted for under the equity method if more than minor influence over the operation of the investee exists (generally through more than 3-5% ownership). When the interest in the partnership is so minor that Sony may have virtually no influence over the operation of the investee, the cost method is used. Under the equity method, investments are stated at cost plus/minus Sony s portion of equity in undistributed

earnings or losses. Consolidated net income includes Sony s equity in current earnings or losses of such entities, after the elimination of unrealized intercompany profits. If the value of an investment has declined and is judged to be other than-temporary, the investment is written down to its fair value.

On occasion, a consolidated subsidiary or an affiliated company accounted for by the equity method may issue its shares to third parties in either a public or private offering or upon conversion of convertible debt to common stock at amounts per share in excess of or less than Sony s average per share carrying value. With respect to such transactions, where the sale of such shares is not part of a broader corporate reorganization and the reacquisition of such shares is not contemplated at the time of issuance, the resulting gains or losses arising from the change in interest are recorded in income for the year the change in interest transaction occurs. If the sale of such shares is part of a broader corporate reorganization, the reacquisition of such shares is contemplated at the time of issuance or realization of such gain is not reasonably assured (i.e., the entity is newly formed, non-operating, a research and development or start-up/development stage entity, or where the entity's ability to continue in existence is in question), the transaction is accounted for as a capital transaction.

The excess of the cost over the underlying net equity of investments in consolidated subsidiaries and affiliated companies accounted for on an equity basis is allocated to identifiable assets and liabilities based on fair values at the date of acquisition. The unassigned residual value of the excess of the cost over Sony s underlying net equity is recognized as goodwill as a component of the investment balance.

Use of estimates -

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Translation of foreign currencies -

All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at appropriate year-end current exchange rates and all income and expense accounts are translated at exchange rates that approximate those rates prevailing at the time of the transactions. The resulting translation adjustments are accumulated as a component of accumulated other comprehensive income.

Receivables and payables denominated in foreign currencies are translated at appropriate year-end exchange rates and the resulting translation gains or losses are taken into income.

Cash and cash equivalents -

Cash and cash equivalents include all highly liquid investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

Marketable debt and equity securities -

Debt and equity securities designated as available-for-sale, whose fair values are readily determinable, are carried at fair value with unrealized gains or losses included as a component of accumulated other comprehensive income, net of applicable taxes.

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Debt and equity securities classified as trading securities are carried at fair value with unrealized gains or losses included in income. Debt securities that are expected to be held-to-maturity are carried at amortized cost. Individual securities classified as either available-for-sale or held-to-maturity are reduced to net realizable value by a charge to income for other-than-temporary declines in fair value. Realized gains and losses are determined on the average cost method and are reflected in income.

Equity securities in non-public companies -

Equity securities in non-public companies are carried at cost as fair value is not readily determinable. If the carrying value of a non-public equity investment is estimated to have declined and such decline is judged to be other-than-temporary, Sony recognizes the impairment of the investment and the carrying value is reduced to its fair value. Determination of impairment is based on the consideration of several factors, including operating results, business plans and estimated future cash flows. Fair value is determined through the use of various methodologies such as discounted cash flows, valuation of recent financings and comparable valuations of similar companies.

Inventories -

Inventories in the Electronics and Game segments as well as non-film inventories for the Pictures segment are valued at cost, not in excess of market, cost being determined on the average cost basis except for the cost of finished products carried by certain subsidiary companies in the Electronics segment which is determined on the first-in, first-out basis. The market value of inventory is determined as the net realizable value i.e., estimated selling price in the ordinary course of business less predictable costs of completion and disposal. Sony does not consider a normal profit margin when calculating the net realizable value.

Film costs -

Film costs related to theatrical and television products (which include direct production costs, production overhead and acquisition costs) are stated at the lower of unamortized cost or estimated fair value and classified as non-current assets. Film costs are amortized, and the estimated liabilities for residuals and participations are accrued, for an individual product based on the proportion that current period actual revenues bear to the estimated remaining total lifetime revenues. These estimates are reviewed on a periodic basis.

Property, plant and equipment and depreciation -

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is primarily computed on the declining-balance method for Sony Corporation and its Japanese subsidiaries, except for certain semiconductor manufacturing facilities and buildings whose depreciation is computed on the straight-line method over the estimated useful life of the assets. Property, plant and equipment for foreign subsidiaries is also computed on the straight-line method. Useful lives for depreciation range from 15 to 50 years for buildings and from 2 to 10 years for machinery and equipment. Significant renewals and additions are capitalized at cost. Maintenance and repairs, and minor renewals and betterments are charged to income as incurred.

Goodwill and other intangible assets -

Goodwill and certain other intangible assets that are determined to have an indefinite life are not amortized and are tested annually for impairment during the fourth quarter of the fiscal year and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value below its carrying amount. Impairment testing of goodwill is performed at a reporting unit level. Fair value of reporting units and indefinite lived intangible assets is generally determined using a discounted cash flow analysis.

Intangible assets with finite lives that are determined not to have an indefinite life mainly consist of artist contracts, music catalogs, acquired patent rights and software to be sold, leased or otherwise marketed. Artist contracts and music catalogs are amortized on a straight-line basis, generally, over 10 to 40 years. Acquired patent rights and software to be sold, leased or otherwise marketed are amortized on a straight-line basis, generally, over 3 to 8 years.

Computer software to be sold -

Sony accounts for software development costs in accordance with FAS No. 86, Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed .

In the Electronics segment, costs related to establishing the technological feasibility of a software product are expensed as incurred as a part of research and development in cost of sales. Costs that are incurred to produce the finished product after technological feasibility is established are capitalized and amortized to cost of sales over the estimated economic life, which is generally three years.

In the Game segment, technological feasibility of game software is established when the product master is completed. Consideration to capitalize game software development costs before this point is limited to the development costs of games for which technological feasibility can be proven to be at an earlier stage.

At each balance sheet date, Sony performs periodic reviews to ensure that unamortized capitalized software costs remain recoverable from future profits.

Deferred insurance acquisition costs -

Costs that vary with and are primarily related to acquiring new insurance policies are deferred as long as they are recoverable. The deferred insurance acquisition costs include such items as commissions, medical examination costs and inspection report fees. The deferred insurance acquisition costs for traditional life insurance contracts are amortized over the premium-paying period of the related insurance policies using assumptions consistent with those used in computing policy reserves. The deferred insurance acquisition costs for non-traditional life insurance contracts are amortized over the expected life in proportion to the estimated gross profits.

Product warranty -

Sony provides for the estimated cost of product warranties at the time revenue is recognized by either product category group or individual product. The product warranty is calculated based upon product sales, estimated probability of failure and estimated cost per claim. The variables used in the calculation of the provision are reviewed on a periodic basis.

Certain subsidiaries in the Electronics segment offer extended warranty programs. The consideration received for extended warranty service is deferred and amortized on a straight-line basis over the term of the extended warranty.

Future insurance policy benefits -

Liabilities for future insurance policy benefits are primarily comprised of the present value of estimated future payments to policyholders. These liabilities are computed by the net level premium method based upon the assumptions, including future investment yield, morbidity, mortality and withdrawals. These assumptions are reviewed on a periodic basis. Liabilities for future insurance policy benefits also include liabilities for guaranteed benefits related to certain non-traditional long-duration life and annuity contracts.

Impairment of long-lived assets -

Sony reviews the recoverability of the carrying value of its long-lived assets held and used, other than goodwill and intangible assets with indefinite lives, and assets to be disposed of, whenever events or changes in circumstances indicate that the individual carrying amount of an asset may not be recoverable. Long-lived assets to be held and used are reviewed for impairment by comparing the carrying value of the assets with their estimated undiscounted future cash flows. If the cash flows are determined to be less than the carrying value of the asset, an impairment loss has occurred and the loss would be recognized during the period for the difference between the carrying value of the assets and its estimated fair value. Long-lived assets that are to be disposed of other than by sale are considered held and used until they are disposed of. Long-lived assets that are to be disposed of by sale are reported at the lower of their carrying value or fair value less cost to sell and are not depreciated.

Derivative financial instruments -

All derivatives are recognized as either assets or liabilities in the balance sheet at fair value. Changes in the fair value of derivative financial instruments are either recognized periodically in income or stockholders equity (as a component of accumulated other comprehensive income), depending on whether the derivative financial instrument qualifies as a hedge and the derivative is being used to hedge changes in fair value or cash flows.

In accordance with FAS No. 133, Accounting for Derivative Instruments and Hedging Activities , the various derivative financial instruments held by Sony are classified and accounted for as described below.

Fair value hedges

Changes in the fair value of derivatives designated and effective as fair value hedges for recognized assets or liabilities or unrecognized firm commitments are recognized in earnings as offsets to changes in the fair value of the related hedged assets or liabilities.

Cash flow hedges

Changes in the fair value of derivatives designated and effective as cash flow hedges for forecasted transactions or exposures associated with recognized assets or liabilities are initially recorded in other comprehensive income and reclassified into earnings when the hedged transaction affects earnings. Changes in the fair value of the ineffective portion are recognized in current period earnings.

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Derivatives not designated as hedges

Changes in the fair value of derivatives that are not designated as hedges under FAS No. 133 are recognized in current period earnings.

When applying hedge accounting, Sony formally documents all hedging relationships between the derivatives designated as hedges and the hedged items, as well as its risk management objectives and strategies for undertaking various hedging activities. Sony links all hedges that are designated as fair value or cash flow hedges to specific assets or liabilities on the balance sheet or to the specific forecasted transactions. Sony also assesses, both at the inception of the hedge and on an on-going basis, whether the derivatives that are designated as hedges are highly effective in offsetting changes in fair value or cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge, Sony discontinues hedge accounting. Hedge ineffectiveness, if any, is included in the current period earnings.

Stock-based compensation -

With the adoption of FAS No. 123 (revised 2004), Share-Based Payment (FAS No. 123(R)) , effective April 1, 2006, Sony accounts for stock-based compensation using the fair value based method. The stock-based compensation expense for the fiscal year ended March 31, 2007 and 2008 was 3,838 million yen and 4,130 million yen, respectively. The expense is mainly included in selling, general and administrative expenses. The income tax benefit related to the stock-based compensation expense for the fiscal year ended March 31, 2007 and 2008 was 790 million yen and 952 million yen, respectively. Sony has elected the modified prospective method of transition prescribed in FAS No. 123(R) and therefore has not restated the results for prior periods. Under this transition method, stock-based compensation expense for the fiscal year ended March 31, 2007 and 2008 included the expense for all stock acquisition rights granted prior to, but not yet vested as of April 1, 2006, based on the grant-date fair value estimated in accordance with the original provision of FAS No. 123, Accounting for Stock-Based Compensation . Stock-based compensation expense for all stock acquisition rights granted after April 1, 2006 is based on the grant-date fair value estimated in accordance with FAS No. 123(R). The fair value is measured on the date of grant using the Black-Scholes option-pricing model. Sony recognizes this compensation expense, net of an estimated forfeiture rate, only for the rights expected to vest ratably over the requisite service period of the stock acquisition rights, which is generally a period of three years. Sony estimated the forfeiture rate for the fiscal year ended March 31, 2007 and 2008, based on its historical experience in the stock acquisition rights plans where the majority of the vesting terms have been satisfied.

Prior to the adoption of FAS No. 123(R), Sony had applied APB No. 25, Accounting for Stock Issued to Employees , and its related interpretations in accounting for its stock-based compensation plans and followed the disclosure-only provisions of FAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment of FASB Statement No. 123 . As prescribed by APB No. 25, Sony had accounted for stock-option compensation using the intrinsic value method. Compensation expense for the year ended March 31, 2006 was not significant as the exercise prices for the stock acquisition rights plans were determined based on the prevailing market price shortly before the date of grant.

The following table reflects the effects on net income and net income per share (EPS) allocated to the common stock as if Sony had applied the fair value recognition provisions of FAS No. 123 to its stock-based compensation. See Note 16 for detailed assumptions.

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	Yen in millions Fiscal year ended March 31 2006
Net income allocated to common stock:	
As reported	122,308
Deduct: Total stock-based compensation expense determined under the fair value based method, net of related tax effects	(4,182)
Pro forma	118,126

	Yen Fiscal year ended March 31 2006
Net income allocated to common stock:	
-Basic EPS:	
As reported	122.58
Pro forma	118.39
-Diluted EPS:	
As reported	116.88
Pro forma	112.91

Free distribution of common stock -

On occasion, Sony Corporation may make a free distribution of common stock which is accounted for either by a transfer from additional paid-in capital to the common stock account or with no entry if free shares are distributed from the portion of previously issued shares in the common stock account.

Under the Japanese Company Law, a stock dividend can be affected by an appropriation of retained earnings to the common stock account, followed by a free share distribution with respect to the amount appropriated by resolution of the Board of Directors.

Free distribution of common stock is recorded in the consolidated financial statements only when it becomes effective, except for the calculation and presentation of per share amounts.

Stock issue costs -

Stock issue costs are directly charged to retained earnings, net of tax, in the accompanying consolidated financial statements as the Japanese Company Law prohibits charging such stock issue costs to capital accounts which is the prevailing practice in the United States of America.

Revenue recognition -

Revenues from electronics and game sales are recognized upon delivery which is considered to have occurred when the customer has taken title to the product and the risks and rewards of ownership have been substantively transferred. If the sales contract contains a customer acceptance provision, then sales are recognized after customer acceptance occurs or the acceptance provisions lapse.

Certain software products published by Sony provide limited on-line features at no additional cost to the customer.

Generally, such features are considered to be incidental to the overall software product and an inconsequential deliverable. Accordingly, revenue related to software products containing these limited on-line features is not deferred. In instances where

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the software products on-line features or additional functionality is considered a substantive deliverable in addition to the software product, revenue and costs of sales are recognized ratably over an estimated service period, which is estimated to be six months.

Revenues from the theatrical exhibition of motion pictures are recognized as the customer exhibits the film. Revenues from the licensing of feature films and television programming are recorded when the material is available for telecast by the licensee and when any restrictions regarding the exhibition or exploitation of the product lapse. Revenues from the sale of DVDs and Blu-ray discs, net of anticipated returns and sales incentives, are recognized upon availability of sale to the public.

Traditional life insurance policies that the life insurance subsidiary underwrites, most of which are categorized as long-duration contracts, mainly consist of whole life, term life and accident and health insurance contracts. Premiums from these policies are reported as revenue when due from policyholders.

Amounts received as payment for non-traditional contracts such as interest sensitive whole life contracts, single payment endowment contracts, single payment juvenile contracts and other contracts without life contingencies are recognized as deposits to policyholder account balances and included in future insurance policy benefits and other. Revenues from these contracts are comprised of fees earned for administrative and contract-holder services, which are recognized over the period of the contracts, and included in financial service revenue. Property and casualty insurance policies that the non-life insurance subsidiary underwrites are primarily automotive insurance contracts which are categorized as short-duration contracts. Premiums from these policies are reported as revenue over the period of the contract in proportion to the amount of insurance protection provided.

Consideration given to a customer or a reseller -

In accordance with the Emerging Issue Task Force (EITF) Issue No. 01-9, Accounting for Consideration Given by a Vendor to a Customer or Reseller of the Vendor s Products , sales incentives or other cash consideration given to a customer or a reseller including payments for buydowns, slotting fees and cooperative advertising programs, are accounted for as a reduction of revenue unless Sony receives an identifiable benefit (goods or services) in exchange for the consideration, the fair value of the benefit is reasonably estimated and documentation from the reseller is received to support the amounts paid to the reseller. Payments meeting these criteria are recorded as selling, general and administrative expenses. For the fiscal years ended March 31, 2006, 2007 and 2008, consideration given to a reseller, primarily for free promotional shipping and cooperative advertising programs included in selling, general and administrative expense totaled 29,489 million yen, 31,933 million yen and 37,018 million yen, respectively.

Cost of sales -

Costs classified as cost of sales relate to the producing and manufacturing of products and include items such as material cost, subcontractor cost, depreciation of fixed assets, amortization of intangible assets, personnel expenses, research and development costs, and amortization of film costs related to theatrical and television products.

Research and development costs -

Research and development costs are expensed as incurred.

Selling, general and administrative -

Costs classified as selling expense relate to promoting and selling products and include items such as advertising, promotion, shipping, and warranty expenses.

General and administrative expenses include operating items such as officer's salaries, personnel expenses, depreciation of fixed assets, office rental for sales, marketing and administrative divisions, a provision for doubtful accounts and amortization of intangible assets.

Selling, general and administrative expenses are expensed as incurred.

Financial service expenses -

Financial service expenses include a provision for policy reserves and amortization of deferred insurance acquisition cost, and all other operating costs such as personnel expenses, depreciation of fixed assets, and office rental of subsidiaries in the Financial Services segment.

Advertising costs -

Advertising costs are expensed when the advertisement or commercial appears in the selected media, except for advertising costs for acquiring new insurance policies which are deferred and amortized as part of insurance acquisition costs.

Shipping and handling costs -

The majority of shipping and handling, warehousing and internal transfer costs for finished goods are included in selling, general and administrative expenses. An exception to this is in the Pictures segment where such costs are charged to cost of sales as they are an integral part of producing and distributing films under SOP 00-2, Accounting by Producers or Distributors of Films . All other costs related to Sony's distribution network are included in cost of sales, including inbound freight charges, purchasing and receiving costs, inspection costs and warehousing costs for raw materials and in-process inventory. Amounts paid by customers for shipping and handling costs are included in net sales.

Income taxes -

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income, and the tax liability attributed to undistributed earnings of subsidiaries and affiliated companies accounted for by the equity methods. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases computed in accordance with FIN No. 48 of assets and liabilities. Sony records valuation allowances to reduce deferred tax assets to the amount that management believes is more likely than not to be realized. In assessing the likelihood of realization, Sony considers all currently available evidence for future years, both positive and negative, supplemented by information of historical results and future earning plans along with tax planning strategies for each tax jurisdiction. Sony accounts for uncertain tax positions in accordance with FIN No. 48. Accordingly, Sony records assets and liabilities for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. Sony continues to recognize interest and penalties, if any, with respect to unrecognized tax benefits as interest expense and as income tax expense, respectively, in the consolidated statements of income. The amount of income taxes Sony pays is subject to ongoing audits by various taxing authorities, which may result in proposed assessments. In addition, several significant items related to intercompany transfer pricing are currently the subject of negotiations between tax jurisdictions as a result of pending advance pricing agreement applications and competent authority requests. Sony s estimate for the potential outcome for any uncertain tax issues is highly judgmental. Sony assesses its income tax positions and records tax benefits for all years subject to examination based upon the evaluation of the facts, circumstances and information available at that reporting date. For those tax positions for which it is more likely than not that a tax benefit will be sustained, Sony records the amount that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. If Sony does not believe that it is more likely than not that a tax benefit will be sustained, no tax benefit is recognized. However, Sony s future results may include favorable or unfavorable adjustments to Sony s estimated tax liabilities due to closure of income tax examinations, the outcome of negotiations between tax jurisdictions, new regulatory or judicial pronouncements or other relevant events. As a result, the amount of unrecognized tax benefits, and the effective tax rate, may fluctuate significantly on an annual basis.

Net income per share -

Basic net income per share is computed based on the weighted-average number of shares of common stock outstanding during each period.

On June 20, 2001, Sony Corporation issued shares of subsidiary tracking stock in Japan, the economic value of which was intended to be linked to the economic value of Sony Communication Network Corporation (SCN), a directly and indirectly wholly-owned subsidiary of Sony Corporation which is engaged in Internet-related services. The subsidiary tracking stock holders had no direct rights in the equity or assets of SCN or the assets of Sony Corporation. SCN subsequently changed its name to So-net Entertainment Corporation (So-net) in October 2006. On October 26, 2005, the Board of Directors of Sony Corporation decided to terminate all shares of subsidiary tracking stock and convert such shares to shares of Sony common stock at a conversion rate of 1.114 share of Sony common stock per share of subsidiary tracking stock. All shares of subsidiary tracking stock were converted to 3,452,808 shares of Sony common stock on December 1, 2005.

Prior to December 1, 2005, Sony calculated and presented per share data separately for Sony s common stock and for the subsidiary tracking stock by the two-class method based on FAS No. 128, Earnings per Share. As the holders of the subsidiary tracking stock had the right to participate in earnings, together with common stockholders, under this method, basic net income per share for each class of stock was calculated based on the earnings allocated to each class of stock for the applicable period, divided by the weighted-average number of outstanding shares in each class during the applicable period.

The earnings allocated to the subsidiary tracking stock were determined based on the subsidiary tracking stock holders economic interest in the targeted subsidiary s earnings available for dividends. The earnings allocated to the common stock were calculated by subtracting the earnings allocated to the subsidiary tracking stock from Sony s net income for the period.

The earnings allocated to common stock for the fiscal year ended March 31, 2006 were calculated by subtracting the earnings allocated to the subsidiary tracking stock for the eight months ended November 30, 2005.

The computation of diluted net income per share reflects the maximum possible dilution from conversion, exercise, or contingent issuance of securities including the conversion of contingently convertible debt instruments regardless of whether the conditions to exercise the conversion rights have been met.

(3) Recent Pronouncements:

Fair Value Measurements -

In September 2006, the FASB issued FAS No. 157, Fair Value Measurements . FAS No. 157 establishes a framework for measuring fair value, clarifies the definition of fair value, and expands disclosures about the use of fair value measurements. FAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. FAS No. 157 will be effective for Sony beginning April 1, 2008. In February 2008, the FASB issued FASB Staff Positions (FSP) FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 and FSP FAS 157-2, Effective Date of FASB Statement No.157 . FSP FAS 157-1 removes certain leasing transactions from the scope of FAS No. 157. FSP FAS 157-2 partially delays the effective date of FAS No. 157 for one year for certain nonfinancial assets and liabilities. The adoption of FAS No. 157 as it relates to financial assets and liabilities is not expected to have a material impact on Sony s consolidated results of operations and financial positon. Sony is currently evaluating the impact for nonfinancial assets and liabilities.

Fair Value Option for Financial Assets and Financial Liabilities -

In February 2007, the FASB issued FAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities . FAS No. 159 permits companies to choose to measure, on an instrument-by-instrument basis, financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The fair value measurement election is irrevocable and subsequent changes in fair value must be recorded in earnings. FAS No. 159 is required to be adopted by Sony in the first quarter beginning April 1, 2008. The adoption of FAS No. 159 is not expected to have a material impact on Sony s consolidated results of operations and financial position. However, its effects on future periods will depend on the nature of instruments held by Sony and its elections under the provisions of FAS No. 159.

Business Combinations -

In December 2007, the FASB issued FAS No. 141(R), Business Combinations, which applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first fiscal year beginning on or after December 15, 2008. FAS No. 141(R) requires that the acquisition method of accounting be applied to a broader range of business combinations, amends the definition of a business combination, provides a definition of a business, requires an acquirer to recognize an acquired business at its fair value at the acquisition date and requires the assets and liabilities assumed in a business combination to be measured and recognized at their fair values as of the acquisition date, with limited exceptions. Sony will adopt FAS No. 141(R) as of April 1, 2009, and its effects on future periods will depend on the nature and significance of any acquisitions subject to FAS No. 141(R).

Noncontrolling Interests in Consolidated Financial Statements -

In December 2007, the FASB issued FAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. FAS No. 160 requires that the noncontrolling interest in the equity of a subsidiary be accounted for and reported as equity, provides revised guidance on the treatment of net income and losses attributable to the noncontrolling interest and changes in ownership interests in a subsidiary and requires additional disclosures that identify and distinguish between the interests of the controlling and noncontrolling owners. Pursuant to the transition provisions of FAS No. 160, Sony will adopt the statement as of April 1, 2009, via retrospective application of the presentation and disclosure requirements. Sony is currently evaluating the impact of adopting FAS No. 160.

Disclosures about Derivative Instruments and Hedging Activities -

In March 2008, the FASB issued FAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. FAS No. 161 amends and expands the disclosures required by FAS No. 133 to provide more information about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under FAS No. 133 and its interpretations, and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. FAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Sony is currently evaluating the additional disclosures required by FAS No. 161.

The Hierarchy of Generally Accepted Accounting Principles -

In May 2008, the FASB issued FAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. FAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles.

FAS No. 162 will be effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411. Sony is currently evaluating the impact of adopting FAS No. 162.

Financial Guarantee Insurance Contracts -

In May 2008, the FASB issued FAS No. 163, Accounting for Financial Guarantee Insurance Contracts. FAS No. 163 clarifies how FAS No. 60, Accounting and Reporting by Insurance Enterprises , applies to financial guarantee insurance contracts issued by insurance enterprises, including the recognition and measurement of premium revenue and claim liabilities. It also requires expanded disclosures about financial guarantee insurance contracts. FAS No. 163 will be effective for Sony as of April 1, 2009, except for disclosures about the insurance enterprise s risk-management activities. Disclosures about the insurance enterprise s risk-management activities will be effective the first period beginning after issuance of FAS No. 163. Sony is currently evaluating the impact of adopting FAS No. 163.

(4) Reclassifications:

Certain reclassifications of the financial statements for the fiscal years ended March 31, 2006 and 2007 have been made to conform to the presentation for the fiscal year ended March 31, 2008.

3. *Inventories*

Inventories are comprised of the following:

	Yen in millions March 31 2007	2008
Finished products	649,848	687,095
Work in process	123,539	119,656
Raw materials, purchased components and supplies	167,488	214,844
	940,875	1,021,595

4. *Film costs*

Film costs are comprised of the following:

	Yen in millions March 31 2007	2008
Theatrical:		
Released (including acquired film libraries)	150,396	130,280
Completed not released	16,255	5,369
In production and development	93,584	133,829
Television licensing:		
Released (including acquired film libraries)	48,313	33,113
In production and development	146	1,652
	308,694	304,243

Sony estimates that approximately 88% of unamortized costs of released films (excluding amounts allocated to acquired film libraries) at March 31, 2008 will be amortized within the next three years. Approximately 84 billion yen of released film costs are expected to be amortized during the next twelve months. As of March 31, 2008, unamortized acquired film libraries of approximately 4 billion yen are expected to be amortized on a straight-line basis over an average remaining life of 2 years. Approximately 112 billion yen of accrued participation liabilities included in accounts payable, other and accrued expenses are expected to be paid during the next twelve months.

5. *Related party transactions*

Sony accounts for its investments in affiliated companies over which Sony has significant influence or ownership of 20% or more but less than or equal to 50% under the equity method. In addition, investments in general partnerships in which Sony does not have a controlling interest and limited partnerships are also accounted for under the equity method. Significant investments at March 31, 2008 of this nature include, but are not limited to Sony s interest in Sony Ericsson Mobile Communications, AB (Sony Ericsson) (50%), SONY BMG MUSIC ENTERTAINMENT (SONY BMG) (50%), and S-LCD Corporation (S-LCD) (50% minus 1 share).

The summarized combined financial information that is based on information provided by the equity investees including information for significant equity affiliates and the reconciliation of such information to the consolidated financial statements is shown below:

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Balance Sheets

	Yen in millions March 31, 2007 Sony Ericsson	S-LCD	SONY BMG	MGM Holdings	Others	Total
Current assets	786,805	113,977	211,910	79,042	236,493	1,428,227
Noncurrent assets	72,904	347,505	220,483	595,496	99,911	1,336,299
Total assets	859,709	461,482	432,393	674,538	336,404	2,764,526
Current liabilities	527,660	66,357	267,671	130,252	186,359	1,178,299
Long-term liabilities	12,161	17,875	63,811	549,402	25,005	668,254
Stockholders equity	319,888	377,250	100,911	(5,116)	125,040	917,973
Percentage of ownership in equity investees	50%	50%	50%	45%	20%-50%	
Equity investment and undistributed earnings (losses) of affiliated companies, before consolidating and reconciling adjustments	159,944	188,625	50,456	(2,302)		
Consolidation and reconciling adjustments:						
Advances	0	0	16,210	0		
Other	0	0	(35,909)	2,302		
Investment in and advances to equity investees at cost plus equity in undistributed earnings since acquisition	159,944	188,625	30,757	0	68,843	448,169

	Yen in millions March 31, 2008 Sony Ericsson	S-LCD	SONY BMG	Others	Total
Current assets	676,077	139,040	224,474	307,149	1,346,740
Noncurrent assets	93,969	314,133	187,097	556,524	1,151,723
Total assets	770,046	453,173	411,571	863,673	2,498,463
Current liabilities	491,740	70,079	260,324	230,210	1,052,353
Long-term liabilities	14,838	23,224	36,663	602,040	676,765
Stockholders equity	263,468	359,870	114,584	31,423	769,345
Percentage of ownership in equity investees	50%	50%	50%	20%-50%	
Equity investment and undistributed earnings of affiliated companies, before consolidating and reconciling adjustments	131,734	179,935	57,292		
Consolidation and reconciling adjustments:					
Advances	0	0	158		
Other	0	0	(30,193)		
Investment in and advances to equity investees at cost plus equity in undistributed earnings since acquisition	131,734	179,935	27,257	42,262	381,188

Statements of Income

	Yen in millions Fiscal year ended March 31, 2006 Sony Ericsson	S-LCD	SONY BMG	MGM Holdings	Others	Total
Net revenues	1,086,869	323,295	483,495	146,021	317,492	2,357,172
Gross profit	294,408	(3,172)	262,601	55,749	58,640	668,226
Other expenses, net	213,740	11,158	244,205	92,288		
Income (loss) before income taxes	80,668	(14,330)	18,396	(36,539)		
Income tax (expense) benefit	(18,395)	0	(6,054)	(993)		
Minority interest (expense) benefit	(4,294)	0	(682)	0		
Net income (loss)	57,979	(14,330)	11,660	(37,532)	15,205	32,982
Percentage of ownership in equity investees	50%	50%	50%	45%	20%-50%	
Equity in net income (loss) of affiliated companies, before consolidating and reconciling adjustments	28,989	(7,165)	5,830	(16,890)		
Consolidation and reconciling adjustments:						
Other	0	0	0	0		
Equity in net income (loss) of affiliated companies	28,989	(7,165)	5,830	(16,890)	2,412	13,176

	Yen in millions Fiscal year ended March 31, 2007 Sony Ericsson	S-LCD	SONY BMG	MGM Holdings	Others	Total
Net revenues	1,766,855	457,635	475,839	126,694	461,189	3,288,212
Gross profit	526,744	30,030	243,139	15,257	79,062	894,232
Other expenses, net	301,730	17,188	227,183	78,810		
Income (loss) before income taxes	225,014	12,842	15,956	(63,553)		
Income tax (expense) benefit	(49,433)	0	(5,036)	7,321		
Minority interest (expense) benefit	(4,978)	0	(864)	0		
Net income (loss)	170,603	12,842	10,056	(56,232)	11,226	148,495
Percentage of ownership in equity investees	50%	50%	50%	45%	20%-50%	
Equity in net income (loss) of affiliated companies, before consolidating and reconciling adjustments	85,301	6,421	5,028	(25,304)		
Consolidation and reconciling adjustments:						
Other	(16)	(1,375)	0	6,386		
Equity in net income (loss) of affiliated companies	85,285	5,046	5,028	(18,918)	2,213	78,654

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	Yen in millions				
	Fiscal year ended March 31, 2008				
	Sony Ericsson	S-LCD	SONY BMG	Others	Total
Net revenues	2,031,078	670,745	445,697	615,240	3,762,760
Gross profit	617,685	46,464	229,451	132,591	1,026,191
Other expenses, net	392,443	28,148	200,436		
Income before income taxes	225,242	18,316	29,015		
Income tax (expense) benefit	(60,935)	(520)	(8,725)		
Minority interest (expense) benefit	(4,917)	0	(272)		
Net income (loss)	159,390	17,796	20,018	(44,387)	152,817
Percentage of ownership in equity investees	50%	50%	50%	20%-50%	
Equity in net income of affiliated companies, before consolidating and reconciling adjustments	79,695	8,898	10,009		
Consolidation and reconciling adjustments:					
Other	(214)	(1,479)	0		
Equity in net income of affiliated companies	79,481	7,419	10,009	3,908	100,817

Sony Ericsson, a 50/50 joint venture with Telefonaktiebolaget LM Ericsson focused on mobile phone handsets, was established in October 2001 and is included in affiliated companies accounted for under the equity method. Sony Ericsson purchases several key components such as camera modules, memory, batteries and LCD panels from Sony. Sony received a return of capital of 17,353 million yen from Sony Ericsson during the fiscal year ended March 31, 2008. Sony received a dividend of 44,194 million yen in May 2007 and 37,045 million yen in March 2008 from Sony Ericsson.

S-LCD, a joint venture with Samsung Electronics Co., LTD focused on manufacturing amorphous TFT panels, was established in April 2004 with Sony s ownership interest of 50% minus 1 share. Sony invested 63,512 million yen and 25,992 million yen in S-LCD during the fiscal years ended March 31, 2007 and 2008, respectively. S-LCD is strategic to Sony s television business as it provides a source of high quality large screen LCD panels to differentiate Sony s Bravia LCD televisions.

As of August 1, 2004, Sony combined its recorded music business, except for the operations of its recorded music business in Japan, with the recorded music business of Bertelsmann AG in a 50/50 joint venture known as SONY BMG. As a result, the operations of the recorded music business, except for the recorded music business in Japan, are accounted for under the equity method. Sony BMG is engaged in the development, production and distribution of recorded music, in all commercial formats and musical genres. Sony views the recorded music business as a key element of its Sony convergence strategy of hardware (such as stereo players and Walkmans) with content offerings.

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 MGM. Under the terms of the acquisition agreement, the aforementioned investor group acquired MGM for a total purchase price of approximately 5.0 billion U.S. dollars. MGM continues to operate under the Metro-Goldwyn-Mayer name as a private company, headquartered in Los Angeles, California, and is focused on new film production and distribution activities. As part of the acquisition, SCA invested 257 million U.S. dollars for 20% of the total equity capital, which includes both common stock and a significant amount of non-voting preferred stock with detachable common stock warrants. Although Sony owns 20% of MGM s total equity, on a fully diluted basis as a result of the warrants dilution, Sony owns 45% of the total outstanding common stock and therefore, recorded 45% of MGM s net income (loss) as equity in net income of affiliated companies. As a result of the

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cumulative losses recorded by MGM through March 31, 2007, the carrying value of Sony s investment in MGM was written down to zero as of March 31, 2007. As Sony has not guaranteed any obligations of MGM nor has it otherwise committed to provide further financial support to MGM, Sony did not record its share of MGM s net losses during the year-ended March 31, 2008.

Sony s proportionate share in the underlying net assets of the investees exceeded the carrying value of investments in affiliated companies by 40,534 million yen and 11,361 million yen at March 31, 2007 and 2008, respectively. These differences primarily relate to the differences in the carrying value of the net assets contributed by Sony and Bertelsmann AG upon the formation of SONY BMG in August 2004. The contribution of assets to SONY BMG was accounted for at book value. Acquisitions by Bertelsmann AG s recorded music business shortly prior to the formation of SONY BMG resulted in goodwill comprising a significant portion of the assets contributed to SONY BMG by Bertelsmann AG, whereas Sony s contributed assets had a lower historical basis. As a result, Sony s carrying value of the investment in SONY BMG is below its 50% share of the underlying assets of SONY BMG. Since the contributions for both Sony and Bertelsmann AG were recorded at historical book value by SONY BMG, there is a basis difference attributable to non-depreciable assets which are not being amortized. Differences in the carrying value of Sony s other equity investments and the proportionate share of the fair value of underlying net assets primarily relate to unamortizable goodwill.

Affiliated companies accounted for under the equity method with an aggregate carrying value of 5,587 million yen and 6,931 million yen at March 31, 2007 and 2008, were quoted on established markets at an aggregate value of 36,701 million yen and 58,460 million yen, respectively.

The number of affiliated companies accounted for under the equity method at March 31, 2007 and 2008 were 62 and 63, respectively.

Account balances and transactions with affiliated companies accounted for under the equity method are presented below:

	Yen in millions March 31 2007	2008
Accounts receivable, trade	45,617	37,037
Advances	20,740	1,649
Accounts payable, trade	51,894	54,680

	Yen in millions Fiscal year ended March 31 2006	2007	2008
Sales	234,636	299,487	266,303
Purchases	282,071	463,578	542,075

Dividends from affiliated companies accounted for under the equity method for the fiscal years ended March 31, 2006, 2007 and 2008 were 22,970 million yen, 10,475 million yen and 87,290 million yen, respectively.

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6. ***Transfer of financial assets***

Sony set up several accounts receivable sales programs whereby Sony can sell up to 50,000 million yen of eligible trade accounts receivable. Through these programs, Sony can sell receivables to qualified special purpose entities owned and operated by banks. Sony can sell receivables in which the agreed upon original due dates are no more than 190 days after the sales of receivables. These transactions are accounted for as sales 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. Total trade accounts receivable sold during the fiscal years ended March 31, 2007 and 2008 were 152,519 million yen and 181,412 million yen, respectively. Losses from these transactions were insignificant. Although Sony continues servicing the receivables subsequent to being sold, no servicing liabilities are recorded as the costs of collection of the sold receivables are insignificant.

During the fiscal year ended March 31, 2008, a subsidiary of the Financial services segment set up several receivables sales programs whereby the subsidiary can sell up to 18,000 million yen of eligible receivables. Through these programs, the subsidiary can sell receivables to qualified special purpose entities owned and operated by banks. The subsidiary can sell receivables in which the agreed upon original due dates are no more than 180 days after the sales of receivables. These transactions are accounted for as sales in accordance with FAS No. 140, since the subsidiary has relinquished control of the receivables. Total receivables sold during the fiscal year ended March 31, 2008 was 113,755 million yen. Losses from these transactions were insignificant. Although the subsidiary continues servicing the receivables subsequent to being sold, no servicing liabilities are recorded as the costs of collection of the sold receivables are insignificant.

7. ***Marketable securities and securities investments and other***

Marketable securities and securities investments and other include debt and equity securities of which the aggregate cost, gross unrealized gains and losses and fair value pertaining to available-for-sale securities and held-to-maturity securities are as follows:

	Yen in millions							
	March 31, 2007				March 31, 2008			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:								
Debt securities	2,517,849	23,716	(8,903)	2,532,662	3,052,096	78,723	(13,092)	3,117,727
Equity securities	281,012	128,888	(7,332)	402,568	239,551	75,316	(19,555)	295,312
Held-to-maturity								
Securities	36,035	165	(127)	36,073	57,840	773	(34)	58,579
Total	2,834,896	152,769	(16,362)	2,971,303	3,349,487	154,812	(32,681)	3,471,618

At March 31, 2008, debt securities classified as available-for-sale securities and held-to-maturity securities mainly consist of Japanese government and municipal bonds and corporate debt securities with maturities of one to ten years.

Proceeds from sales of available-for-sale securities were 524,268 million yen, 374,612 million yen and 1,296,797 million yen for the fiscal years ended March 31, 2006, 2007 and 2008, respectively. On those sales, gross realized gains computed on the

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average cost basis were 68,096 million yen, 38,448 million yen and 36,832 million yen and gross realized losses were 3,143 million yen, 4,031 million yen and 8,418 million yen, respectively.

Marketable securities classified as trading securities at March 31, 2007 and 2008 were 376,541 million yen and 349,290 million yen, respectively, which consist of debt and equity securities.

In the ordinary course of business, Sony maintains long-term investment securities, included in securities investments and other, issued by a number of non-public companies. The aggregate carrying amounts of the investments in non-public companies at March 31, 2007 and 2008, totaled 64,894 million yen and 62,138 million yen, respectively. Non-public equity investments are 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 immediately and the carrying value is reduced to its fair value.

With respect to trading securities, primarily in the life insurance business, Sony recorded net unrealized gains of 45,092 million yen and 11,550 million yen for the fiscal years ended March 31, 2006 and 2007, respectively, and net unrealized losses of 57,003 million yen for the fiscal year ended March 31, 2008. Changes in the fair value of trading securities are recognized in Financial service revenue in the consolidated statements of income.

The following table presents the gross unrealized losses on, and fair value of, Sony s investment securities with unrealized losses, aggregated by investment category and the length of time that individual investment securities have been in a continuous unrealized loss position, at March 31, 2008.

	Yen in millions					
	Less than 12 months		12 months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Available-for-sale:						
Debt securities	657,501	(6,544)	105,021	(6,548)	762,522	(13,092)
Equity securities	90,378	(18,016)	5,927	(1,539)	96,305	(19,555)
Held-to-maturity						
Securities	5,347	(34)	-	-	5,347	(34)
Total	753,226	(24,594)	110,948	(8,087)	864,174	(32,681)

In evaluating the factors for available-for-sale securities whose fair values are readily determinable, Sony presumes a decline in value to be other-than-temporary if the fair value of the security is 20 percent or more below its original cost for an extended period of time (generally for a period of up to six months). This criterion is employed as a threshold to identify securities which may have a decline in value that is other-than-temporary. The presumption of an other-than-temporary impairment in such cases may be overcome if there is evidence to support that the decline is temporary in nature due to the existence of other factors which overcome the duration or magnitude of the decline. On the other hand, there may be cases where impairment losses are recognized when the decline in the fair value of the security is not more than 20 percent or such decline has not existed for an extended period of time, as a result of considering specific factors which may indicate the decline in the fair value is other-than-temporary. For the fiscal years ended March 31, 2006, 2007 and 2008, total impairment losses were 4,029 million yen, 7,413 million yen and 37,117 million yen, respectively.

At March 31, 2008, Sony determined that the decline in value for securities with unrealized losses shown in the above table is not other-than-temporary in nature.

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8. ***Leased assets***

Sony leases certain communication and commercial equipment, plant, office space, warehouses, employees' residential facilities and other assets. Certain of these leases have renewal and purchase options.

Leased assets under capital leases are comprised of the following:

	Yen in millions March 31	
Class of property	2007	2008
Land	80	68
Buildings	1,859	1,669
Machinery, equipment, film costs, and others	50,506	52,941
Accumulated depreciation and amortization	(13,675)	(11,704)
	38,770	42,974

Sony has also entered into capital lease arrangements with third parties to finance certain of its theatrical productions. Film costs under capital leases at March 31, 2007 and 2008, included in the table above, were 23,490 million yen and 32,991 million yen, respectively.

The following is a schedule by year of the future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of March 31, 2008:

	Yen in millions
Fiscal year ending March 31:	
2009	11,571
2010	9,155
2011	6,716
2012	5,081
2013	4,347
Later years	31,184
Total minimum lease payments	68,054
Less - Amount representing interest	16,165
Present value of net minimum lease payments	51,889
Less - Current obligations	9,328
Long-term capital lease obligations	42,561

Total minimum capital lease payments have not been reduced by minimum sublease income of 8,877 million yen due in the future under noncancelable subleases.

Minimum rental expenses under operating leases for the fiscal years ended March 31, 2006, 2007 and 2008 were 80,014 million yen, 85,598 million yen and 87,040 million yen, respectively. Sublease rentals received under operating leases for the fiscal years ended March 31, 2006, 2007 and 2008 were 1,350 million yen, 2,689 million yen and 1,718 million yen, respectively.

The total minimum rentals to be received in the future under noncancelable subleases as of March 31, 2008 were 6,147 million yen. The minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in

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excess of one year at March 31, 2008 are as follows:

	Yen in millions
Fiscal year ending March 31:	
2009	42,736
2010	33,401
2011	24,349
2012	15,878
2013	13,217
Later years	59,732
Total minimum future rentals	189,313

9. ***Goodwill and intangible assets***

Intangible assets acquired during the fiscal year ended March 31, 2008 totaled 91,456 million yen, which are subject to amortization and primarily consist of acquired patent rights of 8,840 million yen and software to be sold, leased or otherwise marketed of 23,382 million yen and music catalogs of 43,485 million yen. The weighted average amortization period for acquired patent rights, software to be sold, leased or otherwise marketed and music catalogs is 7 years, 3 years and 31 years, respectively.

Intangible assets subject to amortization are comprised of the following:

	Yen in millions			
	March 31, 2007		March 31, 2008	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Artist contracts	15,218	(13,019)	15,218	(13,820)
Music catalog	79,930	(27,669)	106,587	(28,001)
Acquired patent rights	84,482	(37,173)	93,000	(48,503)
Software to be sold, leased or otherwise marketed	42,028	(21,435)	48,186	(23,529)