

SONY CORP  
Form 20-F  
June 28, 2010

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 20-F**

**o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**or**

**p ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended March 31, 2010**

**or**

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from/to**

**or**

**o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Date of event requiring this shell company report:**

**Commission file number 1-6439**

**Sony Kabushiki Kaisha**  
*(Exact Name of Registrant as specified in its charter)*

**SONY CORPORATION**  
*(Translation of Registrant's name into English)*

**Japan**

*(Jurisdiction of incorporation or organization)*

**7-1, KONAN 1-CHOME, MINATO-KU,  
TOKYO 108-0075 JAPAN**

*(Address of principal executive offices)*

**Samuel Levenson, Senior Vice President, Investor Relations**

**Sony Corporation of America**

**550 Madison Avenue**

**New York, NY 10022**

**Telephone: 212-833-6722, Facsimile: 212-833-6938**

*(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)*

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

| <b>Title of Each Class</b>  | <b>Name of Each Exchange on Which Registered</b> |
|-----------------------------|--|
| American Depositary Shares* | New York Stock Exchange                          |
| Common Stock**              | New York Stock Exchange                          |

\* American Depositary Shares evidenced by American Depositary Receipts.  
Each American Depositary Share represents one share of Common Stock.

\*\* No par value per share.  
Not for trading, but only in connection with the listing of American Depositary Shares pursuant to the requirements of the New York Stock Exchange.

Securities registered pursuant to Section 12(g) of the Act:

**None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

**None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the Annual Report:

| <b>Title of Class</b>      | <b>Outstanding as of</b>               |   |
|----------------------------|--|---|
|                            | <b>March 31, 2010<br/>(Tokyo Time)</b> | <b>March 31, 2010<br/>(New York Time)</b> |
| Common Stock               | 1,003,531,808                          |   |
| American Depositary Shares |  | 96,204,576                                |

Indicate by check mark if the registrant is a well-seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No



**Table of Contents****Cautionary Statement**

Statements made in this annual report with respect to Sony's current plans, estimates, strategies and beliefs and other statements that are not historical facts are forward-looking statements about the future performance of Sony. Forward-looking statements include, but are not limited to, those statements using words such as believe, expect, plans, strategy, prospects, forecast, estimate, project, anticipate, aim, intend, seek, may, might, 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 and 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 and incurs production costs, or in which Sony's assets and liabilities are denominated; (iii) Sony's ability to continue to design and develop and win acceptance of, as well as achieve sufficient cost reductions for, its products and services, including LCD televisions and game platforms, which are offered in highly competitive markets characterized by continual new product and service introductions, rapid development in technology and subjective and changing consumer preferences; (iv) Sony's ability and timing to recoup large-scale investments required for technology development and increasing production capacity; (v) Sony's ability to implement successful business restructuring and transformation efforts under changing market conditions; (vi) Sony's ability to implement successful hardware, software, and content integration strategies for all segments excluding the Financial Services segment, and to develop and implement successful sales and distribution strategies in light of the Internet and other technological developments; (vii) Sony's continued ability to devote sufficient resources to research and development and, with respect to capital expenditures, to prioritize investments correctly (particularly in the Consumer Products & Devices segment); (viii) Sony's ability to maintain product quality; (ix) the success of Sony's acquisitions, joint ventures and other strategic investments; (x) Sony's ability to forecast demands, manage timely procurement and control inventories; (xi) the outcome of pending legal and/or regulatory proceedings; (xii) shifts in customer demand for financial services such as life insurance and Sony's ability to conduct successful asset liability management in the Financial Services segment; and (xiii) the impact of unfavorable conditions or developments (including market fluctuations or volatility) in the Japanese equity markets on the revenue and operating income of the Financial Services segment. Risks and uncertainties also include the impact of any future events with material adverse impacts.

Important information regarding risks and uncertainties is also set forth elsewhere in this annual report, including in Risk Factors included in Item 3. *Key Information*, Item 4. *Information on the Company*, Item 5. *Operating and Financial Review and Prospects*, Legal Proceedings included in Item 8. *Financial Information*, Sony's consolidated financial statements referenced in Item 8. *Financial Information*, and Item 11. *Quantitative and Qualitative Disclosures about Market Risk*.

In this document, Sony Corporation and its consolidated subsidiaries are together referred to as Sony. In addition, sales and operating revenue are referred to as sales in the narrative description except in the consolidated financial statements.

As of March 31, 2010, Sony Corporation had 1,266 consolidated subsidiaries (including variable interest entities). It has applied the equity accounting method with respect to its 73 affiliated companies.



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**Table of Contents****Item 1. Identity of Directors, Senior Management and Advisers**

Not Applicable

**Item 2. Offer Statistics and Expected Timetable**

Not Applicable

**Item 3. Key Information****Selected Financial Data**

|  | 2006          | Fiscal Year Ended March 31               |               |               | 2010                 |
|--|---------------|--|---------------|---------------|----------------------|
|  |               | 2007                                     | 2008          | 2009          |                      |
|  |               | (Yen in millions, Yen per share amounts) |               |               |                      |
| <b>Income Statement Data:</b>                                      |               |  |               |               |                      |
| Sales and operating revenue  | 7,510,597     | 8,295,695                                | 8,871,414     | 7,729,993     | <b>7,213,998</b>     |
| Equity in net income (loss) of affiliated companies                | 13,176        | 78,654                                   | 100,817       | (25,109)      | <b>(30,235)</b>      |
| Operating income (loss)  | 239,592       | 150,404                                  | 475,299       | (227,783)     | <b>31,772</b>        |
| Income (loss) before income taxes                                  | 299,506       | 180,691                                  | 567,134       | (174,955)     | <b>26,912</b>        |
| Income taxes   | 176,515       | 53,888                                   | 203,478       | (72,741)      | <b>13,958</b>        |
| Net income (loss) attributable to Sony Corporation's stockholders  | 123,616       | 126,328                                  | 369,435       | (98,938)      | <b>(40,802)</b>      |
| <b>Data per Share of Common Stock:</b>                             |               |  |               |               |                      |
| Net income (loss) attributable to Sony Corporation's stockholders* |               |  |               |               |                      |
| Basic  | 122.58        | 126.15                                   | 368.33        | (98.59)       | <b>(40.66)</b>       |
| Diluted  | 116.88        | 120.29                                   | 351.10        | (98.59)       | <b>(40.66)</b>       |
| Cash dividends declared  |               |  |               |               |                      |
| Interim  | 12.50         | 12.50                                    | 12.50         | 30.00         | <b>12.50</b>         |
| Fiscal year-end  | (10.36 cents) | (10.78 cents)                            | (11.26 cents) | (31.89 cents) | <b>(14.38 cents)</b> |
|  | 12.50         | 12.50                                    | 12.50         | 12.50         | <b>12.50</b>         |
|  | (11.04 cents) | (10.24 cents)                            | (11.92 cents) | (13.01 cents) | <b>(13.55 cents)</b> |
| <b>Depreciation and amortization**</b>                             | 381,843       | 400,009                                  | 428,010       | 405,443       | <b>371,004</b>       |
| <b>Capital expenditures (additions to fixed assets)</b>            | 384,347       | 414,138                                  | 335,726       | 332,068       | <b>192,724</b>       |
| <b>Research and development costs</b>                              | 531,795       | 543,937                                  | 520,568       | 497,297       | <b>432,001</b>       |
| <b>Balance Sheet Data:</b>   |               |  |               |               |                      |

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|  |            |            |            |            |                   |
|--|------------|------------|------------|------------|-------------------|
| Net working capital (deficit)  | 569,296    | 994,871    | 986,296    | (190,265)  | <b>72,947</b>     |
| Long-term debt   | 764,898    | 1,001,005  | 729,059    | 660,147    | <b>924,207</b>    |
| Sony Corporation's stockholders' equity  | 3,203,852  | 3,370,704  | 3,465,089  | 2,964,653  | <b>2,965,905</b>  |
| Common stock   | 624,124    | 626,907    | 630,576    | 630,765    | <b>630,822</b>    |
| Total assets   | 10,607,753 | 11,716,362 | 12,552,739 | 12,013,511 | <b>12,866,114</b> |
| Number of shares issued at fiscal year-end (thousands of shares of common stock) | 1,001,680  | 1,002,897  | 1,004,443  | 1,004,535  | <b>1,004,571</b>  |
| Sony Corporation's stockholders' equity per share of common stock                | 3,200.85   | 3,363.77   | 3,453.25   | 2,954.25   | <b>2,955.47</b>   |

\* Refer to Note 22 to the notes to the consolidated financial statements.

\*\* Depreciation and amortization includes amortization expenses for intangible assets and deferred insurance acquisition costs.

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|  | Average*     | High          | Low<br>(Yen) | Period-End   |
|--|--------------|---------------|--------------|--------------|
| <b>Yen Exchange Rates per U.S. dollar:</b> |              |               |              |              |
| Fiscal year ended March 31                 |              |               |              |              |
| 2006                                       | 113.15       | 120.93        | 104.41       | 117.78       |
| 2007                                       | 116.92       | 121.81        | 110.07       | 117.56       |
| 2008                                       | 114.31       | 124.09        | 96.88        | 99.85        |
| 2009                                       | 100.62       | 110.48        | 87.80        | 99.15        |
| <b>2010</b>                                | <b>92.93</b> | <b>100.71</b> | <b>86.12</b> | <b>93.40</b> |
| 2010                                       |              |               |              |              |
| January                                    |              | 93.31         | 89.41        | 90.38        |
| February                                   |              | 91.94         | 88.84        | 88.84        |
| March                                      |              | 93.40         | 88.43        | 93.40        |
| April                                      |              | 94.51         | 92.03        | 94.24        |
| May  |              | 94.68         | 89.89        | 90.81        |
| <b>June (through June 18)</b>              |              | <b>92.33</b>  | <b>90.79</b> | <b>90.79</b> |

The noon buying rate for yen in New York City as certified for customs purposes by the Federal Reserve Bank of New York on June 18, 2010 was 90.79 yen = 1 U.S. dollar.

\* The average yen exchange rates represent average noon buying rates of all the business days during the respective year.

**Capitalization and Indebtedness**

Not Applicable

**Reasons for the Offer and Use of Proceeds**

Not Applicable

**Risk Factors**

Sony realigned its reportable segments from the first quarter of the fiscal year ended March 31, 2010 to reflect its reorganization as of April 1, 2009, primarily repositioning operations previously reported within the Electronics and Game segments and establishing the Consumer Products & Devices ( CPD ), Networked Products & Services ( NPS ) and B2B & Disc Manufacturing ( B2B & Disc ) segments. Additionally, Music is a new reportable segment effective from the fiscal year ended March 31, 2010. Pictures and Financial Services continue to be reportable segments. The equity earnings from Sony Ericsson are presented as a separate segment. For further details, please refer to Item 5. Operating Results .

Sony plans further modifications to its business segment classification to reflect the Company's reorganization as of April 1, 2010. Sony expects to report its operating results in line with new business segments from the first quarter of the fiscal year ending March 31, 2011. Please note that the following Risk Factors section is based on the business segment classification that applies to the fiscal year ended March 31, 2010.

This section contains forward-looking statements that are subject to the Cautionary Statement appearing on page 2 of this annual report. Risks to Sony are also discussed elsewhere in this annual report, including without limitation in the other sections of this annual report referred to in the Cautionary Statement.

*Sony must overcome increasingly intense competition, especially in the CPD and NPS segments.*

Sony produces consumer products that compete against products sold by competitors, including new entrants, on the basis of several factors such as price and function. In order to produce products that appeal to changing and increasingly diverse consumer preferences, and to overcome the fact that a relatively high percentage of consumers

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already possess products similar to those that Sony offers, Sony must develop superior technology, anticipate consumer tastes and rapidly develop attractive products with competitive selling prices. Sony faces increasingly intense pricing pressure from competitors and retailer consolidation, and shorter product cycles in a variety of consumer product categories. Sony's operating results depend on Sony's ability to continue to efficiently develop and offer products at competitive prices that meet changing and increasingly diverse consumer preferences. If Sony is unable to effectively anticipate and counter the ongoing price erosion that frequently affects its products, or if the average selling prices of its products decrease faster than Sony is able to reduce its manufacturing costs, Sony's operating results and financial condition may be adversely impacted.

***To remain competitive and stimulate customer demand, Sony must successfully manage frequent new product and service introductions and transitions.***

Due to the highly volatile and competitive nature of the consumer electronics, network services and mobile communication industries, Sony must continually introduce new products, services and technologies, enhance existing products and services, and effectively stimulate customer demand for new and upgraded products and services in both mature and developing markets. The success of new product and service introductions depends on a number of factors, such as the timely and successful completion of development efforts, market acceptance, Sony's ability to manage the risks associated with new products and production ramp-up issues, the availability of application software for new products, the effective management of purchase commitments and inventory levels in line with anticipated product demand, the availability of products in appropriate quantities and costs to meet anticipated demand, and the risk that new products and services may have quality or other defects in the early stages of introduction. Recent examples of such new products and services include 3D televisions and other 3D-related businesses. In addition, new and upgraded products and services can affect the sales and profitability of existing products and services. Accordingly, if Sony cannot properly manage frequent new product and service introductions and transitions, Sony's operating results and financial condition may be adversely impacted.

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

Sony has several business segments in different industries and has many product and service categories within the CPD, NPS and B2B & Disc segments, which cause it to face a broad range of existing and new competitors ranging from large multinational companies to highly specialized entities that focus on only a few businesses. As a result, Sony may not be able to fund or invest in certain areas of its businesses to the same degree as its competitors. Furthermore, these competitors may have greater financial, technical, and marketing resources available to them than those available to the businesses of Sony. In addition, the businesses within Sony's Financial Services segment may not be able to compete effectively, especially against established competitors with superior financial, marketing and other relevant resources. A failure to efficiently anticipate and respond to these established and new competitors may adversely impact Sony's operating results.

***Sony's investments in research and development may not yield the results expected.***

Sony's businesses operate in intensely competitive markets characterized by changing consumer preferences and rapid technological innovation. Due to advanced technological innovation and the relative ease of technology imitation, new products and services tend to become standardized more rapidly, leading to more intense competition and ongoing price erosion. In order to strengthen the competitiveness of its products in this environment, Sony continues to invest heavily in research and development. However, these investments may not yield the innovation or the results expected quickly enough, or competitors may lead Sony in technological innovation, hindering Sony's ability to commercialize, in a timely manner, new and competitive products and services that meet the needs of the market, which consequently may adversely impact Sony's operating results as well as its reputation.

***Sony's business restructuring and transformation efforts are costly and may not attain their objectives.***

Sony continued to implement restructuring initiatives in the fiscal year ended March 31, 2010 that focused on a review of the Sony Group's investment plan, the realignment of its manufacturing sites, the reallocation of its workforce, and headcount reductions. As a result of these restructuring initiatives, a total of 124.3 billion yen in restructuring charges, including 7.9 billion yen of non-cash charges related to depreciation associated with



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restructured assets, has been recorded in the fiscal year ended March 31, 2010. Sony anticipates recording approximately 80 billion yen of restructuring charges for the fiscal year ending March 31, 2011. Restructuring charges are recorded in cost of sales, selling, general and administrative expenses and loss (gain) on sale, disposal or impairment of assets, net and thus initially deteriorate Sony's operating income (loss) and net income (loss) attributable to Sony's stockholders. Sony will continue rationalizing its manufacturing operations, shifting and aggregating manufacturing to lower-cost countries and increasing the utilization of third-party original equipment and design manufacturers (OEMs and ODMs). In addition, as a part of its transformation efforts, since April 1, 2009 Sony established three horizontal platforms for (1) manufacturing, logistics, procurement and customer services, (2) R&D and common software development, and (3) global sales and marketing functions, and has been undertaking business process optimization to enhance profitability. Furthermore Sony has started developing a common procurement platform as well as consolidating its suppliers during the fiscal year ended March 31, 2010. In January 2010, Sony announced that it will outsource a part of the human resources and accounting operation services of Sony and certain of its subsidiaries in Japan from April 2010. Sony has and will become more reliant upon outsourcing services provided by external business partners.

Due to internal or external factors, projected growth, efficiencies and cost savings from the above-noted restructuring and transformation initiatives may not be realized as scheduled and, even if those benefits are realized, Sony may not be able to achieve the level of profitability expected due to the worsening of market conditions beyond expectations. Such possible internal factors may include, for example, changes in restructuring and transformation plans, an inability to implement the initiatives effectively with available resources, or delays in implementing the new business processes or strategies. Possible external factors may include, for example, increased burdens from regional labor regulations, labor union agreements and Japanese customary labor practices that may prevent Sony from executing its restructuring initiatives as planned. The inability to fully and successfully implement restructuring and transformation programs may adversely affect Sony's operating results and financial condition. Additionally, operating cash flows may be reduced as a result of the payment for restructuring charges.

***Sony's acquisitions and joint ventures within strategic business areas may not be successful.***

Sony actively engages in acquisitions, joint ventures and other strategic investments in order to acquire new technologies, efficiently develop new businesses, and enhance its competitiveness in businesses that were previously performed by divisions of Sony Corporation or its wholly-owned subsidiaries.

Sony may incur significant integration expenses to incorporate acquired businesses. Additionally, Sony may not achieve strategic objectives, planned revenue improvements and cost savings, and may not retain key personnel of the acquired business. Sony's operating results may also be adversely affected by the assumption of liabilities related to any acquired business.

Sony currently has investments in several joint ventures, including Sony Ericsson and S-LCD. If Sony and its partners are unable to reach their common financial objectives successfully, Sony's operating results may be adversely affected. Sony's operating results may also be adversely affected in the short- and medium-term during the partnership, even though Sony and its partners remain on course to achieve their common financial objectives. In addition, by participating in joint ventures or other strategic investments, Sony may encounter conflicts of interest, may not maintain sufficient control over these relationships, including over cash flow, and may be faced with an increased risk of the loss of proprietary technology or know-how. Sony's reputation may be harmed by the actions or activities of a joint venture that uses the Sony brand. Sony may also be required to provide additional funding or debt guarantees to a joint venture, whether as a result of significant or persistent underperformance, or otherwise.

***Sony may not be able to recoup the capital expenditures or investments it makes to increase production capacity.***

Sony continues to invest in production equipment in the CPD, NPS and B2B & Disc segments. Sony also invests in production-related joint ventures. One example is the investment Sony and Samsung Electronics Co., Ltd. ( Samsung ) made in connection with 8th generation production capacity for amorphous thin film transistor ( TFT ) LCD panel production, following investments in 7th generation production capacity at S-LCD, a joint

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venture of the two companies in Korea. As of March 31, 2010, the accumulated total amount of the investment in S-LCD by Sony and Samsung for 7th and 8th generation production capacity was approximately 400 billion yen (approximately 50 percent of which was contributed by Sony). If unforeseen market changes and corresponding decline in demand result in a mismatch between sales volume and anticipated production volumes, or if unit sales prices decline due to market oversupply, Sony may not be able to recover its capital expenditures or investments, in part or in full, or the recovery of these capital expenditures or investments may take longer than expected. As a result, the carrying value of the related assets may be subject to an impairment charge, which may adversely affect Sony's profitability.

***Increased reliance on external business partners may increase financial, reputational and other risks to Sony.***

With the increasing necessity of pursuing quick business development and high operating efficiency with limited managerial resources, Sony increasingly procures components (including LCD panels for televisions) and technologies (such as operating systems for PCs) from third-party suppliers. Reliance on third-party suppliers increases the possibility that Sony will be unable to prevent products from incorporating defective or inferior third-party technology or components. Products with such defects can adversely affect Sony's operating results and its reputation. Sony has also become more reliant upon the services of OEMs and ODMs in the CPD and NPS segments, particularly in the television business. If Sony cannot adequately manage these outsourcing relationships, Sony's production operations may be adversely affected. Sony may not be able to achieve target volume or quality levels, and may face a risk of the loss of proprietary technology or know-how. Sony also consigns activities including certain procurement, logistics, sales, data processing and other services, to the external business partners. Sony may be exposed if the external business partners do not comply with applicable laws or regulations, infringe third-party intellectual property rights, or if the external business partners become exposed to risks, such as accidents, natural disasters or bankruptcies.

***Sony must efficiently manage its procurement of parts and components, the market conditions for which are volatile, and control its inventory of products, parts, and components, the demand for which is volatile.***

In the CPD, NPS and B2B & Disc segments, Sony uses a large volume of parts and components, such as semiconductors and LCD panels, for its products. Market fluctuations in the availability and pricing of parts and components as well as energy prices, can adversely affect Sony's operating results. For instance, shortages of parts or components may result in sharply higher prices and an increase in the cost of goods sold. Additionally, the prices of parts or components fluctuate with the prices of underlying basic or raw materials, such as petrochemical products, cobalt and copper, which can also affect the cost of goods sold.

Sony places orders for parts and components and determines production and inventory plans in advance based on its forecast of consumer demand, which is highly volatile and difficult to predict. Inaccurate forecasts of consumer demand or inadequate management can lead to a shortage or excess of inventory, which can disrupt production plans and result in lost sales opportunities or inventory adjustments. Sony writes down the value of its inventory when the underlying parts, components or products have become obsolete, when inventory levels exceed the amount expected to be used, or when the value of the inventory is otherwise recorded at a value higher than net realizable value. In the past, for example, Sony has experienced a shortage of certain semiconductors and LCD panels, which resulted in Sony's inability to meet consumer demand for its PCs and audio visual products, as well as a surplus in certain semiconductors and LCD panels that resulted in inventory write-downs when the prices of these parts and components fell. Such lost sales opportunities or inventory adjustments have had and, if Sony is not successful in managing its inventory in the future, may have an adverse impact on Sony's operating results.

***Sony's sales and profitability are sensitive to economic, employment and other trends in Sony's major markets.***

Sony's sales and profitability are sensitive to economic, employment and other trends in each of the major markets in which Sony operates. As experienced beginning in the autumn of 2008, these markets may be subject to significant economic downturns, having an adverse impact on Sony's operating results and financial condition, and there is no guarantee that subsequent market recoveries will be broad based and sustained. In the fiscal year ended

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March 31, 2010, 29.1 percent, 22.1 percent and 22.8 percent of Sony's sales and operating revenue were attributable to Japan, the U.S. and Europe, respectively. Additionally, Sony's operating results will be increasingly impacted in the coming years by Sony's ability to realize its growth goals in emerging markets such as Brazil, Russia, India and China.

Sony's operating results depend on the demand from consumers and commercial customers and the performance of retailers, wholesalers and distributors. An actual or expected deterioration of economic conditions in any of Sony's major markets may depress consumer confidence and result in an actual decline in consumption. Commercial customers and other business partners may experience deterioration in their own businesses mainly due to cash flow shortages, difficulty in obtaining financing and reduced end-user demand, resulting in reduced demand for Sony's products and services. Commercial customers' difficulty in meeting their obligations to Sony may also have an adverse impact on Sony's operating results and cash flows.

Sony's suppliers are also susceptible to similar conditions that may impact their ability to fulfill their contractual obligations and may adversely impact Sony's operating results if products and services cannot be obtained at competitive prices.

Global economic conditions may also impact Sony in other ways. For example, further restructuring charges, higher pension and other post-retirement benefit costs or funding requirements, additional asset impairment charges, among other factors, may adversely affect Sony's operating results, financial condition and cash flows.

***Foreign exchange rate fluctuations can affect financial results because a large portion of Sony's sales and assets are denominated in currencies other than the yen.***

Sony's consolidated statements of income are prepared from the local currency-denominated financial results of Sony Corporation's subsidiaries around the world, which are then translated into yen at the monthly average currency exchange rate. Sony's consolidated balance sheets are prepared using the local currency-denominated assets and liabilities of Sony Corporation's subsidiaries around the world, which are translated into yen at the market exchange rate at the end of each financial period. A large proportion of Sony's consolidated financial results, assets and liabilities is accounted for in currencies other than the Japanese yen. For example, only 29.1 percent of Sony's sales in the fiscal year ended March 31, 2010 were recorded in Japan. Accordingly, Sony's consolidated financial results and the assets and liabilities in Sony's businesses (excluding the Financial Services segment) that operate internationally may be materially affected by changes in the exchange rates of foreign currencies when translating into Japanese yen. Foreign exchange rate fluctuations may have a negative impact on Sony's operating results and financial condition in the future, especially if the yen strengthens significantly against the U.S. dollar, the euro or other foreign currencies.

***Foreign exchange rate fluctuations can affect Sony's operating results due to sales and expenses in different currencies.***

Exchange rate fluctuations affect Sony's operating profitability because many of Sony's products are sold in countries other than the ones in which they were developed and/or manufactured. For example, within the CPD segment, research and development and headquarters overhead costs are incurred mainly in yen, and manufacturing costs, including material costs, are mainly incurred in the U.S. dollar and yen. Sales are dispersed and recorded in Japanese yen, the U.S. dollar, euro, and local currencies of other regions. Since the currency in which sales are recorded may not be aligned with the currency in which the expenses are incurred, foreign exchange rate fluctuations, particularly fluctuations of the euro exchange rate against the yen and the U.S. dollar, may affect Sony's operating results. Mid- to long-term changes in exchange rate levels may interfere with Sony's global allocation of resources and hinder Sony's ability to engage in research and development, procurement, production, logistics, and sales activities in a manner that is profitable after the effect of such exchange rate changes.

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

**Table of Contents*****The significant volatility and disruption in the global financial markets or a ratings downgrade may adversely affect the availability and cost of Sony's funding.***

The global financial markets may experience significant levels of volatility and disruption, generally putting downward pressure on financial and other asset prices and impacting credit availability. For example, such conditions were observed beginning in the autumn of 2008. Since then the central governments and the central banks of major global economies, including Japan, have created a number of programs to help stabilize financial markets and financial institutions and to maintain liquidity. These programs have improved conditions in these credit and financial markets, but there can be no assurance that these programs, individually or collectively, will continue to sustain beneficial effects on the markets overall, or that they will resolve the credit and liquidity issues. More recently, the volatility in the global financial markets has increased due in part to the Greek sovereign debt crisis in the spring of 2010.

Historically, Sony's primary sources of funds are cash flows from operations, offerings of commercial paper and other debt securities such as term debt as well as borrowings from banks and other institutional lenders. Although the commercial paper and term debt markets have continued to be available to Sony during the period of significant volatility and disruption that began in the autumn of 2008, there can be no assurance that such sources will continue to be available at acceptable terms. If such market disruption and volatility occur, Sony may seek to repay commercial paper and term debt as it becomes due, or to meet other liquidity needs by drawing upon contractually committed lending facilities primarily provided by global banks and/or seeking other sources of funding including, potentially, the sale of assets. There can be no assurance that under such extreme market conditions such alternate funding sources will be available or sufficient. Further, a failure of one or more of Sony's major lenders, or a decision by one or more of them to stop lending to Sony due to instability in the Japanese or global financial markets may have an adverse impact on Sony's access to funding from such sources. In turn, this could have a material adverse impact on Sony's operating results, financial condition and liquidity.

Similarly, fluctuations in foreign exchange markets and the global financial markets may affect foreign currency translation adjustments and pension liability adjustments, both of which are included in the accumulated other comprehensive income, a component of equity, and the impact of deterioration in equity may have an adverse effect on the assessment of Sony's credit ratings. A downgrade in Sony's credit ratings may result in an increase in Sony's cost of funding and may have an adverse impact on Sony's ability to access commercial paper or mid- to long- term debt markets, with a corresponding adverse effect on Sony's operating results, financial condition and liquidity.

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

Most of Sony's activities are conducted outside of Japan, and these international operations bring challenges. For example, in the CPD, NPS and B2B & Disc segments, production and procurement of products and parts in Asian countries such as China are increasing, and this creates a risk that production and shipping of products and parts may be interrupted by a natural disaster or a pandemic in the region. In addition, production of electronics products in China and other Asian countries increases the time necessary to supply products to Europe and the U.S., which can make it more difficult to meet changing customer demand. Further, Sony may encounter difficulty in planning and managing operations due to unfavorable political or economic factors, such as cultural and religious conflicts, non-compliance with expected business conduct, changes in various regulations, trade policies and taxation laws, and a lack of adequate infrastructure. In particular, changes in regulations, trade policies and related taxation, including local content regulations, business or investment permit approvals, foreign exchange controls, import or export controls, and nationalization of assets or restrictions on the repatriation of returns from foreign investments in major markets and regions may affect Sony's operating results. A broad scale labor dispute or a change of labor regulations and policies may significantly change local labor environment. Such a condition in China and other Asian countries could cause interruption in production and shipping of Sony's products and parts, a sharp rise in local labor costs, or a

shortage of well-trained workforce, which may adversely affect Sony's operating results. If the effects of international or domestic political and military instability or natural disasters disrupt Sony's business operations or depress consumer confidence in those regions, Sony's operating results and financial condition may be adversely affected.



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In addition, as emerging markets are becoming increasingly important to its operations, Sony becomes more susceptible to the above-mentioned risks which may have an adverse impact on its operating results and financial condition.

### ***Sony's success depends on the ability to recruit and retain skilled technical employees and management professionals.***

In order to continuously develop, design, manufacture, market, and sell successful electronics products, including networked products as well as software, including game, video and music content, in increasingly competitive markets, Sony must attract and retain key personnel, including its executive team, other management professionals, and skilled employees such as hardware and software engineers. However, there is high demand for such skilled employees, and Sony may be unable to attract or retain qualified employees to keep up with future business needs. If this should happen, it may adversely affect Sony's operating results and financial condition.

### ***The large-scale investment required during the development and introductory period of a new gaming platform may not be fully recovered.***

Within Sony's game business, developing and providing products that maintain competitiveness over an extended life-cycle require large-scale investment relating to research and development, particularly during the development and introductory period of a new platform. In the past, large-scale investment relating to capital expenditures and research and development for the development and manufacture of key components, including semiconductors supplied for PlayStation®3 (PS3), was recorded within the CPD segment. Moreover, it is particularly important in the game business that these products are provided to consumers at competitive prices with compelling game software and network services to ensure favorable market penetration of the platform. Should the platform fail to achieve such favorable market penetration, there is a risk that this investment, or a part thereof, will not be recouped, resulting in a negative impact on Sony's profitability. In addition, even if the platform is ultimately successful and Sony is able to sufficiently recoup its investment, this may take longer than expected, resulting in a negative impact on Sony's profitability.

An example of a negative impact on profitability within the game business is PS3-related charges that in the past resulted in significant operating losses in the NPS segment. These losses arose mainly from the strategic pricing of PS3 hardware at points lower than its production cost.

### ***Sony's consumer-use products are particularly sensitive to year-end holiday season demand.***

Since Sony's game business offers a relatively small range of hardware products, including PlayStation®2, PSP® (PlayStation®Portable), and PS3, and a significant portion of overall demand is weighted towards the year-end holiday season, factors such as changes in the competitive environment, changes in market conditions, delays in the release of highly anticipated software titles and insufficient supply of hardware during the year-end holiday season can adversely impact Sony's operating results. Sony's other consumer-use products are also dependent upon year-end holiday season demand and, to a lesser extent than the game business, are susceptible to weak sales as well as supply shortages that may prevent Sony from meeting demand for its products during this season.

### ***The sales and profitability of Sony's game business depend on the penetration of its gaming platforms, including network services, which is sensitive to software line-ups, including software produced by third party developers and publishers.***

In Sony's game business, the penetration of gaming platforms is a significant factor driving sales and profitability, which may be affected by the ability to provide customers with sufficient software line-ups, including software

produced by third party developers and publishers and network services. Software line-ups and network services affect not only software sales and profitability, as in many other content businesses, but also affect the penetration of gaming platforms, which can affect hardware sales and profitability. There is no assurance that game software developers and publishers will continue to develop and release software regularly or at all, and discontinuance or delay of software development may adversely affect Sony's operating results.

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***Sony's content businesses, including the Pictures and Music segments and the game business, are subject to digital piracy and illegal downloading, which have become increasingly prevalent with the development of new technologies and the availability of broadband Internet connections.***

The development and declining prices of digital technology along with the increased penetration and speed of broadband Internet connections and the availability of content in digital formats have created risks with respect to Sony's ability to protect the copyrighted content of the Pictures and Music segments and the game business from digital piracy and counterfeiting. In particular, advances in software and technology that enable the duplication, transfer or downloading of digital audio and video files from the Internet and other sources without authorization from the owners of the rights to such content threaten the conventional copyright-based business model by making it easier to create, transmit, and redistribute high quality, unauthorized audio and video files. These advances include, for example, digital devices such as hard disk drive video and audio recorders, CD, DVD, and Blu-ray Disc™ recorders, file compression algorithms, and peer-to-peer digital distribution services. The availability of unauthorized content contributes to a decrease in legitimate product sales and puts pressure on the price of legitimate product sales, which may adversely affect Sony's operating results. Sony has incurred and will continue to incur expenses to ensure adequate copyright protection, to develop new services for the authorized digital distribution of music, motion pictures, television programs and video games, and to combat unauthorized digital distribution of its copyrighted content. These initiatives will increase Sony's near-term expenses and may not achieve their intended result.

***Operating results for Sony's Pictures segment vary according to worldwide consumer acceptance, production and marketing costs, timing of releases or syndication sales, and the availability of competing products and entertainment alternatives.***

Operating results for motion picture releases and television productions within the Pictures segment can materially fluctuate depending primarily upon worldwide consumer acceptance of such productions, which is difficult to predict, as well as the timing of new motion picture releases and the syndication of television productions. Moreover, the Pictures segment must invest substantial amounts in motion picture and television productions before learning the extent to which these products will earn consumer acceptance. In addition, the commercial success of Sony's Pictures segment's motion picture and television productions depends upon consumer acceptance of other competing products released at or near the same time, and the availability of alternative forms of entertainment and leisure activities, including many new options such as social networking sites, that have been enabled by technological advancements. Given the limited number of motion pictures released during any period, the underperformance of an event or tent-pole motion picture that generally has higher production and marketing costs than other films may have an adverse impact on operating results of Sony's Pictures segment.

***Operating results of Sony's Pictures segment may be adversely affected by changes in advertising markets, or by the failure to renew, or renewal on less favorable terms of, carriage contracts.***

The Pictures segment's television operations, including its global channel network, derive a significant portion of sales from the sale of advertising. As the advertising market is particularly sensitive to changes in the global economy, the operating results of Sony's Pictures segment may be adversely affected by future economic downturns. The Pictures segment also recognizes sales from the licensing of its image-based software, including its motion picture and television content, to the U.S. and international television networks, where a decline in the networks' ability to generate advertising and subscription revenues may adversely impact the license fees paid by these networks to the Pictures segment. The Pictures segment also depends on third party cable, satellite and other distribution systems to distribute its global channel network. The failure to renew, or renewal on less favorable terms of, carriage contracts (broadcasting agreements) with these third-party distributors may adversely affect the Pictures segment's ability to generate advertising and subscription sales through its global channel network.

***Sony's Pictures segment is subject to labor interruption.***

The Pictures segment is dependent upon highly specialized union members, including writers, directors, actors and other talent, and trade and technical employees, who are covered by union contracts and are essential to the development and production of motion pictures and television programs. A strike by one or more of these unions or

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the possibility of a strike, work slowdown or work stoppage caused by uncertainties about, or the inability to reach agreement on, a new contract could delay or halt production activities. Such a delay or halt, depending on the length of time involved, could cause a delay or interruption in the release of new motion pictures and television programs and thereby may adversely affect operating results and cash flows in the Pictures segment. An inability to reach agreement on one or more of these union contracts may also increase costs within Sony's Pictures segment and have an adverse effect on operating results.

***Continued increases in the costs of producing or acquiring entertainment content, the continuing decline in physical CD and DVD sales, rapid changes in technology, and other changes in the business environment may adversely affect operating results in Sony's Music and Pictures segments.***

The success of Sony's Music segment is highly dependent on finding and establishing artists that appeal to customers over the long term. If the Music segment is unable to find and establish new talented artists, its operating results may be adversely affected. Competition with other entertainment companies to identify, sign and retain such talent is intense as is the competition to sell their music, resulting in increased talent-related spending and higher marketing and promotional costs. In the Pictures segment, high demand for top talent has contributed to increases in the cost of producing motion pictures and television programs which, along with the continued increase in marketing costs, may adversely impact the segment's operating results. The Pictures segment also acquires motion picture and television product for distribution in all markets, including theatrical, home entertainment, television, and other markets, and as programming for the Pictures segment's global channel network. Competition with other entertainment companies to acquire premier motion picture and television product is intense, and results in increased acquisition-related spending which may adversely affect the Pictures segment's operating results.

In addition to escalating costs to produce or acquire content, a rapid change in technology, the adoption of new technology by consumers and other changes in the business environment of the Music and Pictures segments have had and may continue to have an adverse impact on operating results of both segments. Industry-wide trends such as the deteriorating financial condition of major retailers and increased competition for retailer shelf space, increasing competition for consumer discretionary spending and leisure time, digital piracy, and the general maturation of CD and DVD formats have contributed to and may continue to contribute to an industry-wide decline in physical CD and DVD sales worldwide. While new models for selling entertainment content have begun to emerge, such as Blu-ray Disc, kiosk and mail order rentals, legal digital download and streaming and distribution of entertainment content on mobile phones, these revenue streams have not been sufficient to offset the decline in physical CD and DVD sales that have affected and may continue to affect the operating results of Sony's Music and Pictures segments.

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

Sony believes that utilizing broadband networks to facilitate the integration of hardware, software and content is essential for differentiating itself in the marketplace. Sony also believes that this strategy will eventually lead to more consistent revenue streams. However, this strategy depends on the development (both inside and outside of Sony) of certain network technologies, coordination among Sony's various business units, and the standardization of technological and interface specifications across business units and within industries. Furthermore, in such a competitive business environment, which continuously changes with new entrants, it is critical for Sony to continuously introduce hardware terminals, network connectivity and user interface technologies that are innovative and attractive to consumers, as well as rich line-ups of content and network services that match with consumer needs, at competitive prices and fee models. One recent example of this integration strategy is the introduction of 3D-related products and services as well as network-related business development. If Sony is not successful in implementing this strategy, it may adversely affect Sony's reputation, competitiveness and profitability.



**Table of Contents*****Sony's online activities are subject to laws and regulations that can increase the costs of operations or limit its activities.***

Sony engages in a wide array of online activities, including entertainment network services, financial services, and sales and marketing of electronics products, and is thus subject to a broad range of related laws and regulations including, for example, those relating to such issues as privacy, consumer protection, data retention and data protection, content regulation, defamation, age verification and other online child protections, the installation of cookies (software that allows website providers to target online audiences and track their performance metrics) or other software on the end-user's computers or other devices, pricing, advertising to both children and adults, taxation, copyright and trademark, promotions, and billing. The application of such laws and regulations created to address online activities, and those passed prior to the popular use of the Internet that may be applied to online activities, varies among jurisdictions, may be unclear or unsettled in many instances, and is subject to change. Sony may incur substantial costs necessary to comply with these laws and regulations and may incur substantial penalties, other liabilities, or damage to its reputation if it fails to comply with them. Compliance with these laws and regulations also may cause Sony to change or limit its online activities in a manner that may adversely affect operating results. In addition, Sony's failure to anticipate changes to relevant laws and regulations, changes in laws that provide protections that Sony relies on in conducting its online activities, or judicial interpretations narrowing such protections, may subject Sony to greater risk of liability, increase the costs of compliance, or limit Sony's ability to engage in certain online activities.

***Sony's Financial Services segment operates in highly regulated industries, and new rules, regulations and regulatory initiatives by government authorities may adversely affect the flexibility and the operating results of the Financial Services segment.***

Sony's Financial Services segment operates in industries subject to comprehensive regulation and supervision, including the Japanese insurance and banking industries. Future developments or changes in laws, regulations, or policies and their effects are unpredictable and may lead to increased compliance costs or limitations on operations in the Financial Services segment. For example, Japan's Financial Services Agency (FSA) has been increasing the level of its scrutiny of non-payment of insurance claims for the last few years, as life and non-life insurance companies broaden insurance benefits coverage. Due to Sony's common branding strategy, compliance failures in any of its businesses within Sony's Financial Services segment may have a negative impact on the overall business reputation of the Financial Services segment. Furthermore, additional compliance costs may adversely affect the operating results of Sony's Financial Services segment.

***Declines in the value of equity securities may have an adverse impact on the operating results and financial condition of Sony's Financial Services segment.***

In the Financial Services segment, Sony Life Insurance Co., Ltd. (Sony Life) holds both convertible bonds and equity securities. The convertible bonds are required to be marked to market at the end of each accounting period on the income statement under accounting principles generally accepted in the United States of America (US GAAP). Declines in equity prices, such as the large fluctuation in global equity prices beginning in the autumn of 2008, may result in valuation losses on the convertible bonds as well as impairment losses on the equity securities held by Sony Life. In addition, reductions in gains on the sales of securities or unrealized gains on securities may adversely affect the operating results and financial condition of Sony's Financial Services segment. Declines in the yield of Sony Life's separate account assets may result in additional policy reserves being recorded and the accelerated amortization of deferred acquisition costs, since US GAAP requires the review of actuarial assumptions used for the valuation of policy reserves concerning minimum death guarantees for variable life insurance and the amortization of deferred acquisition costs. Additional policy reserves and accelerated amortization of deferred acquisition costs may have an adverse impact on Sony's operating results.

***Changes in interest rates may significantly affect the operating results and financial condition of Sony's Financial Services segment.***

Sony engages in asset liability management ( ALM ) in an effort to manage the investment assets within the Financial Services segment in a manner appropriate to Sony's liabilities, which arise from the insurance policies



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Sony underwrites in both its life insurance and non-life insurance businesses and the deposits, borrowings and other liabilities in its banking business. ALM considers the long-term balance between assets and liabilities in an effort to ensure stable returns. Any failure to appropriately conduct Sony's ALM activities, or any significant changes in market conditions beyond what Sony's ALM may reasonably address, may have a material adverse effect on the financial condition and operating results of its Financial Services segment. In particular, because Sony Life's liabilities to policyholders generally have longer durations than its investment assets, lower interest rates tend to reduce yields on Sony Life's investment portfolio while guaranteed yields (assumptions used for calculation of policy reserve provisions) remain generally unchanged on outstanding policies. As a result, Sony Life's profitability and long-term ability to meet policy commitments may be adversely affected.

***The investment portfolio within Sony's Financial Services segment exposes Sony to a number of additional risks other than the risks related to declines in the value of equity securities and changes in interest rates.***

In Sony's Financial Services segment, generating stable investment income is important to its operations, and Sony invests in a variety of asset classes, including Japanese government and corporate bonds, foreign government and corporate bonds, Japanese stocks, loans and real estate. In addition to risks related to changes in interest rates and the value of equity securities, the Financial Services segment's investment portfolio exposes Sony to a variety of other risks, including foreign exchange risk, credit risk and real estate investment risk, any or all of which may have an adverse effect on the operating results and financial condition of the Financial Services segment. For example, mortgage loans account for 94.6 percent of the total loan balance or 34.4 percent of the total assets of Sony Bank Inc. (Sony Bank) as of March 31, 2010. An increase in non-performing loans or a decline in the prices of real estate, the collateral for these mortgage loans provided by Sony Bank, may have an adverse effect on the creditworthiness of Sony Bank's loan portfolio and increase credit-related costs for Sony Bank.

***Differences between actual and assumed policy benefits and claims may require Sony's Financial Services segment to increase policy reserves in the future.***

Sony's life insurance and non-life insurance businesses establish policy reserves for future benefits and claims based on the Insurance Business Act of Japan and related regulations. These reserves are calculated based on many assumptions and estimates, including the frequency and timing of the event covered by the policy, the amount of benefits or claims to be paid and the investment returns on the assets these businesses purchase with the premiums received. These assumptions and estimates are inherently uncertain, and Sony cannot determine with precision the ultimate amounts that Sony will be required to pay for, or the timing of payment of, actual benefits and claims or whether the assets supporting the policy liabilities will grow at the level Sony assumes prior to the payment of benefits or claims. The frequency and timing of an event covered by a policy and the amount of benefits or claims to be paid are subject to a number of risks and uncertainties, many of which are outside of Sony's control, including:

changes in trends underlying Sony's assumptions and estimates, such as mortality and morbidity rates;

the availability of sufficient reliable data and Sony's ability to correctly analyze the data;

Sony's selection and application of appropriate pricing and rating techniques; and

changes in legal standards, claim settlement practices and medical care expenses.

If the actual experience of Sony's insurance businesses becomes significantly less favorable than its assumptions or estimates, its policy reserves may be inadequate. Any changes in regulatory guidelines or standards with respect to the required level of policy reserves may also require that Sony establishes policy reserves based on more stringent assumptions, estimates or actuarial calculations. Such events may result in a need to increase provisions for policy

reserves, which may have a significant adverse effect on the operating results and financial condition of the Financial Services segment. Furthermore, actual insurance claims that are higher than the estimated provision for policy reserves due to the occurrence of catastrophic events such as earthquakes or pandemic diseases in Japan may have an adverse effect on the operating results and financial condition of the Financial Services segment.

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

Sony's headquarters, some of Sony's major data centers and many of Sony's most advanced device manufacturing facilities, including those for semiconductors, are located in Japan, where the risk of earthquakes is relatively high compared to other parts of the world. In addition, Sony's offices and facilities, including those used for research and development, material procurement, manufacturing, motion picture and television program production, logistics, sales and services are located throughout the world and are subject to possible destruction, temporary stoppage or disruption as a result of any number of unexpected catastrophic events such as natural disasters, pandemic diseases, terrorist attacks, large-scale power outages and large-scale fires. If any of these facilities or offices were to experience a significant loss as a result of any of the above events, it may disrupt Sony's operations, delay production, interrupt shipments and postpone the recording of sales, and result in large expenses to repair or replace these facilities or offices. Moreover, as network and information systems have become increasingly important to Sony's operating activities, network and information system shutdowns caused by the above and other unforeseen events such as software or hardware defects, computer viruses and computer hacking pose increasing risks. Although Sony is developing counter-measures, such events may result in the disruption of Sony's major business operations, delays in production, shipments and recognition of sales, and large expenditures necessary to repair or replace such facilities as well as network information systems. Furthermore, insurance coverage may be insufficient to cover the resulting expenditures. These situations may have an adverse impact on Sony's operating results and financial condition.

***Sony's reputation and business may be harmed and Sony may be subject to legal claims if there is loss, disclosure or misappropriation of its customers' personal information or other breaches of its information security.***

Sony makes extensive use of online services and centralized data processing, including through third-party service providers. The secure maintenance and transmission of confidential information is a critical element of Sony's operations. However, Sony's customers' personal information may be lost, disclosed or taken without the customers' consent. In addition, Sony's information technology and other systems, or those of service providers or business partners, may be compromised. If Sony were to lose customers' personal information, or if a malicious third party were to penetrate the network security of Sony, its business partners or service providers and to misappropriate or acquire customers' personal information, or if there were an advertent or inadvertent loss, disclosure or misappropriation of customers' personal information by Sony employees, Sony's reputation may be damaged and Sony may be subject to lawsuits or claims.

Any loss, disclosure or misappropriation of customers' personal information or other breach of its information security may have a serious impact on Sony's reputation and may have an adverse effect on its businesses and operating results.

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

Sony faces the risk of litigation and regulatory proceedings in connection with its operations. Legal proceedings, including regulatory actions, may seek recovery of very large indeterminate amounts or to limit Sony's operations, and the possibility that they may arise and their magnitude may remain unknown for substantial periods of time. For example, legal proceedings, including regulatory actions, may result from antitrust scrutiny of market practices for anti-competitive conduct. A substantial legal liability or adverse regulatory outcome and the substantial cost to defend the litigation or regulatory proceedings may have an adverse effect on Sony's business, operating results, financial condition, cash flows and reputation.

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

Sony products, such as software and electronic devices including semiconductors are becoming increasingly sophisticated and complicated as rapid advancements in technologies occur and as demand increases for digital equipment. This trend may increase product quality and liability exposure. Sony's efforts to manage the rapid advancements in technologies and increased demand as well as to control product quality may not be successful. As

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a result, Sony may incur expenses in connection with, for example, product recalls, after-sales services and lawsuits, and Sony's brand image and reputation as a producer of high-quality products may suffer. These issues are not only relevant to the final Sony products that are sold directly to customers but also to the final products of other companies that are equipped with Sony's components, such as the semiconductors mentioned above.

***Sony's operating results and financial condition may be adversely affected by its employee benefit obligations.***

Sony recognizes the unfunded pension obligation as consisting of (i) the Projected Benefit Obligation (PBO) less (ii) the fair value of pension plan assets in accordance with the accounting guidance for defined benefit plans. Actuarial gains and losses are amortized and included in pension expenses in a systematic manner over employees' average remaining service periods. Any decrease of the pension plan asset value due to low returns from investments or increases in the PBO due to a lower discount rate, increases in rates of compensation and changes in certain other actuarial assumptions may increase the unfunded pension obligations and may result in an increase in pension expenses recorded as cost of sales or as a selling, general and administrative expense.

Sony's operating results and financial condition may be adversely affected by the status of its Japanese and foreign pension plans. Specifically, adverse equity market conditions and volatility in the credit markets may have an unfavorable impact on the value of Sony's pension plan assets and its future estimated pension liabilities, the majority of which relate to the Japanese plans, which have approximately 30 percent of pension plan assets invested in equity securities. As a result, Sony's operating results or financial condition could be adversely affected. Further, Sony's operating results and financial condition could be adversely affected by future pension funding requirements pursuant to the Japanese Defined Benefit Corporate Pension Plan Act (Act). Under the Act, Sony is required to meet certain financial criteria including periodic actuarial revaluation and annual settlement of gains or losses of the plan. In the event that the actuarial reserve required by law exceeds the fair value of pension plan assets and that the fair value of pension assets may not be recovered within a certain moratorium period permitted by laws and/or special legislative decree, Sony may be required to make an additional contribution to the plan, which may reduce cash flows. Similarly, if Sony is required to make an additional contribution to a foreign plan to meet any funding requirements in accordance with local laws and regulations in each country, Sony's cash flows might be adversely affected. If Sony is required to increase cash contributions to its pension plans when actuarial assumptions, such as an expected long-term rate of return of the pension plan assets, are updated for purposes of determining statutory contributions, it might become a negative factor on Sony's cash flow for a considerable number of years.

***Sony may not be able to fully utilize its deferred tax assets and changes in Sony's tax rates or exposure to additional tax liabilities could adversely affect its operating results and financial condition.***

Sony is subject to income taxes in Japan and numerous other jurisdictions, and in the ordinary course of Sony's business, there are many situations where the ultimate tax determination can be uncertain, sometimes for an extended period. The calculation of Sony's tax provision and the carrying value of tax assets and liabilities requires significant judgment and the use of estimates.

Sony currently believes that its deferred tax assets, a significant component of which is net operating loss carryforwards, are more likely than not to be realized (except where a valuation allowance has been recorded) through sufficient future taxable income coupled with prudent and feasible tax planning strategies. However, some of these deferred tax assets could expire unused or not be realizable if Sony is unable to implement tax planning strategies or generate sufficient taxable income in the future (from operations and/or tax planning strategies) to utilize them, or if Sony enters into transactions that limit its legal ability to use them. If it becomes more likely than not that Sony's deferred tax assets will expire unused and are not available to offset future taxable income, or otherwise will not be realizable, Sony will have to recognize an additional valuation allowance. This may increase Sony's income tax expense or result in Sony's forgoing any associated cash tax reduction available in future periods. Therefore, Sony's

earnings and financial condition would be adversely affected in the period or periods in which an additional valuation allowance is recorded or deferred tax assets expire unused.

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A key factor in the evaluation of the deferred tax assets and the valuation allowance is the determination of the uncertain tax positions related to the adjustments for Sony's intercompany transfer pricing. Sony is subject to income taxes in Japan and numerous other jurisdictions, and in the ordinary course of Sony's business there are many transactions including intercompany charges where the ultimate tax determination is uncertain. Sony is subject to continuous examination of its income tax returns by tax authorities and, as a result, Sony regularly assesses the likelihood of the adverse outcomes resulting from these examinations to determine the adequacy of its provision for income taxes. Significant judgment is required in making these assessments and, as additional evidence becomes available in subsequent periods, the ultimate outcomes for Sony's uncertain tax positions and, accordingly, its valuation allowance assessments may potentially have an adverse impact on Sony's future earnings and financial condition.

In addition to the above, Sony's future effective tax rates may be unfavorably affected by changes in both the statutory rates and the mix of earnings in countries with differing statutory rates or by other factors such as changes in tax laws and regulations or their interpretation.

***Sony could incur asset impairment charges for goodwill, intangible assets or other long-lived assets.***

Sony has a significant amount of goodwill, intangible assets and other long-lived assets, and lower than anticipated future financial performance or changes in estimates and assumptions, which in many cases require significant judgments, could result in impairment charges. Sony tests goodwill and intangible assets that are determined to have an indefinite life for impairment during the fourth quarter of each fiscal year, and assesses whether factors or indicators, such as unfavorable variances from established business plans, significant changes in forecasted results or volatility inherent to external markets and industries, become apparent that would require an interim test. The recoverability of the carrying value of long-lived assets held and used and long-lived assets to be disposed of is reviewed whenever events or changes in circumstances indicate that the carrying value of the assets or asset groups may not be recoverable. Long-lived assets to be held and used are reviewed for impairment by comparing the carrying value of the asset or asset group with their estimated undiscounted future cash flows. If the carrying value of the asset or asset group is considered impaired, an impairment charge is recorded for the amount by which the carrying value of the asset or asset group exceeds its fair value.

When determining whether an impairment has occurred or calculating such impairment for goodwill, an intangible asset or other long-lived asset, fair value is determined using the present value of estimated cash flows or comparable market values. This approach uses significant estimates and assumptions including projected future cash flows, the timing of such cash flows, discount rates reflecting the risk inherent in future cash flows, perpetual growth rates, determination of appropriate comparable entities and the determination of whether a premium or discount should be applied to comparables. Changes in estimates and/or revised assumptions impacting the present value of estimated future cash flows may result in a decrease in fair value of a reporting unit, where goodwill is tested for impairment, or a decrease in fair value of intangible assets, long-lived assets or asset groups. The decrease in fair value could result in a non-cash impairment charge. For example, in the fiscal year ended March 31, 2010, Sony recorded impairment charges of 53.3 billion yen related to long-lived assets, including a 27.1 billion yen impairment charge related to the LCD TV asset group which primarily reflected a decrease in the estimated fair value of long-lived assets as a result of decreases in estimated service periods and corresponding estimated future cash flows. Any such charge may adversely affect Sony's operating results and financial condition.

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

Sony's products incorporate a wide variety of technologies. Claims have been and may be asserted against Sony that such technology infringes the intellectual property owned by others. Such claims might require Sony to enter into settlement or license agreements, to pay significant damage awards, and/or to face a temporary or permanent

injunction prohibiting Sony from marketing or selling certain of its products, which may have an adverse effect on Sony's business, operating results, financial condition and reputation.



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***Sony may not be able to continue to obtain necessary licenses for certain intellectual property rights of others or protect and enforce the intellectual property rights on which its business depends.***

Many of Sony's products are designed under the license of patents and other intellectual property rights owned by third parties. Based upon past experience and industry practice, Sony believes that it will be able to obtain or renew licenses relating to various intellectual properties useful in its business that it needs in the future; however, such licenses may not be available at all or on acceptable terms, and Sony may need to redesign or discontinue marketing or selling such products as a result. Additionally, Sony's intellectual property rights may be challenged or invalidated, or such intellectual property rights may not be sufficient to provide Sony with competitive advantages. Such events may adversely impact Sony's operating results and financial condition.

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

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

Sony monitors and evaluates new environmental and health and safety requirements that may affect its operations. For example, Sony is required to comply with a number of environmental regulations enacted by the EU such as the Restriction of Hazardous Substances ( RoHS ) Directive, the Waste Electrical and Electronic Equipment ( WEEE ) Directive, and the Registration, Evaluation, Authorization and Restriction of Chemicals ( REACH ) regulation. Similar regulations are being formulated in other parts of the world, including China and South American countries. Sony may incur substantial costs in complying with the above-mentioned regulations and other similar programs that might be enacted in the future.

Sony sees issues related to climate change as a potential risk if Sony does not respond or undertake environmental activities appropriately. Sony recognizes that climate change issues may possibly lead to an increase in or additional costs due to new regulations or governmental policies including carbon disclosure, green house gas emission reduction, carbon taxes and energy efficiency for electronics products. Moreover, a regulation for cargo owners to exert efforts to rationally control energy consumption and CO2 emission from their logistics has already been introduced in Japan, and other countries may introduce similar regulations in the near future. In addition, the cap and trade system on emissions (such as the City of Tokyo's Obligation to Reduce Absolute Green House Gas Emissions and Emissions Trading System ) may be applied to its sites and lead to an increase in the cost of compliance. In the near future, similar cap and trade systems may be established in other regions or countries in the world, which may result in an increase in Sony's cost of compliance. Additionally, in the event that Sony is unable to respond appropriately to consumers' growing concern for climate change issues, there is a risk that Sony's reputation may be harmed and that consumers may choose to purchase products from other companies.

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

The rights of shareholders under Japanese law to take actions, including voting their shares, receiving dividends and distributions, bringing derivative actions, examining Sony's accounting books and records, and exercising appraisal rights are available only to shareholders of record. Because the depositary, through its custodian agents, is the record holder of the shares underlying the American Depositary Shares ( ADSs ), only the depositary can exercise those rights in connection with the deposited shares. The depositary will make efforts to vote the shares underlying ADSs in accordance with the instructions of ADS holders and will pay the dividends and

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distributions collected from Sony. However, ADS holders will not be able to bring a derivative action, examine Sony's accounting books and records, or exercise appraisal rights through the depository.

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

### **Item 4. *Information on the Company***

#### **History and Development of the Company**

Sony Corporation was established in Japan in May 1946 as Tokyo Tsushin Kogyo Kabushiki Kaisha, a joint stock company (*Kabushiki Kaisha*) under Japanese law. In January 1958, it changed its name to Sony Kabushiki Kaisha ( Sony Corporation in English).

In December 1958, Sony Corporation was listed on the Tokyo Stock Exchange (the TSE ). In June 1961, Sony Corporation issued American Depositary Receipts ( ADRs ) in the U.S.

In March 1968, Sony Corporation established CBS/Sony Records Inc. in Japan, currently Sony Music Entertainment (Japan) Inc. ( SMEJ ), as a 50-50 joint venture company between Sony Corporation and CBS Inc. in the U.S. In January 1988, SMEJ became a wholly-owned subsidiary of Sony Corporation. In November 1991, SMEJ was listed on the Second Section of the TSE.

In September 1970, Sony Corporation was listed on the New York Stock Exchange.

In August 1979, Sony Corporation established Sony Prudential Life Insurance Co., Ltd. in Japan, currently Sony Life Insurance Co., Ltd. ( Sony Life ), as a 50-50 joint venture company between Sony Corporation and The Prudential Insurance Company of America. In March 1996, Sony Life became a wholly-owned subsidiary of Sony Corporation, and in April 2004, with the establishment of Sony Financial Holdings Inc. ( SFH ), Sony Life became a wholly-owned subsidiary of SFH.

In July 1984, Sony Magnescale Inc., a subsidiary of Sony Corporation and currently Sony Precision Technology Inc., was listed on the Second Section of the TSE. In July 1987, Sony Chemicals Corporation, a subsidiary of Sony Corporation, was listed on the Second Section of the TSE.

In January 1988, Sony Corporation acquired CBS Records Inc., currently Sony Music Holdings Inc., a music business division of CBS Inc. in the U.S. In November 1989, Sony Corporation acquired Columbia Pictures Entertainment, Inc. in the U.S. In August 1991, Columbia Pictures Entertainment, Inc. changed its name to Sony Pictures Entertainment Inc. ( SPE ).

In November 1993, Sony established Sony Computer Entertainment Inc. ( SCEI ) in Japan.

In January 2000, acquisition transactions by way of exchanges of stock were completed such that SMEJ, Sony Chemicals Corporation (currently Sony Chemical & Information Device Corporation), and Sony Precision

Technology Inc. (currently Sony Manufacturing Systems Corporation) became wholly-owned subsidiaries of Sony Corporation.

In June 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, which was renamed So-net Entertainment Corporation ( So-net ) in October 2006. All shares of the subsidiary tracking stock were terminated and converted to shares of Sony's common stock in December 2005. So-net was listed on the Mother's market of the TSE in December 2005 (and has been traded on the First Section of the TSE since January 2008). Sony Corporation continues to hold a majority of the shares of So-net.

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In October 2001, Sony Ericsson Mobile Communications AB ( Sony Ericsson ), a 50-50 joint venture company between Sony Corporation and Telefonaktiebolaget LM Ericsson ( Ericsson ) of Sweden, was established.

In October 2002, Aiwa Co., Ltd. ( Aiwa ) became a wholly-owned subsidiary of Sony Corporation. In December 2002, Aiwa was merged into Sony Corporation.

In June 2003, Sony Corporation adopted the Company with Committees corporate governance system in line with the revised Japanese Commercial Code then effective. (Refer to Board Practices in Item 6. *Directors, Senior Management and Employees.* )

In April 2004, Sony Corporation established SFH in Japan. Sony Life, Sony Assurance Inc. ( Sony Assurance ), and Sony Bank Inc. ( Sony Bank ) became subsidiaries of SFH.

In April 2004, S-LCD Corporation ( S-LCD ), a joint venture between Sony Corporation and Samsung Electronics Co., Ltd. of Korea, for the manufacture of amorphous thin film transistor ( TFT ) LCD panels, was established in Korea. Sony's stake in S-LCD was 50 percent minus 1 share.

In August 2004, Sony combined its worldwide recorded music business, excluding its recorded music business in Japan, with the worldwide recorded music business of Bertelsmann AG ( Bertelsmann ), forming the 50-50 joint venture, SONY BMG MUSIC ENTERTAINMENT ( SONY BMG ).

In October 2007, SFH was listed on the First Section of the TSE in conjunction with the global initial public offering of shares of SFH by Sony Corporation and SFH.

In October 2008, Sony acquired Bertelsmann's 50 percent equity interest in SONY BMG. As a result of the acquisition, SONY BMG became a wholly-owned subsidiary of Sony. In January 2009, SONY BMG changed its name to Sony Music Entertainment ( SME ).

In December 2009, Sharp Display Products Corporation, a joint venture between Sony Corporation and Sharp Corporation for the production and sale of large-sized liquid crystal display ( LCD ) panels and modules was established.

Sony Corporation's registered office is located at 7-1, Konan 1-chome, Minato-ku, Tokyo 108-0075, Japan, telephone +81-3-6748-2111.

The agent in the U.S. for purposes of this Item 4 is Sony Corporation of America ( SCA ), 550 Madison Avenue, New York, NY 10022 (Attn: Office of the General Counsel).

## ***Principal Capital Investments***

In the fiscal years ended March 31, 2008, 2009 and 2010, Sony's capital expenditures (additions to fixed assets on the balance sheets) were 335.7 billion yen, 332.1 billion yen and 192.7 billion yen, respectively. Sony's capital expenditures are expected to be 220 billion yen during the fiscal year ending March 31, 2011. For a breakdown of principal capital expenditures and divestitures (including interests in other companies), refer to Item 5. *Operating and Financial Review and Prospects.* Sony invested approximately 27 billion yen in the semiconductor business during the fiscal year ended March 31, 2010. Sony plans to invest approximately 35 billion yen in the semiconductor business in the fiscal year ending March 31, 2011. The funding requirements of such various capital expenditures are expected to be financed by cash provided by operating and financing activities or cash and cash equivalents.

**Business Overview**

Sony realigned its reportable segments from the first quarter of the fiscal year ended March 31, 2010 to reflect its reorganization as of April 1, 2009, primarily repositioning operations previously reported within the Electronics and Game segments and establishing the Consumer Products & Devices ( CPD ), Networked Products & Services ( NPS ) and B2B & Disc Manufacturing ( B2B & Disc ) segments. Additionally, Music is a new reportable segment effective from the fiscal year ended March 31, 2010. Pictures and Financial Services continue to be

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reportable segments. The equity earnings from Sony Ericsson are presented as a separate segment. For further details, please refer to Item 5. *Operating and Financial Review and Prospects*.

***Products and Services*****Consumer Products & Devices**

The following table sets forth Sony's CPD segment sales to outside customers by product categories. Figures in parentheses indicate the percentage contribution of each product category to the segment total.

|                        | <b>Fiscal Year Ended March 31</b> |         |           |         |                  |                |
|------------------------|-----------------------------------|---------|-----------|---------|------------------|----------------|
|                        | 2008                              | 2009    |           | 2010    |                  |                |
|                        | <b>(Yen in millions)</b>          |         |           |         |                  |                |
| <i>Televisions</i>     | 1,357,116                         | (32.0)  | 1,275,692 | (35.5)  | <b>1,005,773</b> | <b>(34.4)</b>  |
| <i>Digital Imaging</i> | 1,113,407                         | (26.3)  | 863,837   | (24.0)  | <b>679,225</b>   | <b>(23.3)</b>  |
| <i>Audio and Video</i> | 644,475                           | (15.2)  | 555,706   | (15.5)  | <b>469,606</b>   | <b>(16.1)</b>  |
| <i>Semiconductors</i>  | 321,032                           | (7.6)   | 267,167   | (7.4)   | <b>277,885</b>   | <b>(9.5)</b>   |
| <i>Components</i>      | 788,004                           | (18.6)  | 623,931   | (17.3)  | <b>479,145</b>   | <b>(16.4)</b>  |
| <i>Other</i>           | 14,513                            | (0.3)   | 10,900    | (0.3)   | <b>9,769</b>     | <b>(0.3)</b>   |
| CPD Total              | 4,238,547                         | (100.0) | 3,597,233 | (100.0) | <b>2,921,403</b> | <b>(100.0)</b> |

***Televisions:***

Televisions includes LCD televisions.

***Digital Imaging:***

Digital Imaging includes home-use video cameras, compact digital cameras and digital single-lens reflex ( SLR ) cameras.

***Audio and Video:***

Audio and Video includes Blu-ray Disc players/recorders, DVD-Video players/recorders, home theater, home audio systems, portable audio and car audio.

***Semiconductors:***

Semiconductors includes charged coupled devices ( CCDs ), complementary metal-oxide semiconductor ( CMOS ) image sensors, system LSIs, small- and medium-sized TFT LCD panels and other semiconductors.

***Components:***

Components includes batteries, optical disk drives, chemical products\*, audio/video/data recording media, storage media and optical pickups.

\* Chemical products include materials and components for electronic devices such as circuit boards and adhesives.



**Table of Contents****Networked Products & Services**

The following table sets forth Sony's NPS segment sales to outside customers by product categories. Figures in parentheses indicate the percentage contribution of each product category to the segment total.

|  | <b>Fiscal Year Ended March 31</b> |         |           |         |                  |                |
|--|-----------------------------------|---------|-----------|---------|------------------|----------------|
|  | 2008                              |         | 2009      |         | 2010             |                |
|  | <b>(Yen in millions)</b>          |         |           |         |                  |                |
| <i>Game</i>                              | 1,219,004                         | (59.7)  | 984,855   | (58.5)  | <b>840,711</b>   | <b>(55.6)</b>  |
| <i>PC and Other Networked Businesses</i> | 823,556                           | (40.3)  | 699,903   | (41.5)  | <b>670,904</b>   | <b>(44.4)</b>  |
| NPS Total                                | 2,042,560                         | (100.0) | 1,684,758 | (100.0) | <b>1,511,615</b> | <b>(100.0)</b> |

*Game:*

SCEI develops, produces, markets and distributes PlayStation®3 ( PS3 ), PlayStation®Portable ( PSP ) and PlayStation®2 ( PS2 ) hardware and related software. Sony Computer Entertainment America LLC ( SCEA ) and Sony Computer Entertainment Europe Ltd. ( SCEE ) market and distribute PS3, PSP and PS2 hardware, and develop, produce, market and distribute related software in the U.S. and Europe. SCEI, SCEA and SCEE enter into licenses with third-party software developers.

*PC and Other Networked Businesses:*

PC and Other Networked Businesses includes PCs and flash memory digital audio players.

**B2B & Disc Manufacturing**

The B2B & Disc segment is comprised of the B2B business, including broadcast- and professional-use products, as well as Blu-ray Disc, DVD and CD disc manufacturing.

**Pictures**

Global operations in the Pictures segment encompass motion picture production and distribution; television production and distribution; home entertainment acquisition and distribution; a global channel network; digital content creation and distribution; operation of studio facilities; and development of new entertainment products, services and technologies. SPE distributes entertainment in more than 140 countries.

SPE's motion picture arm, the Columbia TriStar Motion Picture Group, includes SPE's principal motion picture production organizations, Columbia Pictures, TriStar Pictures, Screen Gems, Sony Pictures Classics, and the International Motion Picture Production Group.

Sony Pictures Television ( SPT ) develops and produces television programming for broadcast, cable and first-run syndication, including scripted series, unscripted reality or light entertainment, daytime serials, games shows, animated series, made for television movies and miniseries and other programming. SPT also produces content for the Internet and mobile devices and operates Crackle, a multi-platform video entertainment network focusing on premium

video content. Internationally, SPT produces local language programming in key markets around the world, some of which are co-produced with local partners, and sells SPE-owned formats in approximately 75 countries. SPT also owns or has investments in global networks with 122 channel feeds, which are available in more than 140 countries worldwide.

Sony Pictures Home Entertainment produces and distributes SPE's home entertainment products (DVD and Blu-ray Disc) and, together with Sony Pictures Worldwide Acquisitions Group, acquires or licenses third party product for distribution in the home entertainment market as well as other distribution windows. Sony Pictures Digital Production operates Sony Pictures Imageworks, a digital effects studio, and Sony Pictures Animation, a developer and producer of computer graphic animated films. SPE also manages a studio facility, Sony Pictures Studios, which includes post production facilities, at SPE's world headquarters in Culver City, California.

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### **Music**

As of April 1, 2009, Music is a new reportable segment which includes SME, SMEJ, and a 50 percent owned U.S. based joint venture in the music publishing business, Sony/ATV Music Publishing LLC ( Sony/ATV ). SME, a global entertainment company, excluding Japan, engaged primarily in the development, production and distribution of recorded music in all commercial formats and genres; SMEJ, a Japanese domestic recorded music business that produces recorded music and music videos through contacts with many artists in all music genres; Sony/ATV, a U.S.-based music publishing business that owns and acquires rights to musical compositions, exploiting and marketing these compositions and receiving royalties or fees for their use.

### **Financial Services**

In the Financial Services segment, on April 1, 2004 Sony established a wholly-owned subsidiary, SFH, a holding company for Sony Life, Sony Assurance and Sony Bank, with the aim of integrating various financial services including insurance and savings and loans, and offering individual customers high value-added products and high-quality services. On October 11, 2007, in conjunction with the global initial public offering of shares of SFH, the shares of SFH were listed for trading on the First Section of the TSE. Following this global offering, SFH remains a consolidated subsidiary of Sony Corporation which is the majority shareholder of SFH.

Sony conducts insurance and banking operations primarily through Sony Life, a Japanese life insurance company, Sony Assurance, a Japanese non-life insurance company, and Sony Bank, a Japanese Internet-based bank, which are all wholly-owned by SFH. Aside from SFH, Sony is also engaged in a leasing and credit card business in Japan through Sony Finance International Inc. ( SFI ), a wholly-owned subsidiary of Sony Corporation. Sony is currently reviewing its strategic options with respect to SFI. As part of the review of its business lines, SFI stopped new contract subscriptions in its credit shopping service as well as in most of its affiliated credit card lines during the fiscal year ended March 31, 2010.

### **Sony Ericsson**

Sony Ericsson is an entity accounted for under the equity method, as it is a 50-50 joint venture company between Sony Corporation and Ericsson. Sony presents the equity earnings for Sony Ericsson as a separate segment. Sony Ericsson undertakes product research, development, design, marketing, sales, production, distribution and customer services for mobile phones, accessories, services and applications.

### **All Other**

All Other consists of various operating activities, including a mobile phone third-party original equipment manufacturing (OEM) business in Japan and So-net, an Internet-related service business subsidiary operating mainly in Japan. Sony s products and services are generally unique to a single operating segment.

### ***Sales and Distribution***

#### **Consumer Products & Devices / Networked Products & Services / B2B & Disc Manufacturing**

Sony s electronics products and services, excluding those in the game business, are marketed throughout the world under the trademark Sony, which has been registered in approximately 200 countries and territories.

In most cases, sales of Sony s electronics products are made to sales subsidiaries of Sony Corporation located in or responsible for sales in the countries and territories where Sony s products and services are marketed. These

subsidiaries then sell those products to unaffiliated local distributors and dealers or through direct sales via the Internet. In some regions, sales of certain products and services are made directly to local distributors by Sony Corporation.

Sales of electronics products and services are particularly seasonal and also vary significantly with the timing of new product introductions and economic conditions of each country. Sales for the third quarter ending December 31 of each fiscal year are generally higher than other quarters of the same fiscal year due to demand in the year-end holiday season.

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*Japan:*

Sony Marketing (Japan) Inc. markets consumer electronics products mainly through retailers and also markets professional electronics products and services. For electronic components, Sony sells products directly to wholesalers and manufacturers.

*United States:*

Sony markets its electronics products and services through Sony Electronics Inc. and other wholly-owned subsidiaries in the U.S.

*Europe:*

In Europe, Sony's electronics products and services are marketed through sales subsidiaries including Sony Europe Limited in the United Kingdom, Sony Deutschland G.m.b.H., Sony France S.A., ZAO Sony Electronics in Russia, Sony Italia S.P.A. and Sony Espana S.A.

*Other Areas:*

In overseas areas other than the U.S. and Europe, Sony's electronics products and services are marketed through sales subsidiaries including Sony (China) Limited, Sony Corporation of Hong Kong Limited, Sony Taiwan Limited, Sony of Canada Limited and Sony de Mexico S.A.de C.V.

PS3, PSP and PS2 hardware and related software are marketed and distributed by SCEI, SCEA, SCEE and subsidiaries in Asia.

Hardware sales in the game business are dependent on the timing of the introduction of attractive software and a significant portion of overall demand is weighted towards the year-end holiday season.

**Pictures**

SPE generally retains all rights relating to the worldwide distribution of its internally produced motion pictures, including rights for theatrical exhibition, home entertainment distribution, pay and free television exhibition and other markets. SPE also acquires distribution rights to motion pictures produced by other companies and jointly produces films with other studios or production companies. These rights may be limited to particular geographic regions, specific forms of media or periods of time. SPE uses its own distribution service business, Sony Pictures Releasing, for the U.S. theatrical release of its films and for the theatrical release of films acquired from and produced by others.

Outside the U.S., SPE generally distributes and markets its films through one of its Sony Pictures Releasing International subsidiaries. In certain countries, however, SPE has joint distribution arrangements with other studios or arrangements with independent local distributors.

The worldwide home entertainment distribution of SPE's motion pictures and television programming (and programming acquired or licensed from others) is handled through Sony Pictures Home Entertainment, except in certain countries where SPE has joint distribution arrangements with other studios or arrangements with independent local distributors. Product is distributed on DVD, Blu-ray, and various digital formats.

The worldwide television distribution of SPE's motion pictures and television programming (and programming acquired or licensed from others) is handled through SPT. SPE's library of television programming and motion pictures is licensed to affiliated and independent stations and broadcasters in the U.S. and to affiliated and independent international television stations and other broadcasters throughout the world. SPE's global channel network generates advertising and subscription revenues.

## **Music**

SME and SMEJ produce, market, and distribute CDs, DVDs, digital formats and other audio and audio/visual configurations. SME and its affiliates conduct business in countries other than Japan under Columbia Records, Epic Records, RCA Records, Jive Records, and other labels. SMEJ conducts business in Japan under Sony Records, Epic Records, Ki/oon Records, SMEJ Associated Records, Defstar Records, and other labels.

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Sony owns and acquires rights to musical compositions, exploits and markets these compositions, receives royalties or fees for their use and conducts its music publishing business through a joint venture with a third-party investor in countries other than Japan primarily under the Sony/ATV Music Publishing name.

## **Financial Services**

Sony Life conducts its life insurance business primarily in Japan. Sony Life's core business is providing death protection and other insurance products to individuals, primarily through a consulting-based sales approach utilizing its experienced team of Lifeplanner® sales employees and Partner independent sales agents. Sony Life provides tailor-made life insurance products that are optimized for each customer. As of March 31, 2010, Sony Life employed 4,036 Lifeplanner® sales employees. As of the same date, Sony Life maintained an extensive service network including 81 Lifeplanner® retail offices, 28 regional sales offices, and 2,089 sales agents in Japan. Sony Life also has one representative office in Beijing and Taipei, which opened in October 2008 and July 2009 respectively, for the purpose of researching the financial and life insurance market in China and Taiwan respectively. In addition, Sony Life's life insurance business also includes sales in the Philippines through Sony Life's wholly-owned subsidiary, Sony Life Insurance (Philippines) Corporation. As part of its plan to expand its sales of individual annuity products, Sony Life established a new Japanese joint venture company with AEGON N.V. The 50-50 joint venture, known as AEGON Sony Life Insurance Co., Ltd., obtained final approval from the Japanese regulatory authorities in August 2009, and launched the business in Japan in December 2009.

Sony Assurance has conducted a non-life insurance business in Japan since October 1999. Sony Assurance's core business is providing automobile insurance products and medical and cancer insurance products to individual customers, primarily through direct marketing via the Internet and the telephone. The direct marketing business model employed by Sony Assurance enables it to improve operating efficiency and lower the costs of marketing and maintaining its insurance policies, creating savings which it passes on to policyholders in the form of competitively priced premiums.

Sony Bank has conducted banking operations in Japan since June 2001. As an Internet bank focusing on the asset management and borrowing needs of individual customers, Sony Bank offers an array of products and services including yen and foreign currency deposits, investment trusts, mortgages and other individual loans. By using Sony Bank's transaction channel, the MONEYKit service website, account holders can invest and manage assets according to their life plans over the Internet. As part of its plan to respond to its customers' diverse asset management needs, Sony Bank launched online securities brokerage services through its wholly-owned subsidiary, Sony Bank Securities Inc., in October 2007.

## **All Other**

The OEM business of Sony EMCS Corporation produces mobile phones to wireless customers. So-net provides Internet broadband network services to subscribers as well as creating and distributing content through its portal service to various platforms including PCs, mobile phones and other home electronics devices including TVs and game hardware.

## ***Sales to Outside Customers by Geographic Area***

The following table shows Sony's consolidated sales to outside customers in each of its major markets for the periods indicated. Figures in parentheses indicate the percentage contribution of each region to total worldwide sales and operating revenue.

|               | <b>Fiscal Year Ended March 31</b> |         |                          |         |                  |                |
|---------------|-----------------------------------|---------|--------------------------|---------|------------------|----------------|
|               | 2008                              |         | 2009                     |         | 2010             |                |
|               |                                   |         | <b>(Yen in millions)</b> |         |                  |                |
| Japan         | 2,056,374                         | (23.2)  | 1,873,219                | (24.2)  | <b>2,099,297</b> | <b>(29.1)</b>  |
| United States | 2,221,862                         | (25.1)  | 1,827,812                | (23.6)  | <b>1,595,016</b> | <b>(22.1)</b>  |
| Europe        | 2,328,233                         | (26.2)  | 1,987,692                | (25.7)  | <b>1,644,698</b> | <b>(22.8)</b>  |
| Other Areas   | 2,264,945                         | (25.5)  | 2,041,270                | (26.5)  | <b>1,874,987</b> | <b>(26.0)</b>  |
| Total         | 8,871,414                         | (100.0) | 7,729,993                | (100.0) | <b>7,213,998</b> | <b>(100.0)</b> |



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***Sources of Supply***

Sony pursues procurement of raw materials, parts and components to be used in the production of its products on a global basis on the most favorable terms that it can achieve. These items are purchased from various suppliers around the world. While Sony still maintains its general policy of multiple suppliers for most important parts and components, in the fiscal year ended March 31, 2010, Sony significantly reduced the total number of its suppliers to achieve efficiencies.

When raw materials, parts and components become scarce, the cost of production rises. For example, the market price of copper has the potential to proportionately affect the cost of parts that utilize copper, such as printed circuit boards and power cables. The price of cobalt, which is used in applications involving lithium-ion batteries as well as a range of recording media, may also fluctuate and impact the cost of those items. The price of resin may impact the cost of plastic parts, and the price of steel may give a similar impact. With respect to parts and components, LCD panels and memory devices, which are used in multiple applications, can influence Sony's business performance when the cost of such parts and components fluctuates substantially.

***After-Sales Service***

In the CPD, NPS and B2B & Disc segments, Sony provides repair and servicing functions in the areas where its products are sold. Sony provides these services through its own call centers, service centers, factories, authorized independent service centers, authorized servicing dealers and subsidiaries.

In line with the industry practices of the electronics and game businesses, almost all of Sony's consumer-use products that are sold in Japan carry a warranty, generally for a period of one year from the date of purchase, covering repairs, free of charge, in the case of a malfunction in the course of ordinary use of the product. In the case of broadcast- and professional-use products, Sony maintains support contracts with customers in addition to warranties. Warranties outside of Japan generally provide coverage for various periods of time depending on the product and the area in which it is marketed.

To further ensure customer satisfaction, Sony maintains customer information centers in its principal markets.

***Patents and Licenses***

Sony has a number of Japanese and foreign patents relating to its products. Sony is licensed to use a number of patents owned by others, covering a wide range of products. Certain licenses are important to Sony's business, such as those for optical disc-related and Digital TV products. With respect to optical disc-related products, Sony products that employ DVD player functions, including PS3 and PS2 hardware, are substantially dependent upon certain patents that relate to technologies specified in the DVD specification and are licensed by MPEG LA LLC, Dolby Laboratories Licensing Corporation and Nissim Corp. Sony products that employ Blu-ray Disc player functions, including PS3 hardware, and that also employ DVD player functions, are substantially dependent upon certain patents that relate to technologies specified in the Blu-ray Disc specification and are licensed by MPEG LA LLC and AT&T Inc., in addition to the patents that relate to technologies specified in the DVD specification, as described above. Sony's Digital TV products are substantially dependent upon certain patents that relate to technologies specified in the Digital TV specification and are licensed by Thomson Licensing Inc. Sony considers its overall license position beneficial to its operations. While Sony believes that its various proprietary intellectual property rights are important to its success, it believes that neither its business as a whole nor any business segment is materially dependent on any particular patent or license, or any particular group of patents or licenses, except as set forth above.

***Competition***

In each of its principal product lines, Sony encounters intense competition throughout the world. Sony believes, however, that in the aggregate it competes successfully and has a major position in all of the principal product lines in which it is engaged, although the strength of its position varies with products and markets. Refer to **Risk Factors** in Item 3. *Key Information*.

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In the CPD, NPS, B2B & Disc segments, Sony believes that its product planning and product design expertise, the high quality of its products, its record of innovative product introductions and product improvements, its price competitiveness derived from reductions in manufacturing and indirect costs, and its extensive marketing and servicing efforts are important factors in maintaining its competitive position.

In the Pictures segment, SPE faces intense competition from all forms of entertainment and other leisure activities to attract the attention of audiences worldwide. SPE competes with other major motion picture studios and, to a lesser extent, with independent production companies. SPE must compete to obtain story rights and talent, including writers, actors, directors and producers, which are essential to the success of SPE's products. In motion picture production and distribution, SPE faces competition to obtain exhibition and distribution outlets and optimal release dates for its products. In addition, SPE faces intense competition from other entertainment companies to acquire premier motion pictures and television products from third parties. Competition in television production and distribution is also intense because available broadcast time is limited and the audience is increasingly fragmented among broadcast networks, cable and other outlets both in the U.S. and internationally. Furthermore, broadcast networks in the U.S. continue to produce their own shows internally. This competitive environment may result in fewer opportunities to produce shows for U.S. networks and a shorter lifespan for ordered shows that do not immediately achieve favorable ratings. SPE's global channel network competes for viewers with broadcast networks, cable and other forms of entertainment. The growth in the number of networks has increased the competition for advertising and subscription revenues, acquisition of programming, and distribution by cable, satellite and other distribution systems.

In the Music segment, success is dependent to a large extent upon the artistic and creative abilities of artists, producers and employees and is subject to the vagaries of public taste. The Music segment's future competitive position depends on their continuing ability to attract and develop artists who can achieve a high degree of public acceptance.

In the Financial Services segment, Sony faces strong competition in the financial services markets in Japan. In recent years, the regulatory barriers between the life insurance and non-life insurance industries as well as among the insurance, banking and securities industries have been relaxed, resulting in new competitive pressures.

Sony Life competes not only with traditional insurance companies in Japan but also with other companies including Japan's largest financial services providers that either have their own insurance subsidiaries or enter into cooperative arrangements with major insurance companies, foreign-owned life insurance companies and a number of Japanese cooperative associations.

Sony Assurance competes against insurers that sell their policies through sales agents as well as insurers that, like Sony Assurance, primarily sell their policies through direct marketing via the telephone and the Internet. Competition in Japan's non-life insurance industry has intensified in recent years, in part due to a number of new market entrants, including foreign-owned insurers.

Some of the competitors in the life insurance and non-life insurance businesses have advantages over Sony including:

- greater financial resources and financial strength ratings;

- greater brand awareness;

- more extensive marketing and sales networks, including through tie-ups with other types of financial institutions;

- more competitive pricing;

larger customer bases; and

a wider range of products and services.

Sony Bank has focused on providing retail asset management and lending services for individuals, and faces significant competition in Japan's retail financial services market. Sony Bank competes with Japan's traditional

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banking institutions, regional banks, trust banks, non-bank companies, and Japan's full-service and online brokerage firms.

Sony Life, Sony Assurance and Sony Bank may also compete with Japan Post Group, which provides banking and insurance services to individuals. Japan Post Group has numerous post office locations throughout Japan and has enhanced its banking and insurance services in recent years.

In the Financial Services segment, it is important to maintain a strong and healthy financial foundation for the business as well as to meet diversifying customer needs. Sony Life has maintained a high solvency margin ratio, relative to Japanese domestic criteria that require the maintenance of a minimum solvency margin ratio. Sony Assurance also has maintained a high solvency margin ratio relative to the aforementioned Japanese domestic criteria. Sony Bank has maintained an adequate capital adequacy ratio relative to the Japanese domestic criteria concerning this ratio.

Within All Other, So-net faces competition in Japan from many existing large companies, as well as from new entrants to the market. Telecommunications companies that possess a large Internet-ready infrastructure and other entrants that compete solely on the basis of price have created a market in which competitive price reductions are the norm. Rapid technological advancement has created many new opportunities but it has also increased the rate at which new and more efficient services must be brought to market to earn customer approval. Customer price elasticity is high, and users are able to change Internet service providers with increasing ease. The penetration of mobile Internet services provided by telecommunications companies may also provide a substitute to the home-centric Internet service provided by So-net.

## ***Government Regulations***

Sony's business activities are subject to various governmental regulations in the different countries in which it operates, including regulations relating to various business/investment approvals, trade affairs including customs, import and export control, competition and antitrust, anti-bribery, advertising and promotion, intellectual property, broadcasting, consumer and business taxation, foreign exchange controls, personal information protection, product safety, labor, occupational health, and environmental and recycling requirements.

In Japan, Sony's insurance businesses are subject to the Insurance Business Act and approvals and oversight from the Financial Services Agency (FSA). The Insurance Business Act specifies the types of businesses insurance companies may engage in, imposes limits on the types and amounts of investments that can be made and requires insurance companies to maintain specified reserves and a minimum solvency margin ratio. Particularly, life insurance companies must maintain a premium reserve (for the portion of other than unearned premiums), an unearned premium reserve, a reserve for refunds with respect to certain insurance contracts of life insurance companies specified in such regulations, and a contingency reserve in amounts no lower than the amounts of the standard policy reserve as set forth by the regulatory guidelines. Non-life insurance companies are also required to provide a policy reserve. The primary purpose of the Insurance Business Act and related regulations is to protect policyholders, not shareholders. Sony Bank is also subject to regulation by the FSA under the Banking Act of Japan, including the requirement that it maintain a minimum capital adequacy ratio in accordance with capital adequacy guidelines adopted by the FSA based on the Basel II agreement. The FSA has broad regulatory powers over insurance and banking businesses in Japan, including the authority to grant or revoke operating licenses and to request information and conduct onsite inspections of books and records. In addition, Sony's telecommunication businesses in Japan are subject to approvals and oversight from the Ministry of Internal Affairs and Communications, under its Telecommunication Business Act and other regulations related to the Internet businesses and communication methods in Japan.

## **Environmental Regulations**

Sony monitors and evaluates new environmental requirements that may affect its operations. For example, in Europe, Sony is required to comply with a number of environmental regulations enacted by the EU such as the Restriction of Hazardous Substances ( RoHS ) Directive, the Waste Electrical and Electronic Equipment ( WEEE ) Directive and the Registration, Evaluation, Authorization and Restriction of Chemicals ( REACH )

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regulation. Similar regulations are being formulated in other areas of the world, including China and South American countries.

Sony has taken steps to address new regulations or governmental policies related to climate change including carbon disclosure, green house gas emission reduction, carbon taxes and energy efficiency for electronics products. For example, Sony has established an internal risk management system in response to the EU directive on energy-related products and their energy efficiency ( ErP ). Moreover, Japan has already introduced a regulation for cargo owners such as Sony to exert efforts to control energy consumption and CO2 emissions from their logistics operations.

Additionally, Sony recognizes that emissions trading systems are already established or being considered for legislation in various countries and regions. For example, EU-ETS (European Union) and CRC (UK) are already established, and although Sony is not subject to EU-ETS's scope of application, Sony Group companies in the UK are responding to CRC. The Waxman-Markey bill (USA) and AU-ETS (Australia) are being considered for legislation and may have an effect on Sony Group companies in the region. In Japan, the City of Tokyo's cap and trade system, Obligation to Reduce Absolute Green House Gas Emissions and Emissions Trading System, went into force in April 2010. This regulation requires large-sized sites in the City to reduce their average emissions over a five-year period to below a certain quantity and establishes an emission trading scheme to allow regulated entities to meet emission quantity targets set by law. Sony Corporation and Sony Life are subject to this regulation.

Also refer to Risk Factors in Item 3. *Key Information*.

**Organizational Structure**

The following table sets forth the significant subsidiaries owned, directly or indirectly, by Sony Corporation.

| Name of company                         | Country of<br>incorporation | (As of March 31,<br>2010)<br>Percentage owned |
|---|-----------------------------|---|
| Sony EMCS Corporation                   | Japan                       | 100.0   |
| Sony Semiconductor Kyushu Corporation   | Japan                       | 100.0   |
| Sony Marketing (Japan) Inc.             | Japan                       | 100.0   |
| Sony Computer Entertainment Inc.        | Japan                       | 100.0   |
| Sony Music Entertainment (Japan) Inc.   | Japan                       | 100.0   |
| Sony Financial Holdings Inc.            | Japan                       | 60.0  |
| Sony Life Insurance Co., Ltd.           | Japan                       | 100.0   |
| Sony Americas Holding Inc.              | U.S.A.                      | 100.0   |
| Sony Corporation of America             | U.S.A.                      | 100.0   |
| Sony Electronics Inc.                   | U.S.A.                      | 100.0   |
| Sony Computer Entertainment America LLC | U.S.A.                      | 100.0   |
| Sony Pictures Entertainment Inc.        | U.S.A.                      | 100.0   |
| Sony Europe G.m.b.H.                    | Germany                     | 100.0   |
| Sony United Kingdom Ltd.                | U.K.                        | 100.0   |
| Sony Computer Entertainment Europe Ltd. | U.K.                        | 100.0   |
| Sony Global Treasury Services Plc.      | U.K.                        | 100.0   |
| Sony Electronics Asia Pacific Pte. Ltd. | Singapore                   | 100.0   |
| Sony Music Entertainment                | U.S.A.                      | 100.0   |

**Property, Plant and Equipment**

Sony has a number of offices, plants and warehouses throughout the world. Most of the buildings in, and land on, which they are located, are owned by Sony.



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The following table sets forth information as of March 31, 2010 with respect to plants used for the production of products mainly for the CPD and B2B & Disc segments with floor space of more than 500,000 square feet:

| <b>Location</b>   | <b>Approximate floor space (square feet)</b> | <b>Principal products produced</b>   |
|---|--|--|
| <b>In Japan:</b>  |  |  |
| Nagasaki<br>(Sony Semiconductor Kyushu Corporation<br>Nagasaki TEC)               | 2,266,000                                    | CMOS image sensors and other semiconductors                                  |
| Kumamoto<br>(Sony Semiconductor Kyushu Corporation<br>Kumamoto TEC)               | 2,115,000                                    | CCDs, CMOS image sensors, LCDs and other semiconductors                      |
| Kagoshima<br>(Sony Semiconductor Kyushu Corporation<br>Kagoshima TEC)             | 1,764,000                                    | CCDs, CMOS image sensors, LCDs and other semiconductors                      |
| Higashiura, Aichi<br>(Sony Mobile Display Corporation)                            | 1,281,000                                    | LCDs   |
| Kohda, Aichi<br>(Sony EMCS Corporation Tokai TEC Kohda Site)                      | 878,000                                      | Home-use video cameras, compact digital cameras and Memory Sticks            |
| Inazawa, Aichi<br>(Sony EMCS Corporation Inazawa TEC)                             | 842,000                                      | LCD televisions and organic light-emitting diode televisions                 |
| Tochigi, Tochigi<br>(Sony Energy Devices Corporation<br>Tochigi Plant)            | 803,000                                      | Magneto-optical disc and batteries   |
| Kanuma, Tochigi<br>(Sony Chemicals & Information Device Corporation Kanuma Plant) | 792,000                                      | Magnetic tapes, adhesives and electronic components                          |
| Koriyama, Fukushima<br>(Sony Energy Devices Corporation<br>Koriyama Plant)        | 588,000                                      | Batteries  |
| Kosai, Shizuoka<br>(Sony EMCS Corporation Kosai TEC)                              | 548,000                                      | Broadcast- and professional-use video equipment                              |
| Kisarazu, Chiba<br>(Sony EMCS Corporation Kisarazu TEC)                           | 541,000                                      | Blu-ray Disc players/recorders, audio equipment and video conference systems |

|   |           |          |         |  |
|---|-----------|----------|---------|--|
| Minokamo, Gifu<br>(Sony EMCS Corporation<br>Site) | Tokai TEC | Minokamo | 539,000 | Home-use video cameras, compact digital<br>cameras, digital SLR cameras, mobile<br>phones and video conference systems |
|---|-----------|----------|---------|--|

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| <b>Location</b>  | <b>Approximate floor space (square feet)</b> | <b>Principal products produced</b>   |
|--|--|--|
| <i>Outside of Japan:</i>   |  |  |
| Terre Haute, Indiana, U.S.A.<br>(Sony DADC US Inc.)  | 1,593,000                                    | Blu-ray Disc-ROMs, CDs, DVDs and UMDs (Universal Media Disc)                             |
| Wuxi, China<br>(Sony Electronics (Wuxi) Co., Ltd., Sony Digital Products (Wuxi) Co., Ltd. and Sony (China) Ltd.) | 1,363,000                                    | Batteries and compact digital cameras  |
| Huizhou, China<br>(Sony Precision Devices (Huizhou) Co., Ltd.)   | 1,354,000                                    | Optical pickups and LCDs   |
| Penang, Malaysia<br>(Sony EMCS (Malaysia) Sdn. Bhd. PG TEC)  | 988,000                                      | Optical disc drives, batteries and audio equipment                                       |
| Dothan, Alabama, U.S.A.<br>(Sony Dothan Alabama)   | 809,000                                      | Magnetic tapes   |
| Bangi, Malaysia<br>(Sony EMCS (Malaysia) Sdn. Bhd. KL TEC)   | 797,000                                      | LCD televisions, TV components, Blu-ray Disc players/Recorders and DVD-players/recorders |
| Tuas, Singapore<br>(Sony Electronics (Singapore) Pte. Ltd.)  | 776,000                                      | Batteries  |
| Guangzhou, China<br>(Sony Electronics Huanan Co., Ltd.)  | 707,000                                      | Optical pickups  |
| Nitra, Slovakia<br>(Sony Slovakia, spol. s.r.o.)   | 665,000                                      | LCD televisions and TV components  |
| Viladecavallas, Spain<br>(Sony Espana, S.A.)   | 578,000                                      | LCD televisions and TV components  |
| Bangkadi, Thailand<br>(Sony Device Technology (Thailand) Co. Bangkok Technology Centre)                          | 502,000                                      | CCDs, CMOS image sensors and other semiconductors  |

In addition to the above facilities, Sony has a number of other plants for electronic products throughout the world. Sony owns research and development facilities, and employee housing and recreation facilities, as well as Sony Corporation's headquarters main building, with a total floor space of approximately 1,753,000 square feet, in Tokyo, Japan, where administrative functions and product development activities are carried out. SCEI leases its corporate headquarters buildings located in Tokyo, where administrative functions, product development, and software development are carried out. SCEA and SCEE lease their offices in the U.S. and Europe, respectively.

SPE's corporate offices and motion picture and television production facilities are headquartered in Culver City, California, where it owns and operates a studio facility, Sony Pictures Studios, with aggregate floor space of approximately 1,546,000 square feet. SPE also leases office space and motion picture and television support facilities from affiliates of Sony Corporation and other third parties in various worldwide locations. SPE's film and videotape storage operations are located in various leased locations in the U.S. and Europe.

SME's corporate offices are headquartered in New York, NY where it leases office space from SCA. SME also leases office space from third parties in various locations worldwide.

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Most of SMEJ's offices, including leased premises, are located in Tokyo, Japan.

In December 2008, SCA renewed its option under a lease with a variable interest entity which is consolidated by Sony, for its corporate headquarters. Sony has the option to purchase the building at any time during the lease term, which expires in December 2015. The aggregate floor space of this building is approximately 723,000 square feet.

During the fiscal year ended March 31, 2010, Sony ceased manufacturing at a total of ten manufacturing sites, five in Japan and five outside of Japan. Sony Baja California, S.A. de C.V.-Tijuana Factory has been removed from the table above due to the sale to the Hon Hai Group of approximately 90 percent of Sony's ownership interest in Sony Baja California as well as certain manufacturing assets related to LCD televisions at the Sony Baja California's Tijuana site in Mexico. Sony plans to cease manufacturing at the Sony Dothan Alabama plant by September 2010 following a phase out period that began in April 2010. In addition, Sony plans to sell to the Hon Hai Group approximately 90 percent of its ownership interest in the Sony Slovakia, spol. s.r.o.-Nitra plant.

### **Item 4A. *Unresolved Staff Comments***

**Not applicable.**

### **Item 5. *Operating and Financial Review and Prospects***

## **OPERATING RESULTS**

### ***Operating Results for the Fiscal Year Ended March 31, 2010 compared with the Fiscal Year Ended March 31, 2009***

Sony realigned its reportable segments from the first quarter of the fiscal year ended March 31, 2010 to reflect its reorganization as of April 1, 2009, primarily repositioning operations previously reported within the Electronics and Game segments and establishing the Consumer Products & Devices ( CPD ), Networked Products & Services ( NPS ) and B2B & Disc Manufacturing ( B2B & Disc ) segments. The CPD segment includes products such as televisions, digital imaging, audio and video, semiconductors and components. The equity earnings of S-LCD Corporation ( S-LCD ) are also included within the CPD segment. The NPS segment includes the game business as well as PCs and other networked businesses. The B2B & Disc segment is comprised of the B2B business, including broadcast- and professional-use products, as well as Blu-ray Disc<sup>tm</sup>, DVD and CD disc manufacturing.

Additionally, Music is a new reportable segment effective from the first quarter of the fiscal year ended March 31, 2010. The Music segment includes Sony Music Entertainment ( SME ), Sony Music Entertainment (Japan) Inc. ( SMEJ ), and a 50 percent owned U.S.-based joint venture in the music publishing business, Sony/ATV Music Publishing LLC ( Sony/ATV ).

Pictures and Financial Services continue to be reportable segments. The equity earnings from Sony Ericsson Mobile Communication AB ( Sony Ericsson ) are presented as a separate segment.

In connection with this realignment, both the sales and operating income (loss) of each segment in the fiscal year ended March 31, 2009 have been revised to conform to the presentation for the fiscal year ended March 31, 2010.

## **Operating Performance**

**Fiscal Year Ended**

|  | <b>March 31</b>          |                |                           |
|--|--------------------------|----------------|---------------------------|
|  | 2009                     | 2010           | <b>Percent<br/>change</b> |
|  | <b>(Yen in billions)</b> |                |                           |
| Sales and operating revenue                              | 7,730.0                  | <b>7,214.0</b> | 6.7%                      |
| Equity in net loss of affiliated companies               | (25.1)                   | <b>(30.2)</b>  |                           |
| Operating income (loss)                                  | (227.8)                  | <b>31.8</b>    |                           |
| Income (loss) before income taxes                        | (175.0)                  | <b>26.9</b>    |                           |
| Net loss attributable to Sony Corporation's stockholders | (98.9)                   | <b>(40.8)</b>  |                           |

**Table of Contents*****Sales***

Sales and operating revenue ( sales ) for the fiscal year ended March 31, 2010 decreased by 516.0 billion yen, or 6.7 percent compared to the previous fiscal year ( year-on-year ), to 7,214.0 billion yen, primarily due to unfavorable foreign currency exchange rates and a decrease in sales in the CPD segment, partially offset by an increase in revenue in the Financial Services segment. A further breakdown of sales figures is presented under *Operating Performance by Business Segment* below.

During the fiscal year ended March 31, 2010, the average rate of the yen was 91.8 yen against the U.S. dollar and 129.7 yen against the euro, which was 8.4 percent and 9.5 percent higher, respectively, year-on-year.

Sales in the analysis of the ratio of cost of sales to sales, the ratio of research and development costs to sales, and the ratio of selling, general and administrative expenses to sales refers only to the net sales and other operating revenue portions of consolidated sales (which excludes financial service revenue). This is because Financial service expenses are recorded separately from cost of sales and selling, general and administrative expenses in the consolidated financial statements. The calculations of all ratios below that pertain to business segments include intersegment transactions.

***Cost of Sales and Selling, General and Administrative Expenses***

Cost of sales for the fiscal year ended March 31, 2010 decreased by 767.9 billion yen, or 13.6 percent year-on-year, to 4,892.6 billion yen, and improved from 78.5 percent to 76.7 percent as a percentage of sales.

Research and development costs (all research and development costs are included within cost of sales) decreased by 65.3 billion yen, or 13.1 percent year-on-year to 432.0 billion yen. The ratio of research and development costs to sales was 6.8 percent compared to 6.9 percent in the previous fiscal year.

Selling, general and administrative expenses decreased by 141.1 billion yen, or 8.4 percent year-on-year, to 1,544.9 billion yen, mainly due to the impact of the appreciation of the yen and a decrease in advertising and publicity expenses. The ratio of selling, general and administrative expenses to sales increased year-on-year from 23.4 percent to 24.2 percent.

Loss on sale, disposal or impairment of assets, net was 43.0 billion yen, compared with a loss of 38.3 billion yen in the previous fiscal year. This loss was primarily due to impairment charges including a 27.1 billion yen charge related to the impairment of LCD television assets\*, a 7.8 billion yen charge related to the impairment of the small- and medium-sized amorphous thin film transistor ( TFT ) LCD fixed assets and other less significant losses on the sale, disposal or impairment of assets. These charges were partially offset by gains on the sales of assets including a 22.0 billion yen gain recognized from the sales of equity interests in HBO Latin America and HBO Central Europe. The loss recorded in the previous fiscal year was primarily the result of impairment charges including long-lived asset impairments mainly due to the downsizing and withdrawal from certain businesses as well as goodwill impairment charges. Refer to Notes 18 and 20 of the notes to the consolidated financial statements.

\* The 27.1 billion yen loss on impairment, a non-cash charge recorded within operating income, primarily reflects a decrease in the estimated fair value of property, plant and equipment and certain intangible assets. Management's strategic plans updated in the fourth quarter of the fiscal year ended March 31, 2010 resulted in decreases in the assets estimated service periods and corresponding estimated future cash flows leading to the impairment charge. Sony has excluded the loss on impairment from restructuring charges as it is not directly related to Sony's ongoing restructuring initiatives. Sony defines restructuring initiatives as activities initiated by Sony, such as exiting a business or product category or implementing a headcount reduction program, which are designed to generate a positive impact on future

profitability.

***Equity in Net Income (Loss) of Affiliated Companies***

Equity in net loss of affiliated companies, recorded within operating income, was 30.2 billion yen, an increased loss of 5.1 billion yen year-on-year. Sony recorded equity in net loss for Sony Ericsson of 34.5 billion yen compared to equity in net loss of 30.3 billion yen in the previous fiscal year. Equity in net income for S-LCD, a joint venture with Samsung Electronics Co., Ltd.( Samsung ), decreased by 6.5 billion yen year-on-year to 0.4 billion yen.



**Table of Contents*****Operating Income (Loss)***

Operating income for the fiscal year ended March 31, 2010 was 31.8 billion yen, an improvement of 259.6 billion yen year-on-year. Operating results improved significantly primarily due to an improvement in operating results in the Financial Services segment, as well as an improvement in the cost of sales ratio and a reduction in selling, general and administrative expenses mainly in the CPD segment. For a further breakdown of operating income (loss) for each segment, please refer to *Operating Performance by Business Segment* below.

***Other Income and Expenses***

For the fiscal year ended March 31, 2010, other income decreased by 55.0 billion yen, or 55.6 percent, to 43.8 billion yen, while other expenses increased by 2.7 billion yen, or 5.9 percent year-on-year, to 48.7 billion yen. The net amount of other income and other expenses was an expense of 4.9 billion yen, a deterioration of 57.7 billion yen year-on-year, primarily due to a net foreign exchange loss of 10.9 billion yen that was recorded for the fiscal year ended March 31, 2010, as compared to a net foreign exchange gain of 48.6 billion yen that was recorded in the previous fiscal year. A net foreign exchange loss was recorded mainly due to losses related to the period end valuation on derivative contracts entered into by Sony for the purpose of effective global cash management.

Interest and dividends in other income of 13.2 billion yen was recorded in the fiscal year ended March 31, 2010, a decrease of 9.1 billion yen, or 40.9 percent year-on-year. This decrease was mainly due to a decrease in interest received resulting from a lower rate of return on investments in Japan and the U.S. For the fiscal year ended March 31, 2010, interest recorded in other expenses totaled 22.5 billion yen, a decrease of 1.9 billion yen, or 7.7 percent year-on-year.

***Income (Loss) before Income Taxes***

For the fiscal year ended March 31, 2010, income before income taxes of 26.9 billion yen was recorded, an improvement of 201.9 billion yen year-on-year, mainly as a result of the above-noted improvement in operating results.

***Income Taxes***

During the fiscal year ended March 31, 2010, Sony recorded 14.0 billion yen of income taxes resulting in an effective tax rate of 51.9 percent. This effective tax rate was higher than the Japanese statutory tax rate primarily due to the impact of equity investments reported net of income taxes, partially offset by lower effective tax rates on profits in the insurance business of the Financial Services segment.

In the previous fiscal year, Sony recorded 72.7 billion yen of income tax benefit resulting in an effective tax rate of 41.6 percent. This income tax benefit was mainly due to a loss before income taxes and the partial reversal of certain deferred tax liabilities for the undistributed earnings of foreign subsidiaries and affiliates, due to a change in the tax regulations in Japan to treat 95 percent of the dividends from overseas subsidiaries as non-taxable income, partially offset by the impact of equity in net loss reported net of income taxes, the reversal of certain deferred tax assets, and an increase in valuation allowance.

***Net Income (loss) attributable to Sony Corporation's stockholders***

For the fiscal year ended March 31, 2010, net loss attributable to Sony Corporation's stockholders, which excludes net income attributable to noncontrolling interests, was 40.8 billion yen, a 58.1 billion yen improvement year-on-year.

Net income attributable to noncontrolling interest of 53.8 billion yen was recorded, as compared to net loss of 3.3 billion yen in the previous fiscal year. This was mainly due to the income recorded at Sony Financial Holdings, Inc. ( SFH ), for which there is a noncontrolling interest of 40 percent, primarily as a result of the improvement in net valuation gains from investments in convertible bonds in the general account at Sony Life Insurance Co., Ltd. ( Sony Life ) due to the improved situation in the Japanese stock market.

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Basic and diluted net loss per share attributable to Sony Corporation's stockholders were both 40.66 yen compared with net loss per share of 98.59 yen in the previous fiscal year. Refer to Note 22 to the notes to the consolidated financial statements.

***Operating Performance by Business Segment***

The following discussion is based on segment information. Sales and operating revenue in each business segment include intersegment transactions. Refer to Note 27 to the notes to the consolidated financial statements.

***Business Segment Information***

|                                    | <b>Fiscal Year Ended<br/>March 31</b> |                | <b>Percent change</b> |
|------------------------------------|---------------------------------------|----------------|-----------------------|
|                                    | 2009                                  | 2010           |                       |
|                                    | <b>(Yen in billions)</b>              |                |                       |
| <b>Sales and operating revenue</b> |                                       |                |                       |
| Consumer Products & Devices        | 4,031.5                               | <b>3,227.7</b> | -19.9%                |
| Networked Products & Services      | 1,755.6                               | <b>1,575.8</b> | -10.2                 |
| B2B & Disc Manufacturing           | 560.0                                 | <b>504.2</b>   | -10.0                 |
| Pictures                           | 717.5                                 | <b>705.2</b>   | -1.7                  |
| Music                              | 387.1                                 | <b>522.6</b>   | +35.0                 |
| Financial Services                 | 538.2                                 | <b>851.4</b>   | +58.2                 |
| All Other                          | 318.4                                 | <b>261.9</b>   | -17.8                 |
| Corporate and Elimination          | (578.3)                               | <b>(434.9)</b> |                       |
| Consolidated                       | 7,730.0                               | <b>7,214.0</b> | -6.7                  |

|                                     | <b>Fiscal Year Ended<br/>March 31</b> |               | <b>Percent change</b> |
|-------------------------------------|---------------------------------------|---------------|-----------------------|
|                                     | 2009                                  | 2010          |                       |
|                                     | <b>(Yen in billions)</b>              |               |                       |
| <b>Operating income (loss)</b>      |                                       |               |                       |
| Consumer Products & Devices         | (115.1)                               | <b>(46.5)</b> | %                     |
| Networked Products & Services       | (87.4)                                | <b>(83.1)</b> |                       |
| B2B & Disc Manufacturing            | 6.5                                   | <b>(7.2)</b>  |                       |
| Pictures                            | 29.9                                  | <b>42.8</b>   | +43.1                 |
| Music                               | 27.8                                  | <b>36.5</b>   | +31.1                 |
| Financial Services                  | (31.2)                                | <b>162.5</b>  |                       |
| Equity in net loss of Sony Ericsson | (30.3)                                | <b>(34.5)</b> |                       |
| All Other                           | (4.2)                                 | <b>(4.8)</b>  |                       |
| Sub-Total                           | (203.9)                               | <b>65.7</b>   |                       |
| Corporate and Elimination           | (23.9)                                | <b>(34.0)</b> |                       |
| Consolidated                        | (227.8)                               | <b>31.8</b>   |                       |

**Consumer Products & Devices**

Sales for the fiscal year ended March 31, 2010 decreased by 803.8 billion yen, or 19.9 percent year-on-year, to 3,227.7 billion yen. Sales to outside customers decreased 18.8 percent compared with the prior fiscal year. This was primarily as a result of unfavorable foreign currency exchange rates, a decrease in sales of LCD televisions due to a decline in unit selling prices and a decrease in sales of home-use video cameras and compact digital cameras due to the contraction of these markets.

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Operating loss of 46.5 billion yen was recorded, an improvement of 68.6 billion yen year-on-year. This was driven by an improvement in the cost of sales ratio, mainly of LCD televisions, and a reduction in selling, general and administrative expenses, partially offset by a decrease in gross profit due to lower sales, unfavorable foreign currency exchange rates and an increase in restructuring charges. Restructuring charges were 72.0 billion yen for the fiscal year ended March 31, 2010, which includes 7.3 billion yen of non-cash charges related to depreciation associated with restructured assets, compared with 49.3 billion yen of restructuring charges recorded in the prior fiscal year. Depreciation associated with restructured assets refers to the increase in depreciation expense caused by shortening the useful life or updating the salvage value of depreciable fixed assets to coincide with the end of production under an approved restructuring plan. In the fiscal year ended March 31, 2010, a 27.1 billion yen non-cash charge related to the impairment of LCD television assets, which was not included in restructuring charges, was also recorded. (Refer to Note 18 to the notes to the consolidated financial statements.)

Products contributing to the improvement in operating results (excluding restructuring charges) include LCD televisions and compact digital cameras, reflecting the benefits of cost reduction activities that exceeded the impact of the decrease in sales, and image sensors, that saw an increase in sales. This was partially offset by lower operating results for system LSIs for the game business which were affected by lower sales resulting from price reductions driven by cost saving efforts.

No additional provision or reversal of expenses relating to voluntary notebook computer battery pack recalls and the subsequent global replacement program, and free repair expenses relating to Sony products and the products of other companies containing Sony-made charged coupled devices ( CCDs ) was recorded in the fiscal year ended March 31, 2010, and the remaining balance of the provision as of March 31, 2010 was not significant.

Below are the sales to outside customers by product category and unit sales of major product categories:

**Sales to outside customers by product category**

Figures in parentheses indicate the percentage contribution of each product category to the segment total.

|                        | Fiscal Year Ended March 31 |         |                  | Percent<br>change |        |
|------------------------|----------------------------|---------|------------------|-------------------|--------|
|                        | 2009                       |         | 2010             |                   |        |
|                        | (Yen in millions)          |         |                  |                   |        |
| <i>Televisions</i>     | 1,275,692                  | (35.5)  | <b>1,005,773</b> | <b>(34.4)</b>     | -21.2% |
| <i>Digital Imaging</i> | 863,837                    | (24.0)  | <b>679,225</b>   | <b>(23.3)</b>     | -21.4  |
| <i>Audio and Video</i> | 555,706                    | (15.5)  | <b>469,606</b>   | <b>(16.1)</b>     | -15.5  |
| <i>Semiconductors</i>  | 267,167                    | (7.4)   | <b>277,885</b>   | <b>(9.5)</b>      | +4.0   |
| <i>Components</i>      | 623,931                    | (17.3)  | <b>479,145</b>   | <b>(16.4)</b>     | -23.2  |
| <i>Other</i>           | 10,900                     | (0.3)   | <b>9,769</b>     | <b>(0.3)</b>      | -10.4  |
| CPD Total              | 3,597,233                  | (100.0) | <b>2,921,403</b> | <b>(100.0)</b>    | -18.8  |

**Unit sales of major product categories**

|   | <b>Fiscal Year Ended</b>   |             | <b>Unit change</b> | <b>Percent change</b> |
|---|----------------------------|-------------|--------------------|-----------------------|
|   | <b>March 31</b>            |             |                    |                       |
|   | <b>2009</b>                | <b>2010</b> |                    |                       |
|   | <b>(Units in millions)</b> |             |                    |                       |
| LCD televisions within <i>Televisions</i>             | 15.2                       | <b>15.6</b> | +0.4               | +2.6%                 |
| Home-use video cameras within <i>Digital Imaging</i>  | 6.2                        | <b>5.3</b>  | -0.9               | -14.5                 |
| Compact digital cameras within <i>Digital Imaging</i> | 22.0                       | <b>21.0</b> | -1.0               | -4.5                  |
| Blu-ray Disc recorders within <i>Audio and Video</i>  | 0.5                        | <b>0.7</b>  | +0.2               | +40.0                 |
| Blu-ray Disc players within <i>Audio and Video</i>    | 2.2                        | <b>3.3</b>  | +1.1               | +50.0                 |
| DVD players within <i>Audio and Video</i>             | 9.7                        | <b>11.5</b> | +1.8               | +18.6                 |

**Table of Contents****Networked Products & Services**

Sales for the fiscal year ended March 31, 2010 decreased by 179.8 billion yen, or 10.2 percent year-on-year, to 1,575.8 billion yen, primarily due to a decrease in sales in the game business and sales of PCs. Sales in the game business decreased year-on-year mainly due to unfavorable foreign currency exchange rates, decreases in unit sales of PSP®(PlayStation®Portable) ( PSP ) hardware and of PlayStation®2 ( PS2 ) software. These decreases were partially offset by increased unit sales of PlayStation®3 ( PS3 ) software, driven by the expanded PS3 platform as a result of the launch of a new model.

Operating loss of 83.1 billion yen was recorded, an improvement of 4.4 billion yen year-on-year. This was driven by an improvement in the cost of sales ratio, mainly of PS3 hardware, and a reduction in selling, general and administrative expenses, partially offset by unfavorable foreign currency exchange rates and a decrease in gross profit due to lower sales. Products contributing to the improvement in operating results (excluding restructuring charges) include flash memory digital audio players. On the other hand, operating results in the game business deteriorated mainly due to lower unit sales of PS2 software and of PSP hardware, partially offset by cost reductions in PS3 hardware and increased unit sales of PS3 software.

Below are the sales to outside customers by product category, unit sales of each platform within the Game category, and unit sales of major products within the PC and Other Networked Businesses category:

**Sales to outside customers by product category**

Figures in parentheses indicate the percentage contribution of each product category to the segment total.

|  | Fiscal Year Ended March 31 |         |                  |                | Percent change |
|--|----------------------------|---------|------------------|----------------|----------------|
|  | 2009                       |         | 2010             |                |                |
|  | (Yen in millions)          |         |                  |                |                |
| <i>Game</i>                              | 984,855                    | (58.5)  | <b>840,711</b>   | <b>(55.6)</b>  | -14.6%         |
| <i>PC and Other Networked Businesses</i> | 699,903                    | (41.5)  | <b>670,904</b>   | <b>(44.4)</b>  | -4.1           |
| NPS Total                                | 1,684,758                  | (100.0) | <b>1,511,615</b> | <b>(100.0)</b> | -10.3          |

**Unit sales of each platform within the Game category**

|                            | Fiscal Year Ended March 31 |             |             | Percent change |
|----------------------------|----------------------------|-------------|-------------|----------------|
|                            | 2009                       | 2010        | Unit change |                |
|                            | (Units in millions)        |             |             |                |
| Hardware                   |                            |             |             |                |
| PlayStation®3              | 10.1                       | <b>13.0</b> | +2.9        | +28.7%         |
| PSP (PlayStation®Portable) | 14.1                       | <b>9.9</b>  | -4.2        | -29.8          |
| PlayStation®2              | 7.9                        | <b>7.3</b>  | -0.6        | -7.6           |

|                            |       |              |       |       |
|----------------------------|-------|--------------|-------|-------|
| Software*                  |       |              |       |       |
| PlayStation®3              | 103.7 | <b>115.6</b> | +11.9 | +11.5 |
| PSP®(PlayStation®Portable) | 50.3  | <b>44.4</b>  | -5.9  | -11.7 |
| PlayStation®2              | 83.5  | <b>35.7</b>  | -47.8 | -57.2 |

\* Network downloaded software is not included within unit software sales in the table above.

#### Unit sales of major products within the PC and Other Networked Businesses category

|                                    | Fiscal Year Ended<br>March 31 |            | Unit change | Percent change |
|------------------------------------|-------------------------------|------------|-------------|----------------|
|                                    | 2009<br>(Units in millions)   | 2010       |             |                |
| PCs                                | 5.8                           | <b>6.8</b> | +1.0        | +17.2%         |
| Flash memory digital audio players | 7.0                           | <b>8.0</b> | +1.0        | +14.3          |



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### **B2B & Disc Manufacturing**

Sales for the fiscal year ended March 31, 2010 decreased by 55.8 billion yen, or 10.0 percent year-on-year, to 504.2 billion yen. Sales to outside customers decreased 13.0 percent year-on-year. This decrease was primarily due to unfavorable foreign currency exchange rates and a decrease in sales of broadcast- and professional-use products in developed countries reflecting deterioration in the business environment. Unit selling price declines in the disc manufacturing business also contributed to the decrease in overall segment sales.

Operating loss of 7.2 billion yen was recorded compared to operating income of 6.5 billion yen in the previous fiscal year. This was due to deterioration in the profitability of broadcast- and professional-use products and in the disc manufacturing business brought on by the factors noted above.

### **Total for the CPD, NPS and B2B & Disc Segments**

#### *Inventory*

Total Inventory for the CPD, NPS and B2B & Disc segments, as of March 31, 2010, was 570.0 billion yen, which represents a 174.3 billion yen, or 23.4 percent decrease compared with the level as of March 31, 2009, mainly due to company-wide efforts to maintain appropriate levels of inventory and to improve working capital.

#### *Sales to Outside Customers by Geographic Area*

Regarding sales to outside customers by geographic area for the CPD, NPS and B2B & Disc segments, total combined sales for the fiscal year ended March 31, 2010 decreased by 7 percent in Japan, 18 percent in the U.S., 25 percent in Europe, and 11 percent in non-Japan Asia and other geographic areas ( Other Areas ).

In Japan, sales of products such as LCD televisions increased while sales of products and services in the game business, products such as portable audio, system LSI, chemical products\*, and broadcast- and professional-use products decreased. In the U.S., sales of products such as LCD televisions and products and services in the game business decreased. In Europe, sales of products such as LCD televisions, products and services in the game business and home-use video cameras decreased. In Other Areas, sales of products such as PCs increased while sales of products such as LCD televisions, compact digital cameras, products and services in the game business and home-use video cameras decreased.

\* Chemical products include materials and components for electronic devices such as circuit boards and adhesives.

#### *Manufacturing by Geographic Area*

Approximately 45 percent of the CPD, NPS, B2B & Disc segments combined total annual production during the fiscal year ended March 31, 2010 took place in Japan, including the production of compact digital cameras, home-use video cameras, LCD televisions, PCs, semiconductors and components such as batteries and storage media. Approximately 60 percent of the annual production in Japan was destined for other countries. China accounted for approximately 20 percent of total annual production, approximately 65 percent of which was destined for other countries. Asia, excluding Japan and China, accounted for approximately 15 percent of total annual production, with approximately 50 percent destined for Japan, the Americas and Europe. The Americas and Europe together accounted for approximately 20 percent of total annual production, most of which was destined for local distribution and sale.

### **Pictures**

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

Sales for the fiscal year ended March 31, 2010 decreased by 12.3 billion yen, or 1.7 percent year-on-year, to 705.2 billion yen primarily due to the appreciation of the yen against the U.S. dollar. On a U.S. dollar basis, sales for the fiscal year ended March 31, 2010 increased by approximately 7 percent. Motion picture revenues, also on a

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U.S. dollar basis, increased by approximately 5 percent year-on-year, primarily due to higher worldwide theatrical and home entertainment revenues from the current year's film slate which included strong performances from *2012*, *Angels & Demons* and *Michael Jackson's This Is It*. This increase was partially offset by a decrease in home entertainment revenues from prior year's films. Television revenues, on a U.S. dollar basis, increased by approximately 9 percent year-on-year, primarily due to higher advertising revenues from several international channels, including a significant increase in India from the broadcasting of the Indian Premier League cricket competition.

Operating income increased by 12.9 billion yen, or 43.1 percent year-on-year, to 42.8 billion yen. Operating income increased by approximately 53 percent on a U.S. dollar basis. This increase was primarily from the sale of a portion of SPE's equity interest in a Latin American premium pay television business (HBO Latin America) and a U.S. cable network (Game Show Network), as well as the sale of all of its equity interest in a Central European premium pay television business (HBO Central Europe). The total gain recognized from these sales was 30.3 billion yen. The benefit from these gains was partially offset by the decrease in home entertainment revenues noted above and the write-off of certain development costs.

As of March 31, 2010, unrecognized license fee revenue at SPE was approximately 1.3 billion U.S. dollars. SPE expects to record this amount in the future, having entered into contracts with television broadcasters to provide those broadcasters with completed motion picture and television products. The license fee revenue will be recognized in the fiscal year in which the product is made available for broadcast.

**Music**

Music segment results presented below include the yen-translated results of SME, a U.S.-based operation which aggregates the results of its worldwide subsidiaries on a U.S. dollar basis, the results of SMEJ, a Japan-based music company which aggregates its results in yen, and the yen-translated consolidated results of Sony/ATV, a 50 percent owned U.S.-based consolidated joint venture in the music publishing business which aggregates the results of its worldwide subsidiaries on a U.S. dollar basis.

Sales for the fiscal year ended March 31, 2010 increased by 135.6 billion yen, or 35.0 percent year-on-year, to 522.6 billion yen. The increase was mainly due to the fact that results for the fiscal year ended March 31, 2010 include the full year results of SME, which was consolidated as a wholly-owned subsidiary beginning October 1, 2008 upon Sony's acquisition of Bertelsmann AG's 50 percent interest. On a pro forma basis, had SME been fully consolidated for the previous fiscal year, sales in the Music segment for the previous fiscal year would have been 549.1 billion yen. Compared with these pro forma sales, Music segment sales decreased 5 percent year-on-year, primarily due to the appreciation of the yen against the U.S. dollar.

On a U.S. dollar basis, when comparing the full year results for SME to the full year results for the previous fiscal year on a pro forma basis, sales for SME increased by 2 percent. The increase in sales primarily reflects the favorable impact of new releases and strong sales of Michael Jackson catalog product, partially offset by the continued decline of the physical music market. In addition to Michael Jackson's catalog albums, best-selling new releases during the fiscal year included Susan Boyle's *I Dreamed a Dream*, the *Michael Jackson's This Is It* soundtrack, Alicia Keys' *The Element of Freedom* and *Glee the Music Vol.1 & 2*, music collections from the hit U.S. television show, *Glee*.

Sales at SMEJ included contributions from Michael Jackson's catalog albums and ikimono-gakari's *HAJIMARI NO UTA*.

Operating income increased by 8.7 billion yen, or 31.1 percent year-on-year, to 36.5 billion yen. Operating income for the previous fiscal year included equity in net loss of 6.0 billion yen for SONY BMG MUSIC ENTERTAINMENT (SONY BMG) through October 1, 2008. On a pro forma basis, had SME been fully consolidated for the previous

fiscal year, operating income for the Music segment would have been 21.3 billion yen. Compared to this pro forma operating income, Music segment operating income increased 72 percent year-on-year. The increase in the pro-forma segment results is primarily due to improved results from SME and SMEJ.

On a U.S. dollar basis, when comparing the full year results for SME to the full year results for the previous year on a pro forma basis, operating income for SME increased by 487 percent, primarily due to the contribution

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from hit releases, Michael Jackson catalog product sales, growth in new music related businesses as well as a year-on-year decrease in overhead and restructuring costs.

SMEJ's contribution to operating income increased mainly due to the contribution from hit releases as well as year-on-year decreases in advertisement expenses and restructuring charges.

**Financial Services**

The results of Sony Life discussed below on the basis of generally accepted accounting principles in the U.S. ( U.S. GAAP ) differ from the results that SFH and Sony Life disclose separately on a Japanese statutory basis.

Financial services revenue for the fiscal year ended March 31, 2010 increased by 313.2 billion yen, or 58.2 percent year-on-year to 851.4 billion yen mainly due to an increase in revenue at Sony Life. Revenue at Sony Life was 740.4 billion yen, a 309.9 billion yen or 72.0 percent increase year-on-year. Revenue increased significantly year-on-year mainly due to an improvement in net gains from investments in the separate account, an improvement in net valuation gains from investments in convertible bonds in the general account and a significant decrease in impairment losses on equity securities in the general account, all as a result of the significant rise in the Japanese stock market in the fiscal year ended March 31, 2010, as compared with a significant decline following the global financial crisis in the previous fiscal year. Revenue from insurance premiums at Sony Life increased, reflecting a steady increase in policy amount in force.

Operating income of 162.5 billion yen was recorded, compared to an operating loss of 31.2 billion yen in the previous fiscal year mainly as a result of a significant improvement in operating results at Sony Life. Operating income in the fiscal year ended March 31, 2010 at Sony Life was 166.6 billion yen, as compared to an operating loss of 29.8 billion in the previous fiscal year, mainly due to the improvement in net valuation gains from investments in convertible bonds in the general account, a decrease in the provision of policy reserves because of the revision of the future investment yield of variable life insurance products in the separate account and the significant decrease in impairment losses on equity securities in the general account, all as a result of the improved situation in the Japanese stock market mentioned above.

***Information of Operations Separating Out the Financial Services Segment (Unaudited)***

The following charts show Sony's unaudited information of operations for the Financial Services segment alone and for all segments excluding the Financial Services segment. These separate condensed presentations are not required or prepared 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 utilizes this information to analyze its results without the Financial Services segment and believes that these presentations may be useful in understanding and analyzing Sony's consolidated financial statements. Transactions between the Financial Services segment and all other segments excluding the Financial Services segment are eliminated in the consolidated figures shown below.

| <b>Financial Services segment</b>          | <b>Fiscal Year Ended March 31</b> |                |
|--|-----------------------------------|----------------|
|  | <b>2009</b>                       | <b>2010</b>    |
|  | <b>(Yen in millions)</b>          |                |
| Financial service revenue                  | 538,206                           | <b>851,396</b> |
| Financial service expenses                 | 567,567                           | <b>687,559</b> |
| Equity in net loss of affiliated companies | (1,796)                           | <b>(1,345)</b> |

|  |          |                |
|--|----------|----------------|
| <b>Operating income (loss)</b>   | (31,157) | <b>162,492</b> |
| Other income (expenses), net   | 28       | <b>(966)</b>   |
| <b>Income (loss) before income taxes</b>                                 | (31,129) | <b>161,526</b> |
| Income taxes and other   | (6,922)  | <b>54,721</b>  |
| <b>Net income (loss) attributable to Sony Corporation's Stockholders</b> | (24,207) | <b>106,805</b> |

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| <b>Sony without the Financial Services segment</b>              | <b>Fiscal Year Ended March 31</b> |                  |
|---|-----------------------------------|------------------|
|   | <b>2009</b>                       | <b>2010</b>      |
|   | <b>(Yen in millions)</b>          |                  |
| Net sales and operating revenue                                 | 7,212,492                         | <b>6,381,094</b> |
| Costs and expenses  | 7,387,236                         | <b>6,484,642</b> |
| Equity in net loss of affiliated companies                      | (23,313)                          | <b>(28,890)</b>  |
| <b>Operating loss</b>   | (198,057)                         | <b>(132,438)</b> |
| Other income (expenses), net                                    | 58,254                            | <b>1,836</b>     |
| <b>Loss before income taxes</b>                                 | (139,803)                         | <b>(130,602)</b> |
| Income taxes and other  | (61,219)                          | <b>(34,081)</b>  |
| <b>Net loss attributable to Sony Corporation's Stockholders</b> | (78,584)                          | <b>(96,521)</b>  |

| <b>Consolidated</b>   | <b>Fiscal Year Ended March 31</b> |                  |
|---|-----------------------------------|------------------|
|   | <b>2009</b>                       | <b>2010</b>      |
|   | <b>(Yen in millions)</b>          |                  |
| Financial service revenue                                       | 523,307                           | <b>838,300</b>   |
| Net sales and operating revenue                                 | 7,206,686                         | <b>6,375,698</b> |
|   | 7,729,993                         | <b>7,213,998</b> |
| Costs and expenses  | 7,932,667                         | <b>7,151,991</b> |
| Equity in net loss of affiliated companies                      | (25,109)                          | <b>(30,235)</b>  |
| <b>Operating income (loss)</b>                                  | (227,783)                         | <b>31,772</b>    |
| Other income (expenses), net                                    | 52,828                            | <b>(4,860)</b>   |
| <b>Income (loss) before income taxes</b>                        | (174,955)                         | <b>26,912</b>    |
| Income taxes and other  | (76,017)                          | <b>67,714</b>    |
| <b>Net loss attributable to Sony Corporation's Stockholders</b> | (98,938)                          | <b>(40,802)</b>  |

**Sony Ericsson**

Sony Ericsson's operating results are accounted for under the equity method and are not consolidated in Sony's consolidated financial statements, as Sony Corporation's ownership percentage of Sony Ericsson is 50 percent. Sony Ericsson aggregates the results of its worldwide subsidiaries on a euro basis. However, Sony believes that the following disclosure provides additional useful analytical information to investors regarding Sony's operating performance. Pursuant to Rule 3-09 of Regulation S-X under the Securities Exchange Act of 1934, as amended, Sony Ericsson's financial statements are included in this Annual Report on Form 20-F on pages (A-1 to A-27).

Sales for the year ended March 31, 2010 decreased by 3,821 million euro, or 37.2 percent year-on-year, to 6,457 million euro, mainly driven by significantly lower unit shipments as a result of continued challenging market conditions in all regions. A total of 53.0 million units were shipped for the year ended March 31, 2010, compared to 88.8 million units for the prior year. Despite the significantly lower sales, the loss before taxes increased only slightly by 21 million euro year-on-year to 654 million euro, primarily due to a reduction in research and development expenses as well as selling and administrative expenses. As a result, Sony recorded equity in the net loss of Sony Ericsson of 34.5 billion yen for the fiscal year ended March 31, 2010, compared to a loss of 30.3 billion yen in the prior fiscal year.



**Table of Contents****All Other**

Sales for the fiscal year ended March 31, 2010 decreased by 56.6 billion yen, or 17.8 percent year-on-year, to 261.9 billion yen. The decrease in sales is mainly due to a significant decrease in sales at a mobile phone third-party original equipment manufacturing (OEM) business in Japan, partially offset by an increase in sales at So-net Entertainment Corporation ( So-net ).

In terms of operating performance, operating loss for All Other increased by 0.6 billion yen year-on-year, to a loss of 4.8 billion yen. This increase was mainly due to charges related to the withdrawal from the property management operation of an entertainment complex in Japan and the termination payments of the property lease contract, partially offset by an increase in operating income at a mobile phone OEM business in Japan.

***Restructuring***

As the global economy experienced a sharp downturn following the autumn of 2008, the operating environment for Sony has become severe, with decreased demand, intensified pressure on pricing, and fluctuations in foreign exchange rates. In an attempt to cope with this environment, for the fiscal year ended March 31, 2010, Sony continued to implement restructuring initiatives to reform its operational structure with a priority on profitability and speed.

In the fiscal year ended March 31, 2010, Sony recorded restructuring charges of 124.3 billion yen, which includes 7.9 billion yen of non-cash charges related to depreciation associated with restructured assets, compared to 75.4 billion yen of restructuring charges recorded in the previous fiscal year. There were no non-cash charges related to depreciation associated with restructured assets in the previous fiscal year. Of the total 124.3 billion yen incurred in the fiscal year ended March 31, 2010, 65.1 billion yen were personnel-related costs. This charge was included primarily in selling, general and administrative expenses in the consolidated statements of income. Additionally, Sony either consolidated or sold five manufacturing sites in Japan and five manufacturing sites outside of Japan during the fiscal year ended March 31, 2010.

Restructuring charges were recorded mainly in the CPD segment, and All Other and Corporate. In the CPD segment, restructuring charges amounted to 72.0 billion yen, which includes 7.3 billion yen of non-cash charges related to depreciation associated with restructured assets for the fiscal year ended March 31, 2010, compared to 49.3 billion yen of restructuring charges recorded in the previous year. In the fiscal year ended March 31, 2010, restructuring activities included headcount reduction programs, initiatives to advance rationalization of manufacturing operations, shifting and aggregating manufacturing to lower-cost countries and utilizing the services of OEMs and third-party original design manufacturing (ODMs). In the CPD segment, most of the 35.9 billion yen of restructuring charges incurred within selling, general and administrative expenses were personnel-related costs. In the TV business, Sony ceased manufacturing operations at its Sony EMCS Corporation Ichinomiya TEC in June 2009, and at Sony Baja California, S.A. de C.V.'s Mexicali factory in September, 2009 and sold to the Hon Hai Group approximately 90 percent of Sony's ownership interest in Sony Baja California and certain manufacturing assets related to LCD televisions at Sony Baja California's Tijuana Factory in Mexico in January 2010, which mainly manufactures LCD televisions for the Americas region. The Tijuana Factory remains a key manufacturing facility of Sony LCD televisions for the Americas region.

In all segments, excluding the CPD segment, and All Other and Corporate, restructuring charges were recorded mainly due to headcount reductions through early retirement programs.

Restructuring charges discussed in Item 5, which include non-cash charges related to depreciation associated with restructured assets, are described in Note 18 to the notes to the consolidated financial statements.

***Foreign Exchange Fluctuations and Risk Hedging***

During the fiscal year ended March 31, 2010, the average value of the yen was 91.8 yen against the U.S. dollar, and 129.7 yen against the euro, which was 8.4 percent and 9.5 percent higher, respectively, year-on-year.

Sony's consolidated results are subject to foreign currency rate fluctuations largely because the currency used in the countries where manufacturing takes place may be different from those where such products are sold. In order

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to reduce the risk caused by such fluctuations, Sony employs derivatives, including foreign exchange forward contracts and foreign currency option contracts, in accordance with a consistent risk management strategy. Such derivatives are used primarily to mitigate the effect of foreign currency exchange rate fluctuations on cash flows generated or anticipated by Sony Corporation and by its subsidiaries' transactions and accounts receivable and payable denominated in foreign currencies.

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

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

Changes in the fair value of derivatives designated as cash flow hedges are initially recorded in accumulated other comprehensive income and reclassified into earnings when the hedged transaction affects earnings. Foreign exchange forward contracts, foreign currency option contracts and other derivatives that do not qualify as hedges are marked-to-market with changes in value recognized in other income and expenses. The notional amount and the net fair value of all the foreign exchange derivative contracts as of March 31, 2010 were 2,026.4 billion yen and a liability of 13.2 billion yen, respectively.

***Operating Results for the Fiscal Year Ended March 31, 2009 compared with the Fiscal Year Ended March 31, 2008***

Sony realigned its segments from the first quarter of the fiscal year ended March 31, 2010 to reflect the company's reorganization as of April 1, 2009. In connection with this realignment, both the sales and operating income (loss) of each segment in the fiscal year ended March 31, 2009 and in the fiscal year ended March 31, 2008 have been revised to conform to the presentation for the fiscal year ended March 31, 2010.

**Operating Performance**

|                             | <b>Fiscal Year Ended<br/>March 31</b> |                | <b>Percent change</b> |
|-----------------------------|---------------------------------------|----------------|-----------------------|
|                             | 2008                                  | <b>2009</b>    |                       |
|                             | <b>(Yen in billions)</b>              |                |                       |
| Sales and operating revenue | 8,871.4                               | <b>7,730.0</b> | -12.9%                |

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|   |       |                |
|---|-------|----------------|
| Equity in net income (loss) of affiliated companies               | 100.8 | <b>(25.1)</b>  |
| Operating income (loss)   | 475.3 | <b>(227.8)</b> |
| Income (loss) before income taxes                                 | 567.1 | <b>(175.0)</b> |
| Net income (loss) attributable to Sony Corporation's stockholders | 369.4 | <b>(98.9)</b>  |

**Table of Contents*****Sales***

Sales for the fiscal year ended March 31, 2009 decreased by 1,141.4 billion yen, or 12.9 percent year-on-year, to 7,730.0 billion yen primarily due to unfavorable foreign currency exchange rates and a decrease in sales in the CPD and NPS segments. A further breakdown of sales figures is presented under *Operating Performance by Business Segment* below.

During the fiscal year ended March 31, 2009, the average value of the yen was 99.5 yen against the U.S. dollar and 142.0 yen against the euro, which was 13.8 percent and 12.7 percent higher, respectively, year-on-year.

Sales in the analysis of the ratio of cost of sales to sales, the ratio of research and development costs to sales, and the ratio of selling, general and administrative expenses to sales refers only to the net sales and other operating revenue portions of consolidated sales (which excludes financial service revenue). This is because Financial Service expenses are recorded separately from cost of sales and selling, general and administrative expenses in the consolidated financial statements. The calculations of all ratios below that pertain to business segments include intersegment transactions.

***Cost of Sales and Selling, General and Administrative Expenses***

Cost of sales for the fiscal year ended March 31, 2009 decreased by 629.5 billion yen, or 10.0 percent year-on-year, to 5,660.5 billion yen, and increased from 75.6 percent to 78.5 percent as a percentage of sales.

Research and development costs (all research and development costs are included within cost of sales) for the fiscal year ended March 31, 2009 decreased by 23.3 billion yen, or 4.5 percent year-on-year, to 497.3 billion yen. The ratio of research and development costs to sales was 6.9 percent compared to 6.3 percent in the previous fiscal year.

Selling, general and administrative expenses for the fiscal year ended March 31, 2009 decreased by 28.4 billion yen, or 1.7 percent, year-on-year to 1,686.0 billion yen, mainly due to the impact of the appreciation of the yen, partially offset by an increase in restructuring charges, primarily consisting of personnel-related costs. The overall ratio of selling, general and administrative expenses to sales increased year-on-year from 20.6 percent to 23.4 percent.

Loss on sale, disposal or impairment of assets, net was 38.3 billion yen for the fiscal year ended March 31, 2009, compared with a 37.8 billion yen gain on sale, disposal or impairment of assets, net in the previous fiscal year. This loss was primarily the result of impairment charges including long-lived asset impairments mainly as a result of the downsizing and withdrawal from certain businesses as well as goodwill impairment charges. The gain recorded in the previous fiscal year was primarily from a gain on the sale of a portion of the site of Sony's former headquarters of 60.7 billion yen and a gain on the sale of The Sony Center am Potsdamer Platz in Berlin of 10.0 billion yen.

***Equity in Net Income (Loss) of Affiliated Companies***

Equity in net loss of affiliated companies, recorded within operating income, was 25.1 billion yen, a deterioration of 125.9 billion yen year-on-year. Sony recorded equity in net loss for Sony Ericsson of 30.3 billion yen, compared to equity in net income of 79.5 billion yen in the previous fiscal year, primarily as a result of a less favorable product mix and price pressure, a decrease in unit shipments due to the global economic slowdown, as well as the recording of restructuring charges. Equity in net income for S-LCD, a joint-venture with Samsung, decreased 0.5 billion yen compared with the prior fiscal year to 6.9 billion yen. Sony also recorded equity in net loss of 6.0 billion yen for SONY BMG, as opposed to equity in net income of 10.0 billion yen in the previous fiscal year.

***Operating Income (Loss)***

Operating loss for the fiscal year ended March 31, 2009 was 227.8 billion yen, compared with operating income of 475.3 billion yen in the previous fiscal year. The CPD segment, the NPS segment, the Financial Services segment and Sony Ericsson mainly contributed to the operating loss. For a further breakdown of operating income (loss) for each segment, please refer to *Operating Performance by Business Segment* below.

**Table of Contents*****Other Income and Expenses***

For the fiscal year ended March 31, 2009, other income decreased by 50.6 billion yen, or 33.9 percent, to 98.8 billion yen, while other expenses decreased by 11.6 billion yen, or 20.2 percent year-on-year, to 46.0 billion yen. The net amount of other income and other expenses was net other income of 52.8 billion yen, a decrease of 39.0 billion yen, or 42.5 percent year-on-year. This decrease is mainly due to the recording of a gain of 81.0 billion yen for the change in interest in subsidiaries and equity investees as a result of the global initial public offering of shares of SFH in connection with the listing of shares on the First Section of the Tokyo Stock Exchange in the previous fiscal year.

Interest and dividends in other income of 22.3 billion yen was recorded in the fiscal year ended March 31, 2009, a decrease of 12.0 billion yen, or 34.9 percent year-on-year. For the fiscal year ended March 31, 2009, interest recorded in other expenses totaled 24.4 billion yen, an increase of 1.4 billion yen, or 6.3 percent year-on-year.

In addition, net foreign exchange income of 48.6 billion yen was recorded in the fiscal year ended March 31, 2009, a year-on-year increase of 43.0 billion yen. Net foreign exchange income was recorded due to the value of the yen, during the first through third quarter of the fiscal year ended March 31, 2009, appreciating against other currencies from the time that Sony entered into foreign exchange forward contracts and foreign currency option contracts.

These contracts were entered into by Sony to mitigate the effect of foreign currency exchange rate fluctuations on cash flows generated or anticipated by Sony Corporation and by its subsidiaries' transactions and accounts receivable and payable denominated in foreign currencies.

***Income (Loss) before Income Taxes***

For the fiscal year ended March 31, 2009, a loss before income taxes of 175.0 billion yen was recorded, compared to income of 567.1 billion yen in the previous fiscal year.

***Income Taxes***

During the fiscal year ended March 31, 2009, Sony recorded an income tax benefit amounting to 72.7 billion yen resulting in an effective tax rate of 41.6 percent. This is mainly due to a loss before income taxes during the fiscal year ended March 31, 2009 and the partial reversal of certain deferred tax liabilities amounting to 55.5 billion yen for undistributed earnings of foreign subsidiaries and affiliates, due to a change in the tax regulations in Japan to treat 95 percent of the dividends from overseas subsidiaries as non-taxable income, partially offset by the impact of the inclusion of equity in net loss of affiliated companies into net loss before income taxes and minority interest, the reversal of certain deferred tax assets for foreign tax credits at Sony Corporation and an increase in valuation allowances recorded on deferred tax assets for net operating loss carryforwards at certain subsidiaries.

***Net Income (Loss) attributable to Sony Corporation's stockholders***

Net loss attributable to Sony Corporation's stockholders for the fiscal year ended March 31, 2009, which excludes net loss attributable to noncontrolling interests, was 98.9 billion yen, compared with net income of 369.4 billion yen in the previous fiscal year.

Net loss attributable to noncontrolling interest of 3.3 billion yen was recorded, a 2.5 billion yen decrease year-on-year. This was mainly due to the loss recorded at SFH which was negatively impacted by the increase in net valuation losses from convertible bonds and an impairment loss on equity securities at Sony Life.

Basic net loss per share attributable to Sony Corporation's stockholders was 98.59 yen, compared with basic net income per share attributable to Sony Corporation's stockholders of 368.33 yen in the previous fiscal year, and diluted net loss per share attributable to Sony Corporation's stockholders was 98.59 yen, compared with diluted net income per share attributable to Sony Corporation's stockholders of 351.10 yen in the previous fiscal year.



**Table of Contents*****Operating Performance by Business Segment***

The following discussion is based on segment information. Sales in each business segment include intersegment transactions.

***Business Segment Information***

|                                    | <b>Fiscal Year Ended<br/>March 31</b> |                | <b>Percent<br/>change</b> |
|------------------------------------|---------------------------------------|----------------|---------------------------|
|                                    | 2008                                  | 2009           |                           |
|                                    | <b>(Yen in billions)</b>              |                |                           |
| <b>Sales and operating revenue</b> |                                       |                |                           |
| Consumer Products & Devices        | 4,914.0                               | <b>4,031.5</b> | -18.0%                    |
| Networked Products & Services      | 2,120.7                               | <b>1,755.6</b> | -17.2                     |
| B2B & Disc Manufacturing           | 614.9                                 | <b>560.0</b>   | -8.9                      |
| Pictures                           | 857.9                                 | <b>717.5</b>   | -16.4                     |
| Music                              | 228.7                                 | <b>387.1</b>   | +69.3                     |
| Financial Services                 | 581.1                                 | <b>538.2</b>   | -7.4                      |
| All Other                          | 359.5                                 | <b>318.4</b>   | -11.4                     |
| Corporate and Elimination          | (805.4)                               | <b>(578.3)</b> |                           |
| Consolidated                       | 8,871.4                               | <b>7,730.0</b> | -12.9                     |

|                                     | <b>Fiscal Year Ended<br/>March 31</b> |                | <b>Percent<br/>change</b> |
|-------------------------------------|---------------------------------------|----------------|---------------------------|
|                                     | 2008                                  | 2009           |                           |
|                                     | <b>(Yen in billions)</b>              |                |                           |
| <b>Operating income (loss)</b>      |                                       |                |                           |
| Consumer Products & Devices         | 230.1                                 | <b>(115.1)</b> | %                         |
| Networked Products & Services       | (77.6)                                | <b>(87.4)</b>  |                           |
| B2B & Disc Manufacturing            | 64.5                                  | <b>6.5</b>     | -90.0                     |
| Pictures                            | 58.5                                  | <b>29.9</b>    | -48.9                     |
| Music                               | 35.1                                  | <b>27.8</b>    | -20.6                     |
| Financial Services                  | 22.6                                  | <b>(31.2)</b>  |                           |
| Equity in net loss of Sony Ericsson | 79.5                                  | <b>(30.3)</b>  |                           |
| All Other                           | 10.3                                  | <b>(4.2)</b>   |                           |
| Sub-Total                           | 423.0                                 | <b>(203.9)</b> |                           |
| Corporate and Elimination           | 52.3                                  | <b>(23.9)</b>  |                           |
| Consolidated                        | 475.3                                 | <b>(227.8)</b> |                           |

## **Consumer Products & Devices**

Sales for the fiscal year ended March 31, 2009 decreased by 882.5 billion yen, or 18.0 percent year-on-year, to 4,031.5 billion yen. Sales to outside customers decreased 15.1 percent compared with the prior fiscal year. This decrease was mainly due to unfavorable foreign currency exchange rates, deterioration in the business environment brought on by the slowing global economy, and the intensification of price competition. With regard to products within the CPD segment, while LCD televisions saw higher sales due to increased unit sales, sales decreased significantly for products such as home-use video cameras and compact digital cameras. The absence of the previous year's sales of LCD rear-projection televisions and CRT televisions, both businesses that Sony has exited, also contributed to the decrease in sales for the fiscal year ended March 31, 2009.

Operating loss of 115.1 billion yen was recorded for the fiscal year ended March 31, 2009, compared to income of 230.1 billion yen for the previous fiscal year. This decrease was primarily due to unfavorable foreign currency

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exchange rates, the higher cost of sales ratio due to intensified price competition, a decrease in sales due to deterioration in the business environment and an increase in selling, general and administrative expenses due to higher restructuring charges. Restructuring charges were 49.3 billion yen compared with 33.6 billion yen recorded for the fiscal year ended March 31, 2008. Products contributing to the significant decrease in the operating results included compact digital cameras, LCD televisions and home-use video cameras.

Additionally, a portion of the provision of the 51.2 billion yen charges recorded in the fiscal year ended March 31, 2007 related to notebook computer battery pack recalls and the subsequent global replacement program totaling 2.3 billion yen was reversed in the fiscal year ended March 31, 2009, compared to 15.7 billion yen reversed in the previous fiscal year, which was recorded in selling, general and administrative expenses. An additional provision was recorded during the previous fiscal year for free repair expenses relating to Sony products and the products of other companies containing Sony-made CCDs, but there was no such provision recorded in the fiscal year ended March 31, 2009.

Below are the sales to outside customers by product category and unit sales of major product categories:

**Sales to outside customers by product category**

Figures in parentheses indicate the percentage contribution of each product category to the segment total.

|                        | <b>Fiscal Year Ended March 31</b> |         |                  |                | <b>Percent change</b> |
|------------------------|-----------------------------------|---------|------------------|----------------|-----------------------|
|                        | 2008                              | 2009    |                  |                |                       |
|                        | <b>(Yen in millions)</b>          |         |                  |                |                       |
| <i>Televisions</i>     | 1,357,116                         | (32.0)  | <b>1,275,692</b> | <b>(35.5)</b>  | -6.0%                 |
| <i>Digital Imaging</i> | 1,113,407                         | (26.3)  | <b>863,837</b>   | <b>(24.0)</b>  | -22.4                 |
| <i>Audio and Video</i> | 644,475                           | (15.2)  | <b>555,706</b>   | <b>(15.5)</b>  | -13.8                 |
| <i>Semiconductors</i>  | 321,032                           | (7.6)   | <b>267,167</b>   | <b>(7.4)</b>   | -16.8                 |
| <i>Components</i>      | 788,004                           | (18.6)  | <b>623,931</b>   | <b>(17.3)</b>  | -20.8                 |
| <i>Other</i>           | 14,513                            | (0.3)   | <b>10,900</b>    | <b>(0.3)</b>   | -24.9                 |
| CPD Total              | 4,238,547                         | (100.0) | <b>3,597,233</b> | <b>(100.0)</b> | -15.1                 |

**Unit sales of major product categories**

|   | <b>Fiscal Year Ended March 31</b> |             | <b>Unit change</b> | <b>Percent change</b> |
|---|-----------------------------------|-------------|--------------------|-----------------------|
|   | 2008                              | 2009        |                    |                       |
|   | <b>(Units in millions)</b>        |             |                    |                       |
| LCD televisions within <i>Televisions</i>             | 10.6                              | <b>15.2</b> | +4.6               | +43.4%                |
| Home-use video cameras within <i>Digital Imaging</i>  | 7.7                               | <b>6.2</b>  | -1.5               | -19.5                 |
| Compact digital cameras within <i>Digital Imaging</i> | 23.5                              | <b>22.0</b> | -1.5               | -6.4                  |
| DVD recorders within <i>Audio and Video</i>           | 1.7                               | <b>1.2</b>  | -0.5               | 29.4                  |
| DVD players within <i>Audio and Video</i>             | 8.5                               | <b>9.7</b>  | +1.2               | +14.1                 |

### **Networked Products & Services**

Sales for the fiscal year ended March 31, 2009 decreased 365.0 billion yen, or 17.2 percent year-on-year, to 1,755.6 billion yen. Sales to outside customers decreased 17.5 percent compared with the prior fiscal year. This decrease was mainly due to a decrease in sales in the game business and of PCs.

Sales in the game business decreased year-on-year, primarily as a result of unfavorable foreign currency exchange rates as well as a decrease in unit sales of PS2 hardware and software. PCs sales decreased mainly due to a decline in unit selling prices and unfavorable foreign currency exchange rates despite an increase in unit sales.

Operating loss of 87.4 billion yen was recorded, a deterioration of 9.8 billion yen year-on-year, mainly due to a deterioration in operating results in PCs, while operating results in the game business improved.

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The deterioration in operating results for PCs was mainly due to a decline in unit selling price and unfavorable foreign currency exchange rates. In the game business, the improvement in the operating results was mainly due to PS3 hardware cost reductions and increased PS3 software sales despite the impact of the decrease in sales in the PS2 hardware and software.

Below are the sales to outside customers by product category, unit sales of each platform within the Game category, and unit sales of major products within the PC and Other Networked Businesses category:

**Sales to outside customers by product category**

Figures in parentheses indicate the percentage contribution of each product category to the segment total.

|  | Fiscal Year Ended March 31 |         |                  |                | Percent change |
|--|----------------------------|---------|------------------|----------------|----------------|
|  | 2008                       | 2009    |                  |                |                |
|  | (Yen in millions)          |         |                  |                |                |
| <i>Game</i>                              | 1,219,004                  | (59.7)  | <b>984,855</b>   | <b>(58.5)</b>  | -19.2%         |
| <i>PC and Other Networked Businesses</i> | 823,556                    | (40.3)  | <b>699,903</b>   | <b>(41.5)</b>  | -15.0          |
| NPS Total                                | 2,042,560                  | (100.0) | <b>1,684,758</b> | <b>(100.0)</b> | -17.5          |

**Unit sales of each platform within the Game category**

|                            | Fiscal Year Ended March 31 |              | Unit change | Percent change |
|----------------------------|----------------------------|--------------|-------------|----------------|
|                            | 2008                       | 2009         |             |                |
|                            | (Units in millions)        |              |             |                |
| Hardware                   |                            |              |             |                |
| PlayStation®3              | 9.1                        | <b>10.1</b>  | +1.0        | +11.0%         |
| PSP®(PlayStation®Portable) | 13.8                       | <b>14.1</b>  | +0.3        | +2.2           |
| PlayStation®2              | 13.7                       | <b>7.9</b>   | -5.8        | -42.3          |
| Software*                  |                            |              |             |                |
| PlayStation®3              | 57.9                       | <b>103.7</b> | +45.8       | +79.1          |
| PSP®(PlayStation®Portable) | 55.5                       | <b>50.3</b>  | -5.2        | -9.4           |
| PlayStation®2              | 154.0                      | <b>83.5</b>  | -70.5       | -45.8          |

\* Network downloaded software is not included within unit software sales in the table above.

**Unit sales of major products within the PC and Other Networked Businesses category**

**Fiscal Year Ended  
March 31**

|                                    | 2008                | 2009       | Unit change | Percent change |
|------------------------------------|---------------------|------------|-------------|----------------|
|                                    | (Units in millions) |            |             |                |
| PCs                                | 5.2                 | <b>5.8</b> | +0.6        | +11.5%         |
| Flash memory digital audio players | 5.8                 | <b>7.0</b> | +1.2        | +20.7          |

### **B2B & Disc Manufacturing**

Sales for the fiscal year ended March 31, 2009 decreased 54.9 billion yen, or 8.9 percent year-on-year, to 560.0 billion yen. Sales to outside customers decreased 13.5 percent year-on-year. This decrease was primarily due to unfavorable foreign currency exchange rates and a decrease in sales of broadcast- and professional-use products in developed countries reflecting deterioration in the business environment brought on by the slowing global economy. Unit selling price declines in the disc manufacturing business also contributed to the decrease in overall segment sales.

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Operating income decreased 58.1 billion yen, or 90.0 percent year-on-year, to 6.5 billion yen. This decrease was primarily due to deterioration in the profitability of broadcast- and professional-use products and in the disc manufacturing business brought on by the factors noted above.

### **Total for the CPD, NPS and B2B & Disc Segments**

#### ***Inventory***

Total inventory for the CPD, NPS and B2B & Disc segments, as of March 31, 2009, was 744.3 billion yen.

#### ***Sales to Outside Customers by Geographic Area***

Regarding sales to outside customers by geographic area within the CPD, NPS and B2B & Disc segments, total combined sales decreased by 13 percent in Japan, 20 percent in the U.S., 18 percent in Europe, and 11 percent in Other Areas.

In Japan, sales of products such as Blu-ray Disc recorders increased while sales of products such as CCDs and CMOS image sensors, PCs and sales at a contactless integrated circuit card business decreased. In the U.S., sales of products and services in the game business and products such as compact digital cameras and PCs decreased. In Europe, sales of products such as digital SLR cameras increased while sales of products and services in the game business and products such as home-use video cameras and PCs decreased. In Other Areas, sales of products such as LCD televisions increased while sales of products such as CRT televisions, a business from which Sony has already withdrawn, home-use video cameras, compact digital cameras and home audio systems decreased.

#### ***Manufacturing by Geographic Area***

Approximately 45 percent of the CPD, NPS, B2B & Disc segments' combined total annual production during the fiscal year ended March 31, 2009 took place in Japan, including the production of compact digital cameras, home-use video cameras, LCD televisions, PCs, semiconductors and components such as batteries and memory sticks. Approximately 60 percent of the annual production in Japan was destined for other countries. China accounted for approximately 15 percent of total annual production, approximately 70 percent of which was destined for other countries. Asia, excluding Japan and China, accounted for approximately 10 percent of total annual production, with approximately 50 percent destined for Japan, the Americas and Europe. The Americas and Europe together accounted for approximately 25 percent of total annual production, most of which was destined for local distribution and sale.

## **Pictures**

Pictures segment results presented below are a yen-translation of the results of SPE, a U.S.-based operation that aggregates the results of its worldwide subsidiaries on a U.S. dollar basis. Management analyzes the results of SPE in U.S. dollars, so discussion of certain portions of its results is specified as being on a U.S. dollar basis.

Sales for the fiscal year ended March 31, 2009 decreased by 140.4 billion yen, or 16.4 percent year-on-year, to 717.5 billion yen. On a U.S. dollar basis, sales for the fiscal year in the Pictures segment decreased by approximately 360.7 million U.S. dollars (approximately 5 percent) year-on-year. Motion picture revenues decreased primarily due to lower home entertainment revenues of new release and catalog product. This decrease was due to an accelerated contraction in the market, brought on principally by the global economic downturn as well as fewer films being sold into the home entertainment market. The decrease in motion picture sales was partially offset by higher theatrical revenues driven by the successful film slate for fiscal year ended March 31, 2009, which included *Hancock*, *Quantum of Solace* and *Paul Blart: Mall Cop*. Total home entertainment revenues decreased by approximately 500 million

U.S. dollars while theatrical revenues increased by approximately 266 million U.S. dollars as compared to the previous fiscal year. Sales for the fiscal year ended March 31, 2008 in the Pictures segment also benefited from the sale of a bankruptcy claim against KirchMedia GmbH & Co. KGaA ( KirchMedia ), a former licensee of motion picture and television product. Television revenues increased by approximately 101 million U.S. dollars year-on-year due to increased advertising revenue from several international channels.



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Operating income decreased by 28.6 billion yen, or 48.9 percent year-on-year, to 29.9 billion yen and the operating margin decreased from 6.8 percent to 4.2 percent. On a U.S. dollar basis, operating income decreased by approximately 234.0 million U.S. dollars (approximately 43 percent) year-on-year. Operating income for the segment decreased primarily due to the lower home entertainment revenues and the absence of the previous fiscal year's sale of the bankruptcy claim against KirchMedia. Operating income from motion picture product decreased by approximately 139 million U.S. dollars reflecting the negative impact of the lower home entertainment revenues. Operating income from television product increased by approximately 70 million U.S. dollars reflecting the benefit of the higher advertising revenues noted above as well as higher equity income, partially due to the gain recorded by an equity affiliate from the sale of a European cable television channel. Results for the fiscal year were also negatively impacted by 53 million U.S. dollars of restructuring charges.

As of March 31, 2009, unrecognized license fee revenue at SPE was approximately 1.2 billion U.S. dollars. SPE expects to record this amount in the future having entered into contracts with television broadcasters to provide those broadcasters with completed motion picture and television products. The license fee revenue will be recognized in the fiscal year in which the product is made available for broadcast.

**Music**

Music segment results presented below include the yen-translated results of SME, a U.S.-based operation which aggregates the results of its worldwide subsidiaries on a U.S. dollar basis, the results of SMEJ, a Japan-based music company which aggregates its results in yen, and the yen-translated consolidated results of Sony/ATV, a 50 percent owned U.S.-based consolidated joint venture in the music publishing business which aggregates the results of its worldwide subsidiaries on a U.S. dollar basis.

Sales for the fiscal year ended March 31, 2009 increased by 158.4 billion yen, or 69.3 percent year-on-year, to 387.1 billion yen. The increase in sales is mainly due to the consolidation of SME on October 1, 2008.

During the six-month period ended March 31, 2009, sales at SME were 169.3 billion yen. On a pro forma basis, this represents a 16 percent decrease on a U.S. dollar basis compared with the same six months of the previous fiscal year when sales of SME were not consolidated. Revenues were negatively impacted by unfavorable foreign currency exchange rates and the accelerated decline of the worldwide physical music market resulting from the global economic slowdown. Best selling albums that contributed to sales during the six months ended March 31, 2009 included AC/DC's *Black Ice*, Beyoncé's *I AM... SASHA FIERCE*, P!nk's *Funhouse* and Britney Spears' *Circus*.

Sales at SMEJ decreased year-on-year, mainly due to a decrease in album sales resulting from a continuing decline in the physical music market. SMEJ's best-selling albums during the fiscal year ended March 31, 2009 included *I LOVED YESTERDAY* by YUI, *My song Your song* by ikimono-gakari and *VOICE* by Mika Nakashima.

Operating income decreased by 7.2 billion yen, or 20.6 percent year-on-year, to 27.8 billion yen. Operating income for the segment decreased primarily due to lower results for both SME and SMEJ. The results of SME for the fiscal year ended March 31, 2009 include equity in net loss of SONY BMG of 6.0 billion yen for the six-months ended September 30, 2008 and operating income for the six-month period ended March 31, 2009 of 13.7 billion yen, which totaled 7.7 billion yen of operating income on a combined basis for the full fiscal year. In comparison, the previous year's results included 10.0 billion yen of equity in net income for Sony's then 50 percent share of SONY BMG. On a pro forma basis, the 13.7 billion yen operating income for the six-month period ended March 31, 2009 represents a 30 percent decrease compared to the operating income for the comparable period of the previous fiscal year when the results of SONY BMG were not consolidated. This decrease was due to lower sales, higher restructuring charges and unfavorable foreign currency exchange rates.

Operating income at SMEJ decreased approximately 10 percent year-on-year, mainly due to a decrease in album sales.

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The results of Sony Life discussed below on the basis of U.S. GAAP differ from the results that SFH and Sony Life disclose separately on a Japanese statutory basis.

Financial service revenue for the fiscal year ended March 31, 2009 decreased by 42.9 billion yen, or 7.4 percent year-on-year, to 583.2 billion yen due to a decrease in revenue at Sony Life. Revenue at Sony Life was 430.5 billion yen, a 33.5 billion yen or 7.2 percent decrease year-on-year. Revenue decreased year-on-year due to an increase of net valuation losses from convertible bonds and an increase of impairment losses on equity securities in the general account and an increase of net losses from investments in the separate account, as a result of a decline in the Japanese stock market during this fiscal year that was larger than the decline in the previous fiscal year. Partially offsetting this was an increase in revenue from insurance premiums reflecting a higher policy amount in force.

Operating loss of 31.2 billion yen was recorded compared to operating income of 22.6 billion yen in the previous fiscal year. This decrease was mainly due to a deterioration in profitability at Sony Life. The operating loss at Sony Life was 29.8 billion yen, compared to operating income of 11.5 billion yen in the previous fiscal year. This deterioration of profitability was mainly due to increased net valuation losses from convertible bonds and impairment losses on equity securities in the general account and the additional recording of policy reserves for variable life insurance products in the separate account, as a result of the significant decline in the Japanese stock market. This increase in losses more than offset the contribution from increased revenue from insurance premiums at Sony Life.

***Information of Operations Separating Out the Financial Services Segment (Unaudited)***

The following charts show Sony's unaudited information of operations for the Financial Services segment alone and for all segments excluding the Financial Services segment. These separate condensed presentations are not required or prepared 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 utilizes this information to analyze its results without the Financial Services segment and believes that these presentations may be useful in understanding and analyzing Sony's consolidated financial statements. Transactions between the Financial Services segment and all other segments excluding the Financial Services segment are eliminated in the consolidated figures shown below.

| <b>Financial Services segment</b>  | <b>Fiscal Year Ended March 31</b> |                 |
|--|-----------------------------------|-----------------|
|  | <b>2008</b>                       | <b>2009</b>     |
|  | <b>(Yen in millions)</b>          |                 |
| Financial service revenue  | 581,121                           | <b>538,206</b>  |
| Financial service expenses   | 558,488                           | <b>567,567</b>  |
| Equity in net income (loss) of affiliated companies                      |                                   | <b>(1,796)</b>  |
| <b>Operating income (loss)</b>   | 22,633                            | <b>(31,157)</b> |
| Other income (expenses), net   | (383)                             | <b>28</b>       |
| <b>Income (loss) before income taxes</b>                                 | 22,250                            | <b>(31,129)</b> |
| Income taxes and other   | 11,908                            | <b>(6,922)</b>  |
| <b>Net income (loss) attributable to Sony Corporation's stockholders</b> | 10,342                            | <b>(24,207)</b> |



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| <b>Sony without the Financial Services segment</b>                       | <b>Fiscal Year Ended March 31</b> |                  |
|--|-----------------------------------|------------------|
|  | <b>2008</b>                       | <b>2009</b>      |
|  | <b>(Yen in millions)</b>          |                  |
| Net sales and operating revenue  | 8,324,828                         | <b>7,212,492</b> |
| Costs and expenses   | 7,974,630                         | <b>7,387,236</b> |
| Equity in net income (loss) of affiliated companies                      | 100,817                           | <b>(23,313)</b>  |
| <b>Operating income (loss)</b>   | 451,015                           | <b>(198,057)</b> |
| Other income (expenses), net   | 100,479                           | <b>58,254</b>    |
| <b>Income (loss) before income taxes</b>                                 | 551,494                           | <b>(139,803)</b> |
| Income taxes and other   | 194,190                           | <b>(61,219)</b>  |
| <b>Net income (loss) attributable to Sony Corporation's stockholders</b> | 357,304                           | <b>(78,584)</b>  |

| <b>Consolidated</b>  | <b>Fiscal Year Ended March 31</b> |                  |
|--|-----------------------------------|------------------|
|  | <b>2008</b>                       | <b>2009</b>      |
|  | <b>(Yen in millions)</b>          |                  |
| Financial service revenue  | 553,216                           | <b>523,307</b>   |
| Net sales and operating revenue  | 8,318,198                         | <b>7,206,686</b> |
|  | 8,871,414                         | <b>7,729,993</b> |
| Costs and expenses   | 8,496,932                         | <b>7,932,667</b> |
| Equity in net income (loss) of affiliated companies                      | 100,817                           | <b>(25,109)</b>  |
| <b>Operating income (loss)</b>   | 475,299                           | <b>(227,783)</b> |
| Other income (expenses), net   | 91,835                            | <b>52,828</b>    |
| <b>Income (loss) before income taxes</b>                                 | 567,134                           | <b>(174,955)</b> |
| Income taxes and other   | 197,699                           | <b>(76,017)</b>  |
| <b>Net income (loss) attributable to Sony Corporation's stockholders</b> | 369,435                           | <b>(98,938)</b>  |

**Sony Ericsson**

Sony Ericsson's operating results are accounted for under the equity method and are not consolidated in Sony's consolidated financial statements, as Sony Corporation's ownership percentage of Sony Ericsson is 50 percent. Sony Ericsson aggregates the results of its worldwide subsidiaries on a euro basis. However, Sony believes that the following disclosure provides additional useful analytical information to investors regarding Sony's operating performance.

Sony Ericsson's sales for the year ended March 31, 2009 decreased by 2,415 million euro or 19.0 percent year-on-year, to 10,278 million euro, mainly due to lower volumes as a result of the global economic slowdown. A total of

88.8 million units were shipped during the year ended March 31, 2009 compared to 103.9 million units during the prior year. A loss before taxes of 633 million euro was recorded, compared to income of 1,405 million euro in the previous year, primarily due to a less favorable product mix and price pressure, a decrease in unit shipments, as well as the recording of restructuring charges. As a result, Sony recorded equity in the net loss of 30.3 billion yen for the year ended March 31, 2009, compared to equity in net income of 79.5 billion yen for the previous year.

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### ***All Other***

During the fiscal year ended March 31, 2009, sales within All Other were comprised mainly of a mobile phone OEM business in Japan and So-net.

Sales for the fiscal year ended March 31, 2009 decreased by 41.0 billion yen, or 11.4 percent year-on-year, to 318.4 billion yen. The decrease in sales is mainly due to a year-on-year decrease in sales at a mobile phone OEM business in Japan, partially offset by an increase in sales at So-net compared with the prior fiscal year.

In terms of operating performance, operating income for All Other decreased by 14.6 billion yen year-on-year, to a loss of 4.2 billion yen. This decrease was mainly due to the absence of a 10.0 billion yen gain on the sale of the urban entertainment complex The Sony Center am Potsdamer Platz in Berlin, Germany, recorded in the fiscal year ended March 31, 2008 and due to losses attributed to a goodwill impairment in the fiscal year ended March 31, 2009. This decrease was partially offset by a significant increase in operating income at a mobile phone OEM business in Japan and a slight increase in the operating income of So-net.

### ***Restructuring***

As the global economy experienced a sharp downturn following the autumn of 2008, the operating environment for Sony has become severe, with decreased demand, intensified pressure on pricing, and fluctuations in foreign exchange rates. In an attempt to cope with this environment, for the fiscal year ended March 31, 2009, Sony implemented restructuring initiatives to reform its operational structure with a priority on profitability and speed.

In the fiscal year ended March 31, 2009, Sony incurred 75.4 billion yen of restructuring charges, mainly within the CPD segment, compared with 47.3 billion yen for the fiscal year ended March 31, 2008. Of the 75.4 billion yen in restructuring charges, 56.4 billion yen was for personnel-related restructuring costs.

In the CPD segment, restructuring charges were 49.3 billion yen compared with 33.6 billion yen recorded for the fiscal year ended March 31, 2008. Restructuring efforts undertaken in the fiscal year ended March 31, 2009 included headcount reduction programs, initiatives to advance rationalization of manufacturing operations, shifting and aggregating manufacturing to lower cost countries and utilizing the services of OEMs and ODMs. As part of its restructuring efforts, Sony ceased production in February 2009 at Sony Technology Center Pittsburgh, United States (where LCD televisions were manufactured), and in April 2009 at Sony France S.A. Dax Technology Center (where tape and other recording media were manufactured).

As part of the above restructuring measures, Sony has undergone several headcount reduction programs to further reduce operating costs within its CPD segment. As a result of these programs, Sony recorded in the CPD segment restructuring charges related mainly to employee termination benefits totaling 37.9 billion yen in selling, general and administrative expenses in the consolidated statements of income for the fiscal year ended March 31, 2009.

### ***Foreign Exchange Fluctuations and Risk Hedging***

During the fiscal year ended March 31, 2009, the average value of the yen was 99.5 yen against the U.S. dollar, and 142.0 yen against the euro, which was 13.8 percent and 12.7 percent higher, respectively, year-on-year.

Sony's consolidated results are subject to foreign currency rate fluctuations largely because the currency used in the countries where manufacturing takes place may be different from those where such products are sold. In order to reduce the risk caused by such fluctuations, Sony employs derivatives, including foreign exchange forward contracts and foreign currency option contracts, in accordance with a consistent risk management strategy. Such derivatives are

used primarily to mitigate the effect of foreign currency exchange rate fluctuations on cash flows generated or anticipated by Sony Corporation and by its subsidiaries' transactions and accounts receivable and payable denominated in foreign currencies.

SGTS in London provides integrated treasury services for Sony Corporation, its subsidiaries, and affiliated companies. Sony's policy is that Sony Corporation and all subsidiaries with foreign exchange exposures should



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enter into commitments with SGTS for hedging their exposures. Sony Corporation and most of its subsidiaries utilize SGTS for this purpose. The concentration of foreign exchange exposures at SGTS means that, in effect, SGTS hedges most of the net foreign exchange exposure of Sony Corporation, its subsidiaries and affiliated companies. SGTS in turn enters into foreign exchange transactions with creditworthy third-party financial institutions. Most of these transactions are entered into against projected exposures before the actual export and import transactions take place. In general, SGTS hedges the projected exposures on average three months before the actual transactions take place. However, in certain cases SGTS partially hedges the projected exposures one month before the actual transactions take place when business requirements such as shorter production-sales cycles for certain products arise. Sony enters into foreign exchange transactions with financial institutions primarily for hedging purposes. Sony does not use these derivative financial instruments for trading or speculative purposes except for certain derivatives in the Financial Services segment. In the Financial Services segment, Sony uses derivatives for ALM and trading.

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

Changes in the fair value of derivatives designated as cash flow hedges are initially recorded in accumulated other comprehensive income and reclassified into earnings when the hedged transaction affects earnings. Foreign exchange forward contracts, foreign currency option contracts and other derivatives that do not qualify as hedges are marked-to-market with changes in value recognized in other income and expenses. The notional amount and the net fair value of all the foreign exchange derivative contracts as of March 31, 2009 were 1,951.0 billion yen and a liability of 4.5 billion yen, respectively.

***Assets, Liabilities and Stockholders Equity*****Assets**

Total assets as of March 31, 2010 increased by 852.6 billion yen, or 7.1 percent year-on-year, to 12,866.1 billion yen. Total assets as of March 31, 2010 in all segments excluding the Financial Services segment increased by 151.9 billion yen, or 2.4 percent year-on-year, to 6,522.8 billion yen. Total assets as of March 31, 2010 in the Financial Services segment increased by 671.5 billion yen, or 11.4 percent year-on-year, to 6,577.1 billion yen.

***Current Assets***

Current assets as of March 31, 2010 increased by 512.2 billion yen, or 14.1 percent year-on-year, to 4,132.9 billion yen. Current assets as of March 31, 2010 in all segments, excluding the Financial Services segment, increased by 277.9 billion yen, or 9.8 percent, to 3,119.3 billion yen.

Cash and cash equivalents as of March 31, 2010 in all segments, excluding the Financial Services segment, increased 419.9 billion yen, or 74.3 percent year-on-year, to 984.9 billion yen. This was primarily due to an increase in operating cash flow as a result of the improvement in net income (loss) attributable to Sony Corporation's stockholders and lower purchases of manufacturing equipment and lower investment levels. Refer to *Cash Flows* below.

Notes and accounts receivable, trade (net of allowance for doubtful accounts and sales returns) as of March 31, 2010, excluding the Financial Services segment, increased 40.5 billion yen, or 4.8 percent year-on-year, to 887.7 billion yen.

Other current assets as of March 31, 2010 in all segments, excluding the Financial Services segment, decreased 182.7 billion yen, or 12.8 percent, year-on-year to 1,243.3 billion yen, mainly due to a decrease in inventory.

Inventories as of March 31, 2010 decreased by 167.6 billion yen, or 20.6 percent, year-on-year to 645.5 billion yen primarily due to company-wide reduction efforts.

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The inventory to cost of sales turnover ratio (based on the average of inventories at the end of each fiscal year and the previous fiscal year) was 1.79 months compared to 1.94 months at the end of the previous fiscal year. Sony considers this level of inventory to be appropriate in the aggregate.

Current assets as of March 31, 2010 in the Financial Services segment increased by 217.2 billion yen, or 26.1 percent, year-on-year to 1048.3 billion yen primarily due to business expansions at Sony Life and Sony Bank.

### ***Investments and Advances***

Investments and advances as of March 31, 2010 increased by 501.0 billion yen, or 10.4 percent year-on-year, to 5,299.4 billion yen.

Investments and advances as of March 31, 2010 in all segments, excluding the Financial Services segment, increased by 37.3 billion yen, or 11.0 percent, to 376.7 billion yen primarily due to valuation gains from securities and investments to establish a joint venture with Sharp to produce large-sized LCD panels.

Investments and advances as of March 31, 2010 in the Financial Services segment increased by 456.5 billion yen, or 10.1 percent, year-on-year to 4,967.1 billion yen. This increase was primarily due to the expansion of businesses of Sony Life and Sony Bank, such as an increase in investments mainly in Japanese fixed income securities by Sony Life, and in mortgage loans at Sony Bank. Also refer to *Investments* below.

### ***Property, Plant and Equipment (after deduction of accumulated depreciation)***

Property, plant and equipment as of March 31, 2010 decreased by 167.9 billion yen, or 14.3 percent year-on-year, to 1,008.0 billion yen. Property, plant and equipment as of March 31, 2010 in all segments, excluding the Financial Services segment, decreased by 171.9 billion yen, or 15.0 percent, year-on-year to 973.2 billion yen.

Capital expenditures (additions to property, plant and equipment) for the fiscal year ended March 31, 2010 decreased by 139.3 billion yen, or 42.0 percent year-on-year, to 192.7 billion yen. Factors other than capital expenditures contributing to the decrease in property, plant and equipment includes the recording of an impairment charge related to LCD television assets and the sale or disposal of assets due to the sale of certain factories.

Property, plant and equipment as of March 31, 2010 in the Financial Services segment increased by 3.9 billion yen, or 12.8 percent, year-on-year to 34.7 billion yen.

### ***Other Assets***

Other assets as of March 31, 2010 increased by 4.1 billion yen, or 0.2 percent, year-on-year to 2,115.8 billion yen primarily due to an increase in deferred tax assets, partially offset by a decrease in intangible assets.

### **Liabilities**

Total current and long-term liabilities as of March 31, 2010 increased by 783.7 billion yen, or 8.9 percent year-on-year, to 9,580.6 billion yen. Total current and long-term liabilities as of March 31, 2010 in all segments, excluding the Financial Services segment, increased by 199.3 billion yen, or 5.5 percent, to 3,803.1 billion yen.

Total current and long-term liabilities in the Financial Services segment as of March 31, 2010 increased by 555.1 billion yen, or 10.4 percent, year-on-year to 5,894.5 billion yen.

***Current Liabilities***

Current liabilities as of March 31, 2010 increased by 249.0 billion yen, or 6.5 percent year-on-year, to 4,059.9 billion yen. Current liabilities as of March 31, 2010 in all segments excluding the Financial Services segment increased by 11.8 billion yen, or 0.5 percent, to 2,326.4 billion yen.

Short-term borrowings and the current portion of long-term debt as of March 31, 2010 in all segments, excluding the Financial Services segment, decreased by 200.9 billion yen, or 46.6 percent, year-on-year to 230.6 billion yen primarily as a result of the repayment of commercial paper ( CP ).

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Notes and accounts payable, trade as of March 31, 2010 in all segments, excluding the Financial Services segment, increased by 258.2 billion yen, or 47.3 percent, year-on-year to 804.3 billion yen primarily due to year-on-year increases in the procurement of raw materials compared to the previous fiscal year which was impacted by the worldwide economic slowdown.

Current liabilities as of March 31, 2010 in the Financial Services segment increased by 221.2 billion yen, or 14.2 percent, to 1,773.8 billion yen, mainly due to an increase in deposits from customers at Sony Bank.

***Long-term Liabilities***

Long-term liabilities as of March 31, 2010 increased by 534.6 billion yen, or 10.7 percent year-on-year, to 5,520.6 billion yen.

Long-term liabilities as of March 31, 2010 in all segments, excluding the Financial Services segment, increased by 187.5 billion yen, or 14.5 percent, to 1,476.6 billion yen. In addition, long-term debt as of March 31, 2010 in all segments, excluding the Financial Services segment, increased by 307.8 billion yen, or 52.6 percent, to 893.4 billion yen. This was primarily due to issuances of long-term corporate bonds and borrowings from banks.

Long-term liabilities as of March 31, 2010 in the Financial Services segment increased by 333.9 billion yen, or 8.8 percent, to 4,120.7 billion yen. This was primarily due to an increase in policy amount in force at Sony Life.

***Total Interest-bearing Debt***

Total interest-bearing debt inclusive of long-term debt and short-term borrowings as of March 31, 2010 increased by 97.5 billion yen, or 8.8 percent year-on-year, to 1,208.8 billion yen. Total interest-bearing debt as of March 31, 2010 in all segments, excluding the Financial Services segment, increased by 106.9 billion yen, or 10.5 percent, to 1,124.0 billion yen.

***Sony Corporation's Stockholders' Equity***

Sony Corporation's stockholders' equity as of March 31, 2010 was virtually flat year-on-year at 2,965.9 billion yen. Retained earnings decreased by 65.9 billion yen, or 3.4 percent, year-on-year to 1,851.0 billion yen as a result of the recording of 40.8 billion yen in net loss attributable to Sony Corporation's stockholders and dividend payments of 25.1 billion yen. Accumulated other comprehensive income improved by 64.4 billion yen, or 8.8 percent year-on-year, to a loss of 669.1 billion yen primarily due to the recording of 32.3 billion yen of unrealized gains on securities and 23.7 billion yen of pension liability adjustments. The ratio of Sony Corporation's stockholders' equity to total assets decreased 1.6 percentage points compared to the end of the previous fiscal year, from 24.7 percent to 23.1 percent.

***Information of Financial Position Separating Out the Financial Services Segment (Unaudited)***

The following charts show Sony's unaudited information of financial position for all segments excluding the Financial Services segment, and for the Financial Services segment alone. These separate condensed presentations are not required or prepared 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 utilizes this information to analyze its results without the Financial Services segment and believes that these presentations may be useful in understanding and analyzing Sony's consolidated financial statements. Transactions between the Financial Services segment and all other segments excluding the Financial Services segment are eliminated in the consolidated figures shown below.



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|   | <b>March 31</b>   |                  |
|---|-------------------|------------------|
|   | 2009              | 2010             |
|   | (Yen in millions) |                  |
| <b>ASSETS</b>                                   |                   |                  |
| Current assets:                                 |                   |                  |
| Cash and cash equivalents                       | 95,794            | <b>206,742</b>   |
| Marketable securities                           | 463,809           | <b>576,129</b>   |
| Notes and accounts receivable, trade            | 13,380            | <b>10,099</b>    |
| Other   | 258,162           | <b>255,366</b>   |
|   | 831,145           | <b>1,048,336</b> |
| Investments and advances                        | 4,510,668         | <b>4,967,125</b> |
| Property, plant and equipment                   | 30,778            | <b>34,725</b>    |
| Other assets:                                   |                   |                  |
| Deferred insurance acquisition costs            | 400,412           | <b>418,525</b>   |
| Other   | 132,654           | <b>108,421</b>   |
|   | 533,066           | <b>526,946</b>   |
|   | 5,905,657         | <b>6,577,132</b> |
| <b>LIABILITIES AND EQUITY</b>                   |                   |                  |
| Current liabilities:                            |                   |                  |
| Short-term borrowings                           | 65,636            | <b>86,102</b>    |
| Notes and accounts payable, trade               | 16,855            | <b>13,709</b>    |
| Deposits from customers in the banking business | 1,326,360         | <b>1,509,488</b> |
| Other   | 143,781           | <b>164,545</b>   |
|   | 1,552,632         | <b>1,773,844</b> |
| Long-term liabilities:                          |                   |                  |
| Long-term debt                                  | 97,296            | <b>42,536</b>    |
| Accrued pension and severance costs             | 10,889            | <b>12,144</b>    |
| Future insurance policy benefits and other      | 3,521,060         | <b>3,876,292</b> |
| Other   | 157,520           | <b>189,681</b>   |
|   | 3,786,765         | <b>4,120,653</b> |
| Sony Corporation's stockholders' equity         | 565,135           | <b>681,500</b>   |
| Noncontrolling interests                        | 1,125             | <b>1,135</b>     |
|   | 5,905,657         | <b>6,577,132</b> |

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|  | <b>March 31</b>   |           |
|--|-------------------|-----------|
|  | 2009              | 2010      |
|  | (Yen in millions) |           |
| <b>ASSETS</b>                              |                   |           |
| Current assets:                            |                   |           |
| Cash and cash equivalents                  | 564,995           | 984,866   |
| Marketable securities                      | 3,103             | 3,364     |
| Notes and accounts receivable, trade       | 847,214           | 887,694   |
| Other                                      | 1,426,045         | 1,243,345 |
|  | 2,841,357         | 3,119,269 |
| Film costs                                 | 306,877           | 310,065   |
| Investments and advances                   | 339,389           | 376,669   |
| Investments in Financial Services, at cost | 116,843           | 116,843   |
| Property, plant and equipment              | 1,145,085         | 973,226   |
| Other assets                               | 1,621,396         | 1,626,764 |
|  | 6,370,947         | 6,522,836 |
| <b>LIABILITIES AND EQUITY</b>              |                   |           |
| Current liabilities:                       |                   |           |
| Short-term borrowings                      | 431,536           | 230,631   |
| Notes and accounts payable, trade          | 546,125           | 804,336   |
| Other                                      | 1,336,947         | 1,291,481 |
|  | 2,314,608         | 2,326,448 |
| Long-term liabilities:                     |                   |           |
| Long-term debt                             | 585,636           | 893,418   |
| Accrued pension and severance costs        | 354,817           | 283,382   |
| Other                                      | 348,684           | 299,808   |
|  | 1,289,137         | 1,476,608 |
| Sony Corporation's stockholders' equity    | 2,727,562         | 2,662,712 |
| Noncontrolling interests                   | 39,640            | 57,068    |
|  | 6,370,947         | 6,522,836 |



**Table of Contents****Consolidated**

|   | <b>March 31</b>   |            |
|---|-------------------|------------|
|   | 2009              | 2010       |
|   | (Yen in millions) |            |
| <b>ASSETS</b>                                   |                   |            |
| Current assets:                                 |                   |            |
| Cash and cash equivalents                       | 660,789           | 1,191,608  |
| Marketable securities                           | 466,912           | 579,493    |
| Notes and accounts receivable, trade            | 853,454           | 891,625    |
| Other   | 1,639,480         | 1,470,146  |
|   | 3,620,635         | 4,132,872  |
| Film costs                                      | 306,877           | 310,065    |
| Investments and advances                        | 4,798,430         | 5,299,393  |
| Property, plant and equipment                   | 1,175,863         | 1,007,951  |
| Other assets:                                   |                   |            |
| Deferred insurance acquisition costs            | 400,412           | 418,525    |
| Other   | 1,711,294         | 1,697,308  |
|   | 2,111,706         | 2,115,833  |
|   | 12,013,511        | 12,866,114 |
| <b>LIABILITIES AND EQUITY</b>                   |                   |            |
| Current liabilities:                            |                   |            |
| Short-term borrowings                           | 451,155           | 284,607    |
| Notes and accounts payable, trade               | 560,795           | 817,118    |
| Deposits from customers in the banking business | 1,326,360         | 1,509,488  |
| Other   | 1,472,590         | 1,448,712  |
|   | 3,810,900         | 4,059,925  |
| Long-term liabilities:                          |                   |            |
| Long-term debt                                  | 660,147           | 924,207    |
| Accrued pension and severance costs             | 365,706           | 295,526    |
| Future insurance policy benefits and other      | 3,521,060         | 3,876,292  |
| Other   | 439,096           | 424,609    |
|   | 4,986,009         | 5,520,634  |
| Sony Corporation's stockholders' equity         | 2,964,653         | 2,965,905  |
| Noncontrolling interests                        | 251,949           | 319,650    |
|   | 12,013,511        | 12,866,114 |



**Table of Contents****Investments**

The following table contains available-for-sale and held-to-maturity securities, including the breakdown of unrealized gains and losses by investment category.

|                               | March 31, 2010  |                    |                    | Fair            |
|-------------------------------|-----------------|--------------------|--------------------|-----------------|
|                               | Cost            | Unrealized<br>Gain | Unrealized<br>Loss | Market<br>Value |
|                               | Yen in millions |                    |                    |                 |
| Financial Services Business:  |                 |                    |                    |                 |
| Available-for-sale            |                 |                    |                    |                 |
| Debt securities               |                 |                    |                    |                 |
| Sony Life                     | 1,068,445       | 30,557             | (979)              | 1,098,023       |
| Sony Bank                     | 856,597         | 8,411              | (9,108)            | 855,900         |
| Other                         | 12,573          | 57                 | (1)                | 12,629          |
| Equity securities             |                 |                    |                    |                 |
| Sony Life                     | 54,897          | 14,786             | (761)              | 68,922          |
| Sony Bank                     | 7,848           | 978                |                    | 8,826           |
| Other                         | 370             | 5,821              |                    | 6,191           |
| Held-to-maturity              |                 |                    |                    |                 |
| Debt securities               |                 |                    |                    |                 |
| Sony Life                     | 2,283,559       | 2,627              | (31,010)           | 2,255,176       |
| Sony Bank                     | 15,699          | 579                |                    | 16,278          |
| Other                         | 55,460          | 625                | (57)               | 56,028          |
| <br>                          |                 |                    |                    |                 |
| Total Financial Services      | 4,355,448       | 64,441             | (41,916)           | 4,377,973       |
| <br>                          |                 |                    |                    |                 |
| Non-Financial Services:       |                 |                    |                    |                 |
| Available-for-sale securities |                 |                    |                    |                 |
|                               | 44,196          | 53,087             | (2,711)            | 94,572          |
| Held-to-maturity securities   |                 |                    |                    |                 |
|                               | 1               | 1                  | (1)                | 1               |
| <br>                          |                 |                    |                    |                 |
| Total Non-Financial Services  | 44,197          | 53,088             | (2,712)            | 94,573          |
| <br>                          |                 |                    |                    |                 |
| Consolidated                  | 4,399,645       | 117,529            | (44,628)           | 4,472,546       |

As of March 31, 2010, Sony Life had debt and equity securities which had gross unrealized losses of 32.0 billion yen and 0.8 billion yen, respectively. Of the unrealized loss amounts recorded by Sony Life, approximately 60.1 percent related to securities being in an unrealized loss position for a period longer than 12 months as of March 31, 2010. These securities primarily consist of Japanese government bonds classified as held-to-maturity securities. Sony Life principally invests in debt securities in various industries. Almost all of these securities were rated BBB or higher by

Standard & Poor's, Moody's or other rating agencies.

As of March 31, 2010, Sony Bank had debt securities which had gross unrealized losses of 9.1 billion yen. Of the unrealized losses recorded by Sony Bank, approximately 94.8 percent related to securities being in an unrealized loss position for a period longer than 12 months as of March 31, 2010. Sony Bank principally invests in Japanese government bonds, Japanese corporate bonds and foreign bonds. Almost all of these securities were rated BBB or higher by Standard & Poor's, Moody's or other rating agencies.

These unrealized losses related to numerous investments, with no single investment being in a material unrealized loss position for longer than 12 months. In addition, there was no individual security with unrealized losses that met the test for impairment as the declines in value were observed to be small both in amounts and percentage, and therefore, the decline in value for those investments was still determined to be temporary in nature.

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For fixed maturity securities with unrecognized losses held by Sony Life as of March 31, 2010 (32.0 billion yen), maturity dates vary as follows:

|                 |              |
|-----------------|--------------|
| Within 1 year:  | 0.1 percent  |
| 1 to 5 years:   |              |
| 5 to 10 years:  | 0.1 percent  |
| above 10 years: | 99.8 percent |

For fixed maturity securities with unrecognized losses held by Sony Bank as of March 31, 2010 (9.1 billion yen), maturity dates vary as follows:

|                 |              |
|-----------------|--------------|
| Within 1 year:  | 5.5 percent  |
| 1 to 5 years:   | 66.6 percent |
| 5 to 10 years:  | 0.3 percent  |
| above 10 years: | 27.6 percent |

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 amount of the investments in non-public companies as of March 31, 2010 was 70.7 billion yen. A non-public equity investment is primarily valued at cost if 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.

For the fiscal years ended March 31, 2008, 2009 and 2010, total realized impairment losses were 37.1 billion yen, 45.6 billion yen and 5.5 billion yen, respectively, of which 24.0 billion yen, 41.2 billion yen and 2.6 billion yen, respectively, were recorded in financial service revenue by the subsidiaries in the Financial Services segment. Realized impairment losses recorded other than by subsidiaries in the Financial Services segment in each of the three fiscal years were reflected in non-operating expenses and primarily relate to certain strategic investments in non-financial services businesses. These investments primarily relate to certain strategic investments in Japan and the U.S. with which Sony has strategic relationships for the purposes of developing and marketing new technologies. Impairment losses were recorded for each of the three fiscal years as certain companies failed to successfully develop and market such technology, resulting in the operating performance of these companies being more unfavorable than previously expected. As a result the decline in the fair value of these companies was judged as other-than-temporary. None of these impairment losses was individually material to Sony.

Upon determination that the value of an investment is impaired, the value of the investment is written down to its fair value. For an investment where the quoted price is available in an active market, fair value is determined based on unadjusted quoted prices as of the date on which the impairment determination is made. For investments where the quoted price is not available in an active market, fair value is usually determined based on quoted prices of securities with similar characteristics or measured through the use of various methodologies such as pricing models, discounted cash flow techniques or similar techniques that require significant management judgment or estimation of assumptions that market participants would use in pricing the investments. The impairment losses that were recorded in each of the three fiscal years related to the unique facts and circumstances of each individual investment and did not significantly impact other investments.

Sony Life and Sony Bank's investments constitute the majority of the investments in the Financial Services segment. Sony Life and Sony Bank account for approximately 78 percent and 20 percent of the investments in the Financial

Services segment, respectively.

**Table of Contents*****Contractual obligations, commitments, and contingent liabilities***

The following table summarizes Sony's contractual obligations and commitments as of March 31, 2010. The references to the notes below refer to the corresponding notes within the notes to the consolidated financial statements.

|  | <b>Total</b>      | Less than<br>1 year | 1 to 3<br>years | 3 to 5<br>years | More than<br>5 years |
|--|-------------------|---------------------|-----------------|-----------------|----------------------|
| (Yen in millions)  |                   |                     |                 |                 |                      |
| <b>Contractual Obligations and Commitments:</b>  |                   |                     |                 |                 |                      |
| Short-term debt (Note 11)  | <b>48,785</b>     | 48,785              |                 |                 |                      |
| Long-term debt (Notes 8 and 11)  |                   |                     |                 |                 |                      |
| Capital lease obligations  | <b>35,013</b>     | 7,131               | 8,943           | 4,287           | 14,652               |
| Other long-term debt   | <b>1,125,016</b>  | 228,691             | 373,851         | 348,121         | 174,353              |
| Interest on other long-term debt   | <b>50,836</b>     | 12,592              | 20,110          | 11,878          | 6,256                |
| Minimum rental payments required under operating leases (Note 8)   | <b>184,083</b>    | 40,715              | 56,050          | 32,148          | 55,170               |
| Purchase commitments (Note 26)   |                   |                     |                 |                 |                      |
| Purchase commitments for property, plant and equipment   | <b>33,008</b>     | 32,987              | 21              |                 |                      |
| Expected cost for the production or purchase of motion pictures and television programming or certain rights | <b>130,021</b>    | 37,479              | 41,811          | 26,432          | 24,299               |
| Long-term contracts with recording artists and companies   | <b>44,443</b>     | 16,570              | 14,577          | 8,726           | 4,570                |
| Other purchase commitments   | <b>97,617</b>     | 46,645              | 28,849          | 17,844          | 4,279                |
| Future insurance policy benefits and other in the life insurance business* (Note 10)                         | <b>11,302,972</b> | 309,934             | 647,039         | 690,610         | 9,655,389            |
| Gross unrecognized tax benefits** (Note 21)  | <b>229,228</b>    | 167                 |                 |                 |                      |
| <b>Total</b>   | <b>13,281,022</b> | 781,696             | 1,191,251       | 1,140,046       | 9,938,968            |

\* Future insurance policy benefits and other in the life insurance business is the estimated future cash payments to be made to policy holders and others for future policy benefits, policyholders' account balances, policyholders' dividends, separate account liabilities and others. These cash payments are based upon assumptions including morbidity, mortality, withdrawals and other factors. Amounts presented in the above table are undiscounted. The sum of the cash payments of 11,303.0 billion yen exceeds the corresponding liability amounts of 3,858.4 billion yen included in the consolidated financial statements principally due to the time value of money (please refer to Note 10 to the notes to the consolidated financial statements).

\*\* The total amounts represent the liability for gross unrecognized tax benefits in accordance with the accounting guidance for uncertain tax positions. Sony estimates 167 million yen of the liability is expected to be settled within one year. The settlement period for the remaining portion of the liability, which totaled 229.1 billion yen, cannot be reasonably estimated due to the uncertainty associated with the timing of the settlements with the various taxing authorities (please refer to Note 21 to the notes to the consolidated financial statements).



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The following items are not included in either the above table or the total amount of commitments outstanding at March 31, 2010:

The total amount of expected future pension payments is not included as such amount is not currently determinable. Sony expects to contribute approximately 33 billion yen to Japanese pension plans and approximately 17 billion yen to foreign pension plans during the fiscal year ending March 31, 2011 (please refer to Note 15 to the notes to the consolidated financial statements).

The total unused portion of the line of credit extended under loan agreements in the Financial Services segment is not included as it is not foreseeable what loans will be incurred under such line of credit. The total unused portion of the line of credit extended under these contracts was 176.6 billion yen as of March 31, 2010 (please refer to Note 26 to the notes to the consolidated financial statements).

Purchases are made during the ordinary course of business from certain component manufacturers and contract manufacturers in order to establish the best pricing and continuity of supply for Sony's production and are not included in the above table as there are typically no binding purchase obligations. Purchase obligations are defined as contractual obligations to purchase goods or services that are enforceable and legally binding on Sony. These obligations specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. Purchase obligations do not include contracts that may be cancelled without penalty. Sony enters into arrangements with certain component manufacturers whereby Sony procures goods and services, including product components, for these component manufacturers and is reimbursed for the related purchases. Sony's supply chain management allows for flexible and mutually beneficial purchase arrangements with these manufacturers in order to minimize inventory risk. Consistent with industry practice, Sony purchases processed goods that meet technical criteria from these component manufacturers after issuing to these manufacturers information on Sony's projected demand and manufacturing needs. Further, in connection with the sale of its LCD television manufacturing operations in Mexico during the fiscal year ended March 31, 2010, Sony entered into an agreement with the buyer, a contract manufacturer, to purchase certain LCD televisions in the future. The initial term of the agreement is for one year. In this agreement, Sony agreed to purchase a specified share of the LCD televisions that Sony sells in certain markets, including the U.S. market. However, there is no binding purchase obligation as the specified share and pricing terms only apply to actual sales.

In order to fulfill its commitments, Sony will use existing cash, cash generated by its operating activities, and intra-group borrowings, where possible. Further, Sony may raise funds through bonds, CP programs and committed lines of credit from banks, when necessary.

The following table summarizes Sony's contingent liabilities as of March 31, 2010.

|   | Total Amounts of<br>Contingent Liabilities |
|---|--|
| <b>Contingent Liabilities: (Note 26)</b>                  | (Yen in millions)                          |
| Loan guarantees to a creditor of the third party investor | 27,912                                     |
| Guarantees for a portion of Sony Ericsson's debt          | 18,738                                     |
| Other   | 35,726                                     |
| Total contingent liabilities                              | 82,376                                     |

***Off-Balance Sheet Arrangements***

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

Sony has established several accounts receivable sales programs in Japan whereby Sony can sell up to 50.0 billion yen of eligible trade accounts receivable in the aggregate at any one time. Through these programs, Sony can sell receivables to qualified special purpose entities owned and operated by banks. Sony can sell

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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 the accounting guidance 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, 2008, 2009 and 2010 were 181.4 billion yen, 130.8 billion yen and 109.3 billion yen, respectively. Losses from these transactions were insignificant. In addition to the cash proceeds from the sales transactions above, net cash flows between the qualified special purpose entities and Sony, including servicing fees, in the fiscal years ended March 31, 2008, 2009 and 2010 related to 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.

A subsidiary of the Financial Services segment has established several receivables sales programs whereby the subsidiary can sell up to 23.0 billion yen of eligible receivables in the aggregate at any one time. 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 the accounting guidance for transfers and servicing of financial assets and extinguishments of liabilities, since the subsidiary has relinquished control of the receivables. Total receivables sold during the fiscal years ended March 31, 2008, 2009 and 2010 were 113.8 billion yen, 166.1 billion yen and 183.8 billion yen, respectively. Losses from these transactions were insignificant. In addition to the cash proceeds from the sales transactions above, net cash flows between the qualified special purpose entities and Sony, including servicing fees, in the fiscal years ended March 31, 2008, 2009 and 2010 related to 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.

During the fiscal year ended March 31, 2010, Sony established an accounts receivable sales program in the United States. Through this program, a newly created special purpose entity, which is consolidated by a U.S. subsidiary, can sell up to 450 million U.S. dollars of eligible trade accounts receivables in the aggregate at any one time to a commercial bank. These transactions are accounted for as a sale in accordance with the accounting guidance for transfers and servicing of financial assets and extinguishments of liabilities, because Sony has relinquished control of the receivables. Total trade accounts receivables sold during the fiscal year ended March 31, 2010 were 258.1 billion yen (2,893 million U.S. dollars). Losses from these transactions were insignificant. In addition to the cash proceeds from the sales transactions above, net cash flows between the special purpose entity which is consolidated by Sony and the commercial bank, including servicing fees, in the fiscal year ended March 31, 2010 related to these transactions were insignificant. Although Sony continues servicing the receivables subsequent to being sold or contributed, no servicing liabilities are recorded as the costs of collection of the sold or contributed receivables are insignificant.

Sony has, from time to time, entered into various arrangements with variable interest entities ( VIEs ). These arrangements include facilities which provide for the leasing of certain property, the financing of film production, the U.S. based music publishing business, several joint ventures in the recorded music business and the outsourcing of manufacturing operations. In several of the arrangements in which Sony holds significant variable interests, Sony is the primary beneficiary and therefore consolidates these VIEs. Arrangements in which Sony holds significant variable interests in VIEs but Sony is not the primary beneficiary and therefore does not consolidate are described as follows:

A subsidiary in the Pictures segment entered into a joint venture agreement with a VIE to acquire the international distribution rights, as defined, to 12 pictures. The subsidiary is required to distribute the product internationally, for contractually defined fees determined as percentages of gross receipts and is responsible for all distribution and marketing expenses, which are recouped from such distribution fees, each as defined. The VIE was capitalized with total financing of 406 million U.S. dollars. Of this amount, 11 million U.S. dollars was contributed by the subsidiary, 95 million U.S. dollars was provided by unrelated third party investors and the remaining funding was provided

through a 300 million U.S. dollar bank credit facility. Under the agreement, the subsidiary's 11 million U.S. dollars equity investment is the last equity to be repaid. Based on the factors above, it was previously determined that the subsidiary was the primary beneficiary as it was projected to absorb the majority of the losses or residual returns. As of March 31, 2009, the bank credit facility had been terminated and the third party

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investors have been repaid their 95 million U.S. dollar investment. On May 11, 2009, the subsidiary repurchased from the VIE the international distribution rights to the 12 pictures and the VIE received a participation interest in these films on identical financial terms to those described above. As a result of repurchasing the international distribution rights from the VIE, Sony determined that the subsidiary is no longer the primary beneficiary as it is not projected to absorb the majority of the losses or residual returns of the VIE. No gain or loss was recognized by the subsidiary on the deconsolidation of the VIE. As of March 31, 2010, the subsidiary's balance sheet includes 316 million yen of film costs related to the international distribution rights acquired from the VIE and 1,647 million yen of participation liabilities due to the VIE.

A subsidiary in the Pictures segment entered into two separate production/co-financing agreements with VIEs to co-finance 19 films that were released over the 31 months ended July 31, 2008. The subsidiary received 568 million U.S. dollars over the term of the agreements to fund the production or acquisition cost of films (including fees and expenses). Additionally, on January 9, 2007, the subsidiary entered into a third production/co-financing agreement with another VIE to co-finance a majority of the films to be submitted through March 2012. The subsidiary has received a commitment from the third VIE that it will fund up to 525 million U.S. dollars on a revolving basis to fund the production or acquisition cost of films (including fees and expenses). As of March 31, 2010, 14 films of the subsidiary have been released and approximately 392 million U.S. dollars have been funded by the third VIE. Under all three agreements, the subsidiary is responsible for the marketing and distribution of the product through its global distribution channels. The VIEs share in the net profits, as defined, of the films after the subsidiary recoups a distribution fee, its marketing and distribution expenses, and third party participation and residual costs, each as defined. As the subsidiary did not make any equity investment in these three VIEs nor issue any guarantees with respect to the VIEs, the subsidiary does not absorb the majority of the losses or residual returns, and therefore does not qualify as the primary beneficiary for any of the VIEs. As of March 31, 2010, there are no amounts recorded on the subsidiary's balance sheet that relate to any of the VIEs other than the investors' earned but unpaid share of the films net profits, as defined.

In January 2010, Sony sold approximately 90 percent of its interest in a Mexican subsidiary which primarily manufactured LCD televisions, as well as other assets including machinery and equipment of 4,520 million yen and inventory of 5,619 million yen, to a contract manufacturer. The continuing entity, which will perform this manufacturing going forward, was determined to be a VIE as it is thinly capitalized and dependent on funding from the parent entity. Sony was not considered to be the primary beneficiary as it is not expected to absorb the majority of the expected losses of the entity. In connection with the sale of Sony's controlling interest in the subsidiary, Sony received 11,189 million yen and recorded a loss of 1,664 million yen during the fiscal year ended March 31, 2010. Concurrent with the sale, Sony entered into an agreement with the VIE and its parent company in which Sony agreed to purchase a significant share of the LCD televisions that Sony sells in certain markets, including the U.S. market. As of March 31, 2010, the amounts recorded on Sony's balance sheet that relate to the VIE include accounts receivable-non trade of 6,991 million yen and accounts payable, trade of 30,263 million yen. Sony's maximum exposure to losses is considered insignificant.

Refer to Note 23 to the notes to the consolidated financial statements for more information on variable interest entities.

**Cash Flows**

(The fiscal year ended March 31, 2010 compared with the fiscal year ended March 31, 2009)

Operating Activities: During the fiscal year ended March 31, 2010, there was a net cash inflow of 912.9 billion yen from operating activities, an increase of 505.8 billion yen, or 124.2 percent year-on-year.

For all segments excluding the Financial Services segment, there was a net cash inflow of 570.2 billion yen for the fiscal year ended March 31, 2010, an increase of 457.5 billion yen, or 406.0 percent year-on-year. The major cash inflow factors included a cash contribution from net income after taking into account depreciation and amortization (including amortization of film costs), an increase in notes and accounts payable, trade, and a decrease in inventories. This exceeded cash outflow, which included increases in film costs and in notes and accounts receivable, trade. Compared with the prior fiscal year, the net cash inflow increased mainly due to an increase in notes and accounts payable, trade in the fiscal year ended March 31, 2010 compared to a decrease in the prior fiscal

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year and lower tax payments. This increase was partially offset by an increase in notes and accounts receivable, trade in the fiscal year ended March 31, 2010 compared to a decrease in the prior fiscal year.

The Financial Services segment had a net cash inflow of 348.0 billion yen, an increase of 47.9 billion yen, or 16.0 percent year-on-year. For the fiscal year ended March 31, 2010, net cash inflow was generated primarily due to an increase in revenue from insurance premiums as a result of a steady increase in policy amount in force at Sony Life. Compared with the previous fiscal year, net cash inflow increased primarily reflecting the increase in revenue from insurance premiums at Sony Life.

Investing Activities: During the fiscal year ended March 31, 2010, Sony used 746.0 billion yen of net cash in investing activities, a decrease of 335.3 billion yen, or 31.0 percent year-on-year.

For all segments excluding the Financial Services segment, there was 247.9 billion yen of net cash used, a decrease of 239.5 billion yen, or 49.1 percent year-on-year. During the fiscal year ended March 31, 2010, net cash was used mainly for purchases of manufacturing equipment. The net cash used decreased year-on-year primarily as a result of lower investments in and purchases of manufacturing equipment, although the previous fiscal year benefited from proceeds generated mainly from the sale of semiconductor fabrication equipment.

The Financial Services segment used 475.7 billion yen of net cash, a decrease of 126.6 billion yen, or 21.0 percent year-on-year. Payments for investments and advances, carried out primarily at Sony Life and Sony Bank, where operations are expanding, exceeded proceeds from the maturities of marketable securities, sales of securities investments and collections of advances. The net cash used within the Financial Services segment decreased year-on-year primarily due to a decrease in investments at Sony Bank.

In all segments excluding the Financial Services segment, net cash generated by operating and investing activities combined\* for the fiscal year ended March 31, 2010 was 322.3 billion yen, an improvement of 697.1 billion yen compared to net cash used in the previous fiscal year.

Financing Activities: During the fiscal year ended March 31, 2010, 365.0 billion yen of net cash was provided by financing activities, an increase of 97.6 billion yen, or 36.5 percent year-on-year. For all segments excluding the Financial Services segment, there was a 98.6 billion yen net cash inflow, an increase of 88.7 billion yen, or 891.7 percent year-on-year. This was primarily due to issuances of long-term corporate bonds and borrowings from banks in the fiscal year ended March 31, 2010, which were partially offset by net repayments of short-term borrowings including commercial paper. In June 2009, Sony Corporation issued domestic straight bonds totaling 220 billion yen in Japan with maturities ranging from 3 to 10 years. In the Financial Services segment, financing activities generated 238.6 billion yen of net cash, a decrease of 21.7 billion yen, or 8.3 percent year-on-year, primarily due to a decrease in short-term borrowings, net for the fiscal year ended March 31, 2010 compared to an increase for the prior fiscal year.

Total Cash and Cash Equivalents: Accounting for the above factors and the effect of fluctuations in exchange rates, the total outstanding balance of cash and cash equivalents at March 31, 2010 was 1,191.6 billion yen, an increase of 530.8 billion yen, or 80.3 percent compared with the balance as of March 31, 2009. The outstanding balance of cash and cash equivalents of all segments excluding the Financial Services segment was 984.9 billion yen, an increase of 419.9 billion yen, or 74.3 percent, compared with the balance as of March 31, 2009. Sony believes it continues to maintain sufficient liquidity through access to a total, translated into yen, of 788.5 billion yen of unused committed lines of credit with financial institutions in addition to the cash and cash equivalents balance at March 31, 2010. Within the Financial Services segment, the outstanding balance of cash and cash equivalents was 206.7 billion yen, an increase of 110.9 billion yen, or 115.8 percent, compared with the balance as of March 31, 2009.

\* Sony has included the information for cash flow from operating and investing activities combined excluding the Financial Services segment's activities, as management frequently monitors this financial measure, and believes this non-GAAP measurement is important for use in evaluating Sony's ability to generate cash to maintain liquidity and fund debt principal and dividend payments from business activities other than its Financial Services segment. This information is derived from the reconciliations prepared in the section Information of Cash Flows Separating Out the Financial Services Segment. This information and the separate condensed presentations shown below are not required or prepared in accordance with U.S. GAAP. The Financial Services segment's cash flow is excluded



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from the measure because SFH, which constitutes a majority of the Financial Services segment, is a separate publicly traded entity in Japan with a significant minority interest and it, as well as its subsidiaries, secure liquidity on their own. This measure may not be comparable to those of other companies. This measure has limitations, because it does not represent residual cash flows available for discretionary expenditures principally due to the fact that the measure does not deduct the principal payments required for debt service. Therefore, Sony believes it is important to view this measure as supplemental to its entire statement of cash flows and together with Sony's disclosures regarding investments, available credit facilities and overall liquidity.

A reconciliation of the differences between the Consolidated Statement of Cash Flows reported and cash flows from operating and investing activities combined excluding the Financial Services segment's activities is as follows:

|  | <b>Fiscal Year Ended March 31</b> |                |
|--|-----------------------------------|----------------|
|  | 2009                              | 2010           |
|  | <b>(Billions of yen)</b>          |                |
| Net cash provided by operating activities reported in the consolidated statements of cash flows                  | 407.2                             | <b>912.9</b>   |
| Net cash used in investing activities reported in the consolidated statements of cash flows                      | (1,081.3)                         | <b>(746.0)</b> |
|  | (674.1)                           | <b>166.9</b>   |
| Less: Net cash provided by operating activities within the Financial Services segment                            | 300.1                             | <b>348.0</b>   |
| Less: Net cash used in investing activities within the Financial Services segment                                | (602.4)                           | <b>(475.7)</b> |
| Eliminations **  | (3.0)                             | <b>27.7</b>    |
| Cash flow from operating and investing activities combined excluding the Financial Services segment's activities | (374.8)                           | <b>322.3</b>   |

\*\* Eliminations primarily consist of intersegment loans and dividend payments. Intersegment loans are between Sony Corporation and Sony Financial International Inc. (SFI), an entity included within the Financial Services segment.

***Information of Cash Flows Separating Out the Financial Services Segment (Unaudited)***

The following charts show Sony's unaudited cash flow information for all segments, excluding the Financial Services segment, and for the Financial Services segment alone. These separate condensed presentations are not required or prepared 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 utilizes this information to analyze its results without the Financial Services segment and believes that these presentations may be useful in understanding and analyzing Sony's consolidated financial statements. Transactions between the Financial Services segment and all other segments excluding the Financial Services segment are eliminated in the consolidated figures shown below.

|                                   | <b>Fiscal Year Ended March 31</b> |      |
|-----------------------------------|-----------------------------------|------|
|                                   | 2009                              | 2010 |
|                                   | <b>(Yen in millions)</b>          |      |
| <b>Financial Services segment</b> |                                   |      |

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|   |           |                  |
|---|-----------|------------------|
| Net cash provided by operating activities                 | 300,096   | <b>348,033</b>   |
| Net cash used in investing activities                     | (602,368) | <b>(475,720)</b> |
| Net cash provided by financing activities                 | 260,345   | <b>238,635</b>   |
| Net increase (decrease) in cash and cash equivalents      | (41,927)  | <b>110,948</b>   |
| Cash and cash equivalents at beginning of the fiscal year | 137,721   | <b>95,794</b>    |
| Cash and cash equivalents at end of the fiscal year       | 95,794    | <b>206,742</b>   |

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| <b>Sony without the Financial Services segment</b>           | <b>Fiscal Year Ended March 31</b> |                  |
|--|-----------------------------------|------------------|
|  | <b>2009</b>                       | <b>2010</b>      |
|  | <b>(Yen in millions)</b>          |                  |
| Net cash provided by operating activities                    | 112,695                           | <b>570,222</b>   |
| Net cash used in investing activities                        | (487,446)                         | <b>(247,897)</b> |
| Net cash provided by financing activities                    | 9,947                             | <b>98,644</b>    |
| Effect of exchange rate changes on cash and cash equivalents | (18,911)                          | <b>(1,098)</b>   |
| Net increase (decrease) in cash and cash equivalents         | (383,715)                         | <b>419,871</b>   |
| Cash and cash equivalents at beginning of the fiscal year    | 948,710                           | <b>564,995</b>   |
| Cash and cash equivalents at end of the fiscal year          | 564,995                           | <b>984,866</b>   |
| <br>   |                                   |                  |
| <b>Consolidated</b>  | <b>Fiscal Year Ended March 31</b> |                  |
|  | <b>2009</b>                       | <b>2010</b>      |
|  | <b>(Yen in millions)</b>          |                  |
| Net cash provided by operating activities                    | 407,153                           | <b>912,907</b>   |
| Net cash used in investing activities                        | (1,081,342)                       | <b>(746,004)</b> |
| Net cash provided by financing activities                    | 267,458                           | <b>365,014</b>   |
| Effect of exchange rate changes on cash and cash equivalents | (18,911)                          | <b>(1,098)</b>   |
| Net increase (decrease) in cash and cash equivalents         | (425,642)                         | <b>530,819</b>   |
| Cash and cash equivalents at beginning of the fiscal year    | 1,086,431                         | <b>660,789</b>   |
| Cash and cash equivalents at end of the fiscal year          | 660,789                           | <b>1,191,608</b> |

**Cash Flows**

(The fiscal year ended March 31, 2009 compared with the fiscal year ended March 31, 2008)

Operating Activities: During the fiscal year ended March 31, 2009, there was net cash inflow of 407.2 billion yen in operating activities, a decrease of 350.5 billion yen, or 46.3 percent year-on-year.

For all segments excluding the Financial Services segment, there was net cash inflow of 112.7 billion yen in operating activities, a decrease of 406.4 billion yen, or 78.3 percent year-on-year. The major cash inflow factors include a cash contribution from net income (loss), after taking into account depreciation and amortization, and decreases in notes and accounts receivable, trade primarily due to a decrease in sales during the fiscal year ended March 31, 2009. These factors exceeded cash outflows, which included decreases in notes and accounts payable, trade. Compared with the previous fiscal year, net cash provided by operating activities decreased mainly as a result of a decrease in net income (loss), after taking into account depreciation and amortization.

The Financial Services segment had a net cash inflow of 300.1 billion yen from operating activities, an increase of 57.5 billion yen, or 23.7 percent year-on-year. The Financial Services segment generated net cash mainly from an increase in revenue from insurance premiums, reflecting a steady increase in policy amount in force, primarily at Sony

Life. Compared with the previous fiscal year, net cash provided increased mainly due to an increase in revenue from insurance premiums at Sony Life.

Investing Activities: During the fiscal year ended March 31, 2009, Sony used 1,081.3 billion yen of net cash in investing activities, an increase of 170.9 billion yen, or 18.8 percent year-on-year.

For all segments, excluding the Financial Services segment, 487.4 billion yen of net cash was used in investing activities, an increase of 472.5 billion yen, or 3,166.0 percent year-on-year. During the fiscal year ended March 31, 2009, payments for items such as purchases of manufacturing equipment and the acquisition of Bertelsmann's 50 percent interest in SONY BMG exceeded proceeds generated mainly from the sales of semiconductor fabrication equipment. Compared with the previous fiscal year, net cash used in investing activities increased. The previous

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fiscal year's net cash outflows were partially offset by proceeds from the sale of shares in SFH, the sale of The Sony Center am Potsdamer Platz in Berlin, and the sale of a portion of the site which was Sony's former headquarters.

The Financial Services segment used 602.4 billion yen in net cash, a decrease of 271.3 billion yen, or 31.1 percent year-on-year. Within the Financial Services segment, payments primarily for investments carried out at Sony Life, as well as for investments and advances carried out at Sony Bank, where operations are expanding, exceeded proceeds mainly from the maturities and sales of marketable securities and collections of advances. Net cash used in investing activities within the Financial Services segment decreased mainly because an increase in investment asset sales exceeded an increase in investments at Sony Life.

In all segments, excluding the Financial Services segment, net cash provided by operating activities and used in investing activities combined\* was a net outflow of 374.8 yen billion, a deterioration of 878.9 billion yen year-on-year.

Financing Activities: During the fiscal year ended March 31, 2009, 267.5 billion yen of net cash was provided by financing activities, a decrease of 238.1 billion yen, or 47.1 percent year-on-year. For all segments excluding the Financial Services segment, there was a net cash inflow of 9.9 billion yen in financing activities, an increase of 22.0 billion yen compared to a net cash outflow of 12.1 billion yen in the previous fiscal year. This was primarily due to issuances of CP and corporate bonds and borrowings from banks in the fiscal year ended March 31, 2009, partially offset by the redemption of convertible bonds. In the Financial Services segment, since the increase primarily in policyholder accounts at Sony Life and in deposits from customers at Sony Bank were less than the increases in the previous fiscal year, financing activities generated 260.3 billion yen of net cash, a decrease of 231.4 billion yen, or 47.1 percent year-on-year.

Accounting for the above factors and the effect of fluctuations in exchange rates, the total outstanding balance of cash and cash equivalents at March 31, 2009 was 660.8 billion yen, a decrease of 425.6 billion yen, or 39.2 percent compared with the balance as of March 31, 2008. The outstanding balance of cash and cash equivalents of all segments excluding the Financial Services segment was 565.0 billion yen, a decrease of 383.7 billion yen, or 40.4 percent compared with the balance as of March 31, 2008. Within the Financial Services segment, the outstanding balance of cash and cash equivalents was 95.8 billion yen, a decrease of 41.9 billion yen, or 30.4 percent compared with the balance as of March 31, 2008.

\* A reconciliation of the differences between the Consolidated Statement of Cash Flows reported and cash flows from operating and investing activities combined excluding the Financial Services segment's activities is as follows:

|   | <b>Fiscal Year Ended March 31</b> |           |
|---|-----------------------------------|-----------|
|   | 2008                              | 2009      |
|   | (Billions of yen)                 |           |
| Net cash provided by operating activities reported in the consolidated statements of cash flows | 757.7                             | 407.2     |
| Net cash used in investing activities reported in the consolidated statements of cash flows     | (910.4)                           | (1,081.3) |
|   | (152.7)                           | (674.1)   |
| Less: Net cash provided by operating activities within the Financial Services segment           | 242.6                             | 300.1     |
| Less: Net cash used in investing activities within the Financial Services segment               | (873.6)                           | (602.4)   |
| Eliminations **   | 25.9                              | (3.0)     |

|  |       |         |
|--|-------|---------|
| Cash flow from operating and investing activities combined excluding the Financial Services segment's activities | 504.2 | (374.8) |
|--|-------|---------|

\*\* Eliminations primarily consist of intersegment loans and dividend payments. Intersegment loans are between Sony Corporation and SFI, an entity included within the Financial Services segment.

**Table of Contents*****Information of Cash Flows Separating Out the Financial Services Segment (Unaudited)***

The following charts show Sony's unaudited cash flow information for all segments, excluding the Financial Services segment, and for the Financial Services segment alone. These separate condensed presentations are not required or prepared 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 utilizes this information to analyze its results without the Financial Services segment and believes that these presentations may be useful in understanding and analyzing Sony's consolidated financial statements. Transactions between the Financial Services segment and all other segments excluding the Financial Services segment are eliminated in the consolidated figures shown below.

| <b>Financial Services segment</b>                         | <b>Fiscal Year Ended March 31</b> |                  |
|---|-----------------------------------|------------------|
|   | <b>2008</b>                       | <b>2009</b>      |
|   | <b>(Yen in millions)</b>          |                  |
| Net cash provided by operating activities                 | 242,610                           | <b>300,096</b>   |
| Net cash used in investing activities                     | (873,646)                         | <b>(602,368)</b> |
| Net cash provided by financing activities                 | 491,709                           | <b>260,345</b>   |
| Net decrease in cash and cash equivalents                 | (139,327)                         | <b>(41,927)</b>  |
| Cash and cash equivalents at beginning of the fiscal year | 277,048                           | <b>137,721</b>   |
| Cash and cash equivalents at end of the fiscal year       | 137,721                           | <b>95,794</b>    |

| <b>Sony without the Financial Services segment</b>           | <b>Fiscal Year Ended March 31</b> |                  |
|--|-----------------------------------|------------------|
|  | <b>2008</b>                       | <b>2009</b>      |
|  | <b>(Yen in millions)</b>          |                  |
| Net cash provided by operating activities                    | 519,112                           | <b>112,695</b>   |
| Net cash used in investing activities                        | (14,925)                          | <b>(487,446)</b> |
| Net cash provided by (used in) financing activities          | (12,100)                          | <b>9,947</b>     |
| Effect of exchange rate changes on cash and cash equivalents | (66,228)                          | <b>(18,911)</b>  |
| Net increase (decrease) in cash and cash equivalents         | 425,859                           | <b>(383,715)</b> |
| Cash and cash equivalents at beginning of the fiscal year    | 522,851                           | <b>948,710</b>   |
| Cash and cash equivalents at end of the fiscal year          | 948,710                           | <b>564,995</b>   |

| <b>Consolidated</b>                       | <b>Fiscal Year Ended March 31</b> |                    |
|---|-----------------------------------|--------------------|
|   | <b>2008</b>                       | <b>2009</b>        |
|   | <b>(Yen in millions)</b>          |                    |
| Net cash provided by operating activities | 757,684                           | <b>407,153</b>     |
| Net cash used in investing activities     | (910,442)                         | <b>(1,081,342)</b> |

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|  |           |                  |
|--|-----------|------------------|
| Net cash provided by financing activities                    | 505,518   | <b>267,458</b>   |
| Effect of exchange rate changes on cash and cash equivalents | (66,228)  | <b>(18,911)</b>  |
| Net increase (decrease) in cash and cash equivalents         | 286,532   | <b>(425,642)</b> |
| Cash and cash equivalents at beginning of the fiscal year    | 799,899   | <b>1,086,431</b> |
| Cash and cash equivalents at end of the fiscal year          | 1,086,431 | <b>660,789</b>   |



**Table of Contents****LIQUIDITY AND CAPITAL RESOURCES**

The description below covers basic financial policy and figures for Sony's consolidated operations except for the Financial Services segment and So-net, which secure liquidity on their own. Furthermore, the Financial Services segment is described separately at the end of this section.

***Liquidity Management and Market Access***

An important financial objective of Sony is to maintain the strength of its balance sheet, while securing adequate liquidity for business activities. Sony defines its liquidity sources as the amount of cash and cash equivalents ( cash balance ) (excluding restrictions on capital transfers mainly due to country regulations) and the unused amount of committed lines of credit. Sony's basic liquidity management policy is to secure sufficient liquidity throughout the relevant fiscal year, covering such factors as 50 percent of monthly consolidated sales and repayments on debt that comes due within six months.

Funding requirements that arise from maintaining liquidity are principally covered by cash flow from operating and investing activities combined and by the cash balance; however, as needed, Sony has demonstrated the ability to procure funds from financial and capital markets. In the event financial and capital markets became illiquid, based on its current forecasts, Sony could sustain sufficient liquidity through access to committed lines of credit with financial institutions, together with its cash balance.

Sony procures funds mainly from the financial and capital markets through Sony Corporation and SGTS, a finance subsidiary in the U.K. In June 2009, Sony Corporation issued domestic straight bonds totaling 220 billion yen (3 years, 5 years and 10 years maturity) for redemption of domestic bonds and CP and executed loans totaling 162.5 billion yen from a syndicate of banks (3 years, 5 years and 7 years maturity), of which the proceeds were used for the redemption of syndicated loans and for general business activities, including working capital. In addition, Sony Corporation executed a 1.0 billion U.S. dollar long-term bank loan in July 2009 (3 years maturity). The proceeds were used as general corporate funds for overseas operations, in regions including the U.S. and Europe.

In order to meet working capital requirements, Sony Corporation and SGTS maintain CP programs which have the ability to access the Japanese, the U.S. and European CP markets, subject to prevailing market conditions. As of March 31, 2010, the CP program limit amounts translated into yen was 1,151.3 billion yen in total for Sony Corporation and SGTS. There was no outstanding balance of CP as of March 31, 2010, although the largest month-end outstanding balance of CP during the fiscal year ended March 31, 2010 was 189.9 billion yen in May 2009. While Sony mainly issued CP in the Japanese CP market for the fiscal year ended March 31, 2010, due to the recent recovery of the U.S. and European CP markets, Sony currently believes funding from these markets is also available.

Sony typically raises funds through the aforementioned straight bonds, CP programs and bank loans (including syndicated loans); however, in the unlikely event Sony could not access liquidity from these sources, Sony can also draw on committed lines of credit from various financial institutions. Sony has a total, translated into yen, of 788.5 billion yen in committed lines of credit, none of which had been used as of March 31, 2010. Details of those committed lines of credit are: a 475 billion yen committed line of credit contracted with a syndicate of Japanese banks, effective until November 2012, 1.5 billion U.S. dollars multi-currency committed line of credit also with a syndicate of Japanese banks, effective until December 2013, and 1.87 billion U.S. dollars of another multi-currency committed line of credit contracted with a syndicate of global banks, effective until April 2012, in all of which Sony Corporation and SGTS are defined as the borrowers. These contracts are aimed at securing sufficient liquidity in a

quick and stable manner even in the event of financial and capital markets turmoil seen since September 2008.

In the event of a downgrade in Sony's credit ratings, even though the cost of some of those borrowings could increase, there are no financial covenants in any of Sony's material financial agreements that would cause an acceleration of the obligation or any impairment on the ability to drawdown on unused facilities. Furthermore, there are no restrictions on the uses of most proceeds except that certain borrowings may not be used to acquire securities listed on a U.S. stock exchange or traded over-the-counter in the U.S. in accordance with the rules and regulations issued by authorities such as the Board of Governors of the Federal Reserve Board.

**Table of Contents*****Ratings***

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

In order to facilitate access to global capital markets, Sony obtains credit ratings from two rating agencies, Moody's Investors Service (Moody's) and Standard and Poor's Rating Services (S&P). In addition, Sony maintains a rating from Rating and Investment Information, Inc. (R&I), a rating agency in Japan, for access to the Japanese capital markets.

Sony's current debt ratings from each agency as of June 28, 2010 are noted below:

|                 | Moody's                | S&P                    | R&I                     |
|-----------------|------------------------|------------------------|-------------------------|
| Long-term debt  | A3 (Outlook: negative) | A- (Outlook: negative) | AA- (Outlook: negative) |
| Short-term debt | P-2                    | A-2                    | a-1+                    |

***Cash Management***

Sony manages its global cash management activities mainly through SGTS. The excess or shortage of cash at most of Sony's subsidiaries is invested or funded by SGTS on a net basis, although Sony recognizes that fund transfers are limited in certain countries and geographic areas due to restrictions on capital transactions. In order to pursue more efficient cash management, cash surpluses among Sony's subsidiaries are deposited with SGTS and cash shortfalls among subsidiaries are covered by loans through SGTS, so that Sony can make use of excess cash balances and reduce third-party borrowings.

***Financial Services segment***

The management of SFH, Sony Life, Sony Assurance and Sony Bank recognizes the importance of securing sufficient liquidity to cover the payment of obligations that these companies incur in the ordinary course of business. Sony Life, Sony Assurance and Sony Bank maintain a sufficient cash balance and secure sufficient means to meet their obligations while abiding by laws and regulations such as the Insurance Business Act or the Banking Act of Japan, and restrictions imposed by the Financial Services Agency (FSA) and other regulatory authorities as well as establishing and operating under company guidelines that comply with these regulations. Sony Life and Sony Assurance establish a sufficient level of liquidity for the smooth payment of insurance claims when they invest primarily in various securities cash inflows which are mainly from policyholders' insurance premiums. Sony Bank establish a necessary level of liquidity for the smooth settlement of transactions when it uses its cash inflows, which come mainly from customers' deposits in local or foreign currencies, in order to offer mortgage loans to individuals or to make bond investments.

SFH currently has an AA- rating from R&I for issuer rating. Sony Life currently has ratings from four rating agencies: A+ from S&P for insurer financial strength rating, Aa3 from Moody's for insurance financial strength rating, AA from R&I for ability to pay insurance claims and AA from the Japan Credit Rating Agency Ltd. (JCR) for ability to pay insurance claims. Sony Bank obtained an A-rating from S&P for its long-term counterparty credit rating, an A-2 rating from S&P for its short-term counterparty credit rating and an AA- rating from the JCR for long-term senior debt rating.

**RESEARCH AND DEVELOPMENT**

It is necessary for Sony to continue technological innovation in order to maintain group-wide growth. Sony believes that technology made possible by our research and development activities is key to the differentiation of products in existing businesses and the source of creating value in new businesses.

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

Research and development costs for the fiscal year ended March 31, 2010 decreased by 65.3 billion yen, or 13.1 percent year-on-year, to 432.0 billion yen. The ratio of research and development costs to sales (which

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excludes Financial Services segment revenue) decreased from 6.9 percent to 6.8 percent. Expenses in the CPD segment decreased 56.3 billion yen, or 17.8 percent year-on-year, to 259.4 billion yen and expenses in the NPS segment decreased 3.9 billion yen, or 4.2 percent year-on-year, to 89.2 billion yen. In the CPD segment, approximately 73 percent of expenses were for the development of new product prototypes while the remaining 27 percent were for the development of mid- to long-term new technologies in such areas as next generation displays, semiconductors, new materials and software. Consolidated research and development costs for the fiscal year ending March 31, 2011 are expected to increase by 4.2 percent to 450 billion yen.

Research and development costs for the fiscal year ended March 31, 2009 decreased by 23.3 billion yen, or 4.5 percent year-on-year, to 497.3 billion yen. The ratio of research and development costs to sales (which excludes Financial Services segment revenue) increased from 6.3 percent to 6.9 percent. Expenses in the CPD segment were 315.8 billion yen and expenses in the NPS segment were 93.1 billion yen. In the CPD segment, approximately 76 percent of expenses were for the development of new product prototypes while the remaining 24 percent were for the development of mid- to long-term new technologies in such areas as next generation displays, semiconductors, new materials and software.

Research and development costs for the fiscal year ended March 31, 2008 decreased by 23.4 billion yen, or 4.3 percent year-on-year, to 520.6 billion yen. The ratio of research and development costs to sales (which excludes Financial Services segment revenue) decreased from 7.1 percent to 6.3 percent.

**TREND INFORMATION**

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

***Issues Facing Sony and Management's Response to those Issues***

The global economy experienced a sharp downturn beginning in the autumn of 2008, following the most severe financial crisis in recent years. Central governments and central banks of major global economies launched large-scale economic stimulus measures and the global economy started to show signs of recovery in late 2009, led mainly by continuously strong growth in domestic demand in emerging markets. Sony has been implementing a number of measures, particularly in the CPD segment, to transform its operational structure. In line with this recovery trend, Sony recorded operating income of 31.8 billion yen in the fiscal year ended March 31, 2010, compared to operating loss of 227.8 billion yen in the previous fiscal year.

In emerging markets, increasing demand for entry-level priced products and services is expected to cause intensified competition with new entrants. Developed countries' economies are anticipated to recover slowly, with high uncertainty and weak improvement in unemployment rates and consumer spending, significant levels of government debt, significant fluctuations in foreign exchange rates, and remaining instability in the financial markets.

In such an operating environment, Sony plans to continue enhancing profitable business structures through transformation initiatives and cost reductions in the future. At the same time, Sony plans to aggressively launch 3D-related products and network services and plans to develop other new businesses to realize future growth and create future revenue sources.

**Transformation initiatives and cost reductions**

Since April 1, 2009, Sony has been implementing major reorganizations. Sony established three horizontal platforms for (1) manufacturing, logistics, procurement and customer services, (2) R&D and common software development, and (3) global sales and marketing functions, and has been undertaking transformation and business process optimization efforts to enhance profitability. Sony plans to continue the initiatives described below, mainly in the CPD segment. Sony expects restructuring charges to total approximately 80 billion yen in the fiscal year ending March 31, 2011 compared with the 124.3 billion yen, including 7.9 billion yen of non-cash charges related to depreciation associated with restructured assets, recorded in the fiscal year ended March 31, 2010 (please refer to *Restructuring* in Item 5 Operating Results ).

**Table of Contents****Realignment of manufacturing sites:**

By rationalizing its manufacturing operations, shifting and aggregating manufacturing to lower-cost countries and utilizing the services of OEMs and ODMs, Sony has undertaken fixed cost and total asset reductions. Sony's total manufacturing sites have been reduced from 57 sites in December 2008 to 46 sites as of March 31, 2010. Sony will continue reviewing the efficiency of its manufacturing structure in relation to its operating environments. The realignment of manufacturing sites to be undertaken during the fiscal year ending March 31, 2011 includes the closure of Sony Precision Engineering Malaysia Sdn. Bhd., the transfer to KYOCERA Corporation of design and manufacturing operations of small-and mid-sized TFT LCD displays at the Yasu site of Sony Mobile Display Corporation, the termination of production at Sony Electronics Inc.'s Dothan, Alabama site, the transfer to the Hon Hai Group of approximately 90 percent of Sony's equity interest in the Nitra plant in Slovakia (which currently manufactures LCD televisions for the European region), and the termination of production at Sony Hungária Kft., Gödöllő TEC.

**Reductions in procurement cost for components and software:**

Sony has started developing a common procurement platform and consolidating its suppliers during the fiscal year ended March 31, 2010. Sony expects the substantial benefit of procurement cost reduction through these measures. Since April, 2010, Sony has been integrating software procurement functions that had been diversified within each business unit to the headquarter procurement division, reviewing its various business processes and starting the consolidation of its software vendors.

Below is a description of the issues management believes each business continues to face and an explanation as to how each business is addressing those issues, including the above measures it has taken to reduce costs.

**Consumer Products & Devices**

Sony's television business will strive to expand its unit sales significantly by enhancing product competitiveness with the launch of 3D televisions and Internet televisions as well as with an increased product range of LED backlit televisions, and by proactively launching strategic models targeting emerging markets where significant volume growth is anticipated. The television business is creating global standards for the basic design of hardware and for software as well as integrating its design and development resources around the world. The business will continue to improve its supply chains and increase the active use of OEMs and ODMs, to build stable and profitable business structures even in the changing operating environment such as global market expansion of entry-level priced models and the price declines accompanying intensified competition. In connection with its strategy for procuring panels, which is important for improving profitability in the television business, Sony will conduct flexible sourcing of LCD panels at competitive prices from panel suppliers including Sony's two joint ventures, S-LCD and Sharp Display Products Corporation (SDP). While Sony will place significant emphasis on sourcing from its joint ventures, it will also continue utilizing open market sources depending on the panel market conditions and television model features. Sony obtains its supply of TFT LCD panels from the 7th and 8th generation production lines at S-LCD, a joint venture located in Korea with Samsung. In the fiscal year ended March 31, 2010, Sony established SDP, a joint venture entity with Sharp, to produce and sell large-sized LCD panels and modules, utilizing the new LCD panel production plant using the 10th generation glass substrate. Sony obtains its supply of LCD panels and modules from SDP. Based on the joint venture agreement with Sharp, Sony invested 10 billion yen in this joint venture in December, 2009 and plans to make a number of additional capital injections, resulting in a maximum 34 percent ownership by Sony by the end of April, 2011.

Sony's digital imaging business expects price declines in the mature market due to intensified competition. The business will strive to differentiate the performance of its products with key devices such as image sensors and

graphic engines, improve product attractiveness through enhanced network connectivity and continuously strengthen cost competitiveness. In addition, it will aim for further expansion of its market share, with an enhanced line-up of digital SLR models and of entry-level priced models for emerging markets.



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### **Networked Products & Services**

Sony's game business intends to expand all game platforms through an enhanced line-up of software. It also intends to introduce PlayStation®Move motion controller and 3D games for PS3. Sony will strive to expand the business by providing content through both packaged software and utilizing PlayStation®Network. Sony will also strive to improve profitability of the entire game business by improving the profitability of PS3 through hardware cost reduction measures, including reducing the size of key semiconductors and the number of components.

Sony's network-related business plans to utilize the PlayStation®Network platform and expand non-game content and services such as video, music and e-books. Sony plans to actively collaborate with third-party content providers and utilize in-house content providers as well to expand its interactive entertainment offerings and sales. The network-related business will also seek to expand this platform to include non-game consumer electronics products and increase the sales of such network-related business.

### **B2B & Disc Manufacturing**

The broadcasting- and professional-use equipment business will strive to reduce costs in the severe business environment mainly in developed countries, and will seek to expand its business in emerging markets. In order to improve its profitability, it will also enhance the solutions business for broadcast- and professional-use equipment systems and expand 3D-related businesses such as digital cinema projectors and content creation equipment.

### **Pictures**

In the Pictures segment, Sony faces intense competition, rising expenses, including production, advertising and promotion expenses, a mature home entertainment market with a continuing industry-wide decline in physical DVD sales worldwide, increasingly limited access to third party financing, and a growing trend toward digital piracy. To meet these challenges, Sony is working to produce and acquire a diversified portfolio of motion picture and television product with broad worldwide appeal for distribution in all media and other emerging platforms, including digital distribution. Sony will also explore alternative avenues for financing and take action to combat the unauthorized digital distribution of its copyrighted content.

### **Music**

The Music segment has been operating in a challenging market environment for several years now, with the ongoing decline in physical sales not yet offset by the continued rapid growth in the digital market. This trend is expected to continue in the medium term. The growing digital business holds significant potential with the launch of new initiatives and introduction of innovative products in the digital marketplace. Against this market backdrop, Sony continues to invest in and develop new and existing artist talent, and is pursuing growing new business revenue streams such as live concerts, artist management, and sponsorships.

### **Financial Services**

In the Financial Services segment, Sony must rapidly and adequately realize its growth strategy in a fiercely competitive environment and address the needs of a low birthrate and the aging population in Japan as well as the diversifying needs of its customers. In such a business environment, Sony's Financial Services businesses, which are latecomers to the life insurance, non-life insurance and banking industries, will make use of distinctive, individual industry-specific business models and pursue higher levels of customer satisfaction. The Financial Services businesses also plan to achieve further growth by enhancing synergies among the businesses, reinforcing their own positions in the business domains recently entered into, such as individual variable annuity and securities brokerage, and entering

into new business domains.

Sony Life has been building an investment portfolio mainly comprised of ultralong-term bonds, in order to manage investment risks and ensure stable long-term returns. Based on this policy, Sony Life plans to continue its investment in ultralong-term bonds in the future. In addition, to mitigate the increasing risk of a decline in stock prices, Sony Life has reduced the balance of riskier assets such as stocks and convertible bonds.

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### **Sony Ericsson**

In the fiscal year ending March 31, 2011, Sony Ericsson's focus will continue to be on returning to profitability on an annual basis through the continued transformation of its portfolio to target mid- to high-end open-OS based models, differentiation by great user experience applications, and renewed quality assurance measures. Sony Ericsson also expects to realize the full benefit of its reduction of operating expenses by the end of 2010, as it completes the cost saving program that started in mid-2008. In addition, Sony Ericsson will continue to employ stricter financial management to improve cash flow from operating activities.

### **Global Environmental Plan Road to Zero**

Sony announced its Road to Zero global environmental plan in April 2010. The plan includes a long-term vision of achieving a zero environmental footprint by 2050 through Sony's business operations and product lifecycles, in pursuit of a sustainable society. Sony aims to achieve this vision through continuous innovation and the utilization of offset mechanisms. The plan also draws a comprehensive roadmap based on the following four goals:

Climate change: Reduction of energy consumption in pursuit of zero greenhouse gas emissions.

Resource conservation: Reduction in the use of virgin materials of priority resources, by minimizing waste generation, appropriate water consumption, and continuous increase of waste recycling.

Control of chemical substances: Minimization of the risks that certain chemical substances pose to the environment through preventative measures, reduction in the use of specific chemicals defined by Sony, and promotion of the use of alternative materials.

Biodiversity: Conservation and recovery of biodiversity through Sony's own business operations and local social contribution programs.

Among the above goals, Sony's specific mid-term targets for climate change include the following:

Target an absolute reduction in greenhouse gas emissions (calculated in terms of CO<sub>2</sub>) of 30 percent by the end of the fiscal year ending March 31, 2016, compared to the level of the fiscal year ended March 31, 2001.

Target a reduction in power consumption per product of 30 percent by the end of the fiscal year ending March 31, 2016, compared to the level of the fiscal year ended March 31, 2009.

Further details of the global environmental plan Road to Zero and actual measures undertaken by Sony are reported in Sony's CSR report available at the following website: <http://www.sony.net/SonyInfo/csr/environment/index.html>

### **CRITICAL ACCOUNTING POLICIES**

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, Sony evaluates its estimates, which are based on historical experience, future projections and various other assumptions that are believed to be reasonable under the circumstances. The results of these evaluations form the basis for making judgments about the carrying values of assets and liabilities and the reported amounts of expenses that are not readily apparent from other sources. Actual results may differ from these estimates. Sony considers an accounting policy to be critical if it is important to its financial condition and results, and

requires significant judgment and estimates on the part of management in its application. Sony believes that the following represents its critical accounting policies.

***Investments***

Sony's investments include debt and equity securities accounted for under both the cost and equity method of accounting. If it has been determined that an investment has sustained an other-than-temporary decline in its value, the investment is written down to its fair value by a charge to income. Sony regularly evaluates its investment portfolio to identify other-than-temporary impairments of individual securities. Factors that are considered by Sony

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in determining whether an other-than-temporary decline in value has occurred include: the length of time and extent to which the market value of the security has been less than its original cost, the financial condition, operating results, business plans and estimated future cash flows of the issuer of the security, other specific factors affecting the market value, deterioration of the credit condition of the issuers, sovereign risk, and whether or not Sony is able to retain the investment for a period of time sufficient to allow for the anticipated recovery in market value.

In evaluating the factors for available-for-sale securities 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.

Sony adopted the accounting guidance for the recognition and presentation of other-than-temporary impairments for debt securities on April 1, 2009. When an other-than-temporary impairment of a debt security has occurred, the amount of the other-than-temporary impairment recognized in income depends on whether Sony intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost. If the debt security meets either of these two criteria, the other-than-temporary impairment recognized in income is the credit loss, measured as the entire difference between the security's amortized cost and its fair value at the impairment measurement date. For other-than-temporary impairments of debt securities that do not meet these two criteria, the net amount recognized in income is equal to the difference between the amortized cost of the debt security and its net present value calculated by discounting Sony's best estimate of projected future cash flows at the effective interest rate implicit in the debt security prior to impairment. Any difference between the fair value and the net present value of the debt security at the impairment measurement date is recorded in accumulated other comprehensive income. Unrealized gains or losses on securities for which an other-than-temporary impairment has been recognized in income are presented as a separate component of accumulated other comprehensive income. Before the adoption of this guidance, an other-than-temporary impairment recognized in income for debt securities was equal to the total difference between amortized cost and fair value at the impairment measurement date.

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

***Valuation of inventory***

Sony values its inventory based on the lower of cost or market. Sony writes down inventory in an amount equal to the difference between the cost of the inventory and the net realizable value—i.e., estimated selling price in the ordinary course of business less reasonably predictable costs of completion and disposal. Sony writes down the value of its inventory when the underlying parts, components or products have become obsolete, when inventory levels exceed the amount expected to be used, or when the value of the inventory is otherwise recorded at a higher value than net realizable value. As a result, if actual market conditions are less favorable than projected and further price decreases are needed, additional inventory write-downs may be required in the future.



**Table of Contents*****Impairment of long-lived assets***

Sony reviews the recoverability of the carrying value of its long-lived assets held and used and long-lived assets to be disposed of whenever events or changes in circumstances indicate that the carrying value of the assets or asset groups may not be recoverable. Long-lived assets to be held and used are reviewed for impairment by comparing the carrying value of the asset or asset group with their estimated undiscounted future cash flows. This review is primarily performed using estimates of future cash flows by product category (e.g. LCD televisions) or, in certain cases, by entity. If the carrying value of the asset or asset group is considered impaired, an impairment charge is recorded for the amount by which the carrying value of the asset or asset group exceeds its fair value. Fair value is determined using the present value of estimated net cash flows or comparable market values. This approach uses significant estimates and assumptions including projected future cash flows, the timing of such cash flows, discount rates reflecting the risk inherent in future cash flows, perpetual growth rates applied to determine terminal values, determination of appropriate market comparables and the determination of whether a premium or discount should be applied to comparables.

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

During the fiscal year ended March 31, 2008, Sony recorded impairment charges for long-lived assets totaling 19,413 million yen, which included 6,457 million for impairment of long-lived assets of LCD rear-projection television manufacturing facilities to be held and used worldwide in connection with certain restructuring activities in the CPD segment. Fair value of these assets was determined using estimated future discounted cash flows which were based on the best information available.

The deterioration of the business climate and its continued financial impact on the CPD, NPS and B2B & Disc segments in the second half of calendar year 2008 and into early calendar year 2009 was considered a circumstance which indicated that the carrying amounts of the assets or asset groups in those segments may not have been recoverable. As such, Sony tested the long-lived assets of the CPD, NPS and B2B & Disc segments, which consisted primarily of property, plant and equipment, by comparing carrying values of assets or asset groups with estimated undiscounted future cash flows. Impairment charges as a result of the testing are included in the amounts described below.

During the fiscal year ended March 31, 2009, Sony recorded impairment charges for long-lived assets totaling 17,370 million yen which did not include any individually significant charges. These charges also partially related to restructuring activities, primarily in the CPD segment. The estimates of undiscounted future cash flows for the recoverability testing and discounted cash flows for determining fair value reflected Sony's revised business plans and the deteriorated business climate, particularly the timing and rate of the future business recovery, and required significant judgment.

During the fiscal year ended March 31, 2010, Sony recorded impairment charges for long-lived assets totaling 53,304 million yen. These charges also partially related to restructuring activities undertaken, primarily in the CPD segment. Of the total impairment charges for long lived assets recorded by Sony during the fiscal year ended March 31, 2010, 27,100 million yen related to the LCD televisions assets group within the CPD segment. The impairment charge primarily reflects a decrease in the estimated fair value of property, plant and equipment and certain intangible assets. During the fourth quarter of the fiscal year ended March 31, 2010, management updated its strategic plans, which resulted in decreases in the assets' estimated service periods and corresponding estimated future cash flows leading to the impairment charge.

***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 each fiscal year, and the assets are also tested between the annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of these assets below their carrying amount. Such an event would include unfavorable variances from



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established business plans, significant changes in forecasted results or volatility inherent to external markets and industries, which are periodically reviewed by Sony's management.

Goodwill impairment is determined using a two-step process. The first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. Reporting units are Sony's operating segments or one level below the operating segments. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired and the second step of the impairment test is not performed. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit. Intangible assets that are determined to have an indefinite life are tested for impairment by comparing the fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

Determining the fair value of a reporting unit under the first step of the goodwill impairment test and determining the fair value of individual assets and liabilities of a reporting unit (including unrecognized intangible assets) under the second step of the goodwill impairment test is judgmental in nature and often involves the use of significant estimates and assumptions. Similarly, estimates and assumptions are used in determining the fair value of other intangible assets. These estimates and assumptions could significantly impact whether or not an impairment charge is recognized as well as the magnitude of any such charge. In its impairment review, Sony performs internal valuation analyses or utilizes third-party valuations when management believes it to be appropriate, and considers other market information that is publicly available. Estimates of fair value are primarily determined using a discounted cash flow analysis. This approach uses significant estimates and assumptions including projected future cash flows, the timing of such cash flows, discount rates reflecting the risk inherent in future cash flows, perpetual growth rates applied to determine terminal values, determination of appropriate market comparables and the determination of whether a premium or discount should be applied to comparables. In addition to the estimates of future cash flows, two of the most significant assumptions applied to estimated cash flows involved in the determination of fair value of the reporting units were the discount rates and perpetual growth rates applied to determine terminal values used in the discounted cash flow analysis. The discount rates used in the cash flow models for the goodwill impairment testing considered market and industry data as well as specific risk factors for each reporting unit. The perpetual growth rates for the individual reporting units, for purposes of the terminal value determination, were generally set after an initial three-year forecasted period, although certain reporting units, including the Pictures reporting unit described below, utilized longer forecasted periods, and were based on historical experience, market and industry data.

Except as described below, fair value exceeded the carrying amount of the reporting units with goodwill or intangible assets with an indefinite life, and therefore no impairment existed and the second step of the impairment test was not required. As a result, no material impairments of goodwill or intangible assets with an indefinite life were recorded beyond the impairments described below. When testing goodwill for impairment, consideration was given to Sony's market capitalization in relation to the sum of the calculated fair values of the reporting units, including reporting units with no goodwill, and taking into account corporate level assets and liabilities not assigned to individual reporting units as well as a reasonable control premium.

During the fiscal year ended March 31, 2009, Sony recorded an impairment loss of 7,655 million yen for a reporting unit in All Other, which was related to goodwill recorded for Sony's acquisition of Gracenote, Inc. ( Gracenote ), a company that provides technology and services for digital media identification, enrichment and recommendation. The impairment charge for Gracenote reflected the impact of weakened economic conditions, which resulted in lower growth forecasts for several key markets serviced by Gracenote, including the automotive and mobile communications markets. The valuation of Gracenote also decreased due to the use of a higher discount

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rate in calculating the present value of future cash flows to reflect higher perceived economic risk due to the economic downturn.

The carrying amounts of goodwill by segment as of March 31, 2010 are as follows:

|                               | <b>Yen in millions</b> |
|-------------------------------|------------------------|
| Consumer Products & Devices   | 64,806                 |
| Networked Products & Services | 123,881                |
| B2B & Disc Manufacturing      | 16,071                 |
| Pictures                      | 102,481                |
| Music                         | 109,886                |
| Financial Services            | 2,314                  |
| All Other                     | 19,430                 |
| <b>Total</b>                  | <b>438,869</b>         |

Management believes that the estimates of future cash flows and fair value used in the goodwill impairment tests are reasonable; however, in the future, changes in estimates resulting in lower than currently anticipated cash flows and fair value due to unforeseen changes in business assumptions could negatively affect the valuations, which may result in Sony recognizing impairment charges for goodwill and other intangible assets in the future. In order to evaluate the sensitivity of the fair value calculations on the impairment analysis performed for the fiscal year ended March 31, 2010, Sony applied a hypothetical 10 percent decrease to the fair value of each reporting unit. Other than as it relates to the Pictures reporting unit discussed below, a hypothetical 10 percent decrease to the estimated fair value of each reporting unit would not have resulted in a failure of step one of the goodwill impairment test. In addition, the significant assumptions utilized by management and related uncertainties with respect to the Game reporting unit, which has experienced recent operating losses, are also described below.

*Pictures Reporting Unit*

For the Production and Distribution reporting unit within the Pictures segment, as of March 31, 2010, a hypothetical 10 percent decrease to the estimated fair value of the reporting unit would have resulted in that reporting unit failing the first step of the goodwill impairment test. As of March 31, 2010, this reporting unit had 88,592 million yen of goodwill and the fair value of the reporting unit exceeded the carrying value of the reporting unit by approximately 8 percent. Sony determined the fair value of the reporting unit using a discounted cash flow analysis. The discounted cash flow analysis included the projected cash flows from the most recent three year business plan plus an additional seven years of projected cash flows based off of the three year plan. A terminal value was included in this discounted cash flow analysis. The terminal value was based on an exit price in year ten using an earnings multiple and control premium applied to the projected year ten cash flows. The significant estimates and assumptions used included the discount rate reflecting the risk inherent in future cash flows, growth rates, timing and amount of future cash flows and the earnings multiple.

A discount rate of 9.5 percent was applied to reflect the risks inherent in the future cash flows of the reporting unit and was derived from the weighted average cost of capital of market participants in similar businesses. Changes in the financial markets, such as an increase in interest rates or an increase in the expected required return on equity for the entertainment industry, could increase the discount rate in the future, thus decreasing the fair value of the reporting unit. A hypothetical one percentage point increase in the discount rate, holding all other assumptions constant, would

not have decreased the fair value of the reporting unit below that of its carrying value, thereby resulting in the reporting unit not failing step one of the goodwill impairment test.

The earnings multiple and control premium used to calculate the terminal value was obtained through research analyst estimates and values observed in private market transactions. A decrease in the expected cash flow growth rate or profitability in this industry could decrease the earnings multiple and thus decrease the fair value of the reporting unit.

A number of key assumptions were used in developing the most recent business plan, the future cash flows and the growth rate of the reporting unit including: (1) the current and expected economic climate and its projected

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impact on discretionary consumer spending and the advertising market, (2) the historical decline in DVD sales partially offset by an increase in DVD rental revenue, (3) the continued adoption of Blu-ray Disc™ and digital formats, (4) the continued development and production of event or tent-pole and animated motion picture properties and (5) changes in the cost structure of the reporting unit related to overhead, marketing and motion picture and television production costs. Growth rates assumed beyond the current business plan took into consideration management's outlook for the future and were compared to historical performance to assess reasonableness. The assumed growth rate beyond the current three year business plan was approximately 5 percent. A hypothetical one percentage point decrease in the growth rate, holding all other assumptions constant, would not have decreased the fair value of the reporting unit below that of its carrying value, thereby resulting in the reporting unit not failing step one of the goodwill impairment test.

The following uncertainties are associated with the key assumptions described above and could have a negative effect on the most recent business plan, the future cash flows and the growth rate of the reporting unit:

The cost of productions and marketing, labor costs, consumer acceptance, timing of releases or syndication sales and the availability of competing products and entertainment alternatives could vary from the amounts assumed in Sony's projections.

Incremental deterioration of major retailers, acceleration of the maturation of the DVD format and increasing competition for retailer shelf space could result in a more rapid decline in DVD sales worldwide beyond Sony's expectations.

The reporting unit is subject to digital piracy and illegal downloading, which have become increasingly prevalent with the development of new technologies and the availability of broadband internet connections. The availability of unauthorized content contributes to a decrease in legitimate product sales and puts pressure on the price of legitimate product sales. This could negatively impact the sales and profitability assumptions included in the projections.

Foreign exchange rate fluctuations beyond the rates included in the cash flow estimates could affect financial results of the reporting unit because a large portion of the reporting unit's sales and assets are denominated in currencies other than the U.S. dollar, which is the reporting currency of the reporting unit.

A significant portion of the reporting unit's revenues are from the licensing of its image-based software, including its motion picture and television content, to U.S. and international television networks, which derive a majority of their revenues from the sale of advertising. The reporting unit, to a lesser extent, also directly sells advertising for its image-based software. If the advertising market is negatively impacted compared to the assumptions in the business plan, this could adversely impact the cash flows of the reporting unit.

Due to the inherent uncertainties involved in making the estimates and assumptions used in the fair value analysis summarized above, actual results may differ which could significantly alter the fair value of the reporting unit and possibly cause the reporting unit to fail step one of the goodwill impairment test.

### *Game Reporting Unit*

Fair value for the Game reporting unit, which had 123,881 million yen of goodwill as of March 31, 2010, was estimated using a discounted cash flow analysis including projected cash flows from the most recent three year business plan as well as a terminal value. The estimated fair value for the Game reporting unit at its annual impairment testing date substantially exceeded its carrying value. Sony developed estimates and assumptions to determine the fair value of the reporting unit. These assumptions considered the recent historical operating losses of

the Game reporting unit and management s plans to return to profitability. The significant estimates and assumptions included the timing and amount of future cash flows, the discount rate reflecting the risk inherent in future cash flows and the perpetual growth rate used to calculate the terminal value. These assumptions included (1) the projected growth rate of the game console installed base and the related assumptions regarding (2) projected software revenue, (3) projected peripherals revenue, (4) the continued expansion of the online network business and (5) the pricing of game consoles, particularly the PS3, relative to production cost.

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The following uncertainties are associated with the key assumptions described above and could have a negative effect on the most recent business plan, the future cash flows and the perpetual growth rate of the reporting unit:

The levels of future game console sales, particularly the PS3, are uncertain and subject to competitive market forces, technological advances and timing of the introduction of new features and platforms by Sony and its competitors. PS3 hardware unit sales for the fiscal year ending March 31, 2011 are estimated to reach 15 million units, which is an increase of approximately 2 million units over the previous fiscal year. Future game console sales levels may vary from Sony's projections depending on future pricing, competitors' actions and the introduction of new technologies by Sony and others into the marketplace.

The continued stable cash flows from software sales driven by the growth of the game console installed base, which is projected to offset declines in software revenue from older gaming platforms, could be negatively impacted by declines in future royalties received from third-party software developers, lower game console sales or an inability to provide an attractive line-up of software to customers.

The growth of cash flows from peripherals as new products are introduced, such as motion controllers, could vary from Sony's projections.

The continued expansion of online network cash flows, building upon the networking or functionality of the PS3 and other Sony products, leading to user fees, software, music and video download revenue and ancillary revenue is uncertain and is based on limited historical experience coupled with industry projections. The future growth of the game console installed base, future royalty rates, overall online market growth and the ability to realize synergies from other Sony businesses as connectivity between non-gaming devices increases is projected to exceed revenue reductions resulting from lower sales of older models of game consoles and related software. Such future growth is uncertain and may vary from Sony's estimates.

The timing and level of research and development cash flows for future investments required to provide products that maintain competitiveness could vary from Sony's projections.

Due to the inherent uncertainties involved in making the estimates and assumptions used in the fair value analysis summarized above, actual results may differ which could significantly alter the fair value of the reporting unit.

The uncertainties described above were considered when selecting the perpetual growth rate, which was set after an initial three-year forecasted period, and the discount rate used in the fair value calculation as described above. The perpetual growth rate applied to determine fair value was 1.5 percent, which was based on historical experience as well as anticipated economic conditions, industry data and Sony's long term outlook for the business. These assumptions are inherently uncertain. The discount rate, applied to reflect the risks inherent in the future cash flows of the reporting unit, was 7.6 percent and considered the weighted-average cost of capital of market participants in similar businesses. Changes in the financial markets, such as an increase in interest rates or an increase in the expected required return on equity by market participants within the industry, could increase the discount rate, thus decreasing the fair value of the reporting unit. In order to evaluate the sensitivity of the fair value estimate as it relates to the discount and perpetual growth rates, Sony hypothetically assumed, while holding all other assumptions constant, a combination of a one percentage point increase in the discount rate and a one percentage point decrease in the perpetual growth rate used, both of which would result in lower estimates of fair value, and concluded that the estimated fair value of the reporting unit would continue to substantially exceed the carrying value.

### ***Pension benefit costs***

Employee pension benefit costs and obligations are dependent on certain assumptions including discount rates, retirement rates and mortality rates, which are based upon current statistical data, as well as expected long-term rates of return on pension plan assets and other factors. Specifically, the discount rate and expected long-term rate of return on pension plan assets are two critical assumptions in the determination of periodic pension costs and pension liabilities. Assumptions are evaluated at least annually, or at the time when events occur or circumstances change and these events or changes could have a significant effect on these critical assumptions.



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In accordance with U.S. GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods. Therefore, actual results generally affect recognized costs and the recorded obligations for pensions in future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect Sony's pension obligations and future costs.

Sony's principal pension plans are its Japanese pension plans. No individual foreign pension plan is significant to consolidated pension plan assets and pension obligations.

To determine the benefit obligation of the Japanese pension plans, Sony used a discount rate of 2.3 percent for its Japanese pension plans as of March 31, 2010. The discount rate was determined by using information about rates of return on high-quality fixed-income investments currently available and expected to be available during the period to maturity of the pension benefit obligation in consideration of amounts and timing of cash outflows for expected benefit payments. Such available information about rates of returns is collected from published market information and credit rating agencies. The 2.3 percent discount rate represents a 10 basis point increase from the 2.2 percent discount rate used for the fiscal year ended March 31, 2009 and reflects current Japanese market interest rate conditions. For Japanese pension plans, a 10 basis point decrease in the discount rate would increase pension costs by approximately 0.8 billion yen for the fiscal year ending March 31, 2011.

To determine the expected long-term rate of return on pension plan assets, Sony considers the current and expected asset allocations, as well as historical and expected long-term rates of return on various categories of pension plan assets. Sony's pension investment policy recognizes the expected growth and the variability risk associated with the long term nature of pension liabilities, the returns and risks of diversification across asset classes, and the correlation among assets. The asset allocations are designed to maximize returns consistent with levels of liquidity and investment risk that are considered prudent and reasonable. While the pension investment policy gives appropriate consideration to recent market performance and historical returns, the investment assumptions utilized by Sony are designed to achieve a long term return consistent with the long term nature of the corresponding pension liabilities. For Japanese pension plans, the expected long-term rate of return on pension plan assets was 3.9 percent and 3.6 percent as of March 31, 2009 and 2010, respectively. The actual return on pension plan assets for the fiscal years ended March 31, 2009 and 2010 was a 16.2 percent loss and a 12.4 percent gain, respectively. Actual results that differ from the expected return on pension plan assets are accumulated and amortized as a component of pension costs over the average future service period, thereby reducing the year-to-year volatility in pension costs. As of March 31, 2009 and 2010, Sony had, with respect to Japanese pension plans, net actuarial losses of 338.0 billion yen and 270.2 billion yen, respectively, including losses related to pension plan assets. For the fiscal year ended March 31, 2010, the net actuarial loss decreased since the actual rate of return on pension plan assets exceeds the expected long-term rate of return on pension plan assets.

The following table illustrates the effect on the fiscal year ending March 31, 2011 of changes in the discount rate and the expected return on pension plan assets, while holding all other assumptions as of March 31, 2010 constant, for Japanese pension plans.

| Change in Assumption                                   | Projected Benefit<br>Obligations<br>(Pre-Tax) | Pension<br>Costs<br>(Yen in billions) | Equity<br>(Net of Tax) |
|--|---|---------------------------------------|------------------------|
| 25 basis point increase / decrease in<br>discount rate | -/+27.9                                       | -/+2.0<br>-/+1.3                      | +/-1.2<br>+/-0.7       |

25 basis point increase / decrease in  
expected long-term rate of return on  
pension plan assets

***Deferred tax asset valuation***

Carrying amounts of deferred tax assets require a reduction by a valuation allowance if, based on the available evidence, it is more likely than not that such assets will not be realized. Accordingly, the need to establish a valuation allowance for deferred tax assets is assessed periodically with appropriate consideration given to all

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positive and negative evidence related to the realization of the deferred tax assets. Management's judgments related to this assessment consider, among other matters, the nature, frequency and severity of current and cumulative losses on an individual tax jurisdiction basis, forecasts of future profitability after consideration of uncertain tax positions, excess of appreciated asset value over the tax basis of net assets, the duration of statutory carryforward periods, Sony's experience with operating loss carryforwards not expiring unused, as well as prudent and feasible tax planning strategies which would be employed by Sony, if necessary, to prevent net operating loss carryforwards from expiring unutilized.

As a result of losses incurred in recent years, Sony Computer Entertainment America Inc. (SCEA), Sony Computer Entertainment Europe Limited (SCEE) and Sony United Kingdom Ltd. (SUKL) are each in a three year cumulative pre-tax loss position. On April 1, 2010, as a part of the business restructuring and formation of a new business unit, Sony Computer Entertainment Inc. (SCEI) contributed its game business to a new company and SCEI which operates the network business which had not been contributed, was merged into Sony Corporation after the change of its trade name. Immediately following the Japan restructuring, SCEA was merged into a new entity, a subsidiary of Sony's U.S. holding company, Sony Americas Holding Inc. (SAHI). As a consequence of these reorganizations, the deferred tax assets of SCEI and SCEA are evaluated in the context of the new structure. A cumulative loss position is considered significant negative evidence in assessing the realizability of a deferred tax asset. Sony has concluded that there is sufficient positive evidence to overcome this negative evidence when considering both the reorganization on April 1, 2010 and the use of tax planning strategies. The tax planning strategies include transactions among certain businesses with historically strong earnings and the loss businesses as well as the sales of certain assets that could realize the excess of appreciated value over the tax basis of those assets. Sony believes that the tax planning strategies coupled with future earnings forecasts of the historically profitable entities would produce sufficient taxable income in the legal entities in the future to fully realize the deferred tax assets as of March 31, 2010 (in the U.S., the U.K. and Japan), notwithstanding that some of the expected profitable businesses incurred losses in the fiscal year ended March 31, 2010, as a result of the dramatic changes in worldwide economic conditions, the strengthening of the yen, and restructuring actions undertaken by Sony. Accordingly, no valuation allowance has been recorded for these entities as of March 31, 2010.

Notwithstanding the above, the amount of the deferred tax asset considered realizable could be significantly reduced in the future if estimates of future taxable income from the tax planning strategies and forecasted earnings during the tax loss carryforward period are significantly lower than currently estimated due to deterioration in economic conditions or Sony's failure to achieve its restructuring objectives.

The amount of the deferred tax assets considered realizable as it relates to SCEA, SCEE and SUKL take into account the uncertain tax positions related to the more likely than not adjustments for Sony's intercompany transfer pricing. Such transfer pricing is currently under review by the relevant governments as a result of a competent authority request and applications for Bilateral Advance Pricing Agreements (APAs) filed in the U.S., the U.K. and Japan. Sony is required to estimate the final outcome of those government to government negotiations in recording its tax positions, including the allocation and amount of deferred tax assets among the various legal entities as of March 31, 2010. It is possible that the advance pricing agreement negotiations could result in a different allocation of profits and losses than those estimated by management, and that such allocation could have an adverse impact on the realizability of Sony's deferred tax assets. Sony may record adjustments to its provision for uncertain tax positions, and, accordingly, its valuation allowance assessments, as additional evidence becomes available.

The estimate for the valuation of deferred tax assets, which is based on current tax laws and rates in effect as of March 31, 2010, reflects management's judgment and best estimate of the likely future tax consequences of events that have been recognized in Sony's financial statements and tax returns, the ability to implement various tax planning strategies and, in certain cases, future forecasts, business plans and other expectations about future outcomes. Changes in existing tax laws or rates could affect actual tax results, and market or economic deterioration or failure of

management to achieve its restructuring objectives could affect future business results, either of which could affect the valuation of deferred tax assets over time. If future results are less than projected, if APA negotiations result in a different allocation of profits and losses than currently anticipated, if tax planning alternatives are no longer viable, or if there is no excess appreciated asset value over the tax basis of the assets contemplated for sale, further valuation allowance may be required in the future to reduce the deferred tax assets to

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their net realizable value. These factors and other changes that are not anticipated in current estimates could have a material impact on Sony's earnings or financial condition in the period or periods in which they are recorded.

***Film accounting***

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

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

***Future insurance policy benefits***

Liabilities for future insurance policy benefits are established in amounts adequate to meet the estimated future obligations of policies in force. These liabilities, which require significant management judgment and estimates, are computed by the net level premium method based upon the assumptions as to future investment yield, morbidity, mortality, withdrawals and other factors. Future policy benefits are computed using interest rates ranging from 1.4 percent to 4.7 percent and are based on factors such as market conditions and expected investment returns. Morbidity, mortality and withdrawal assumptions for all policies are based on either the subsidiary's own experience or various actuarial tables. Generally these assumptions are locked-in throughout the life of the contract upon the issuance of new insurance, although significant changes in experience or assumptions may require Sony to provide for expected future losses.

**RECENTLY ADOPTED ACCOUNTING STANDARDS*****Fair value measurements***

In September 2006, the Financial Accounting Standards Board ( FASB ) issued new accounting guidance for fair value measurements. This guidance establishes a framework for measuring fair value, clarifies the definition of fair value, and expands disclosures about the use of fair value measurements. This guidance is applicable to other accounting guidance that requires or permits fair value measurements and does not require any new fair value measurements. In February 2008, the FASB issued supplemental guidance that partially delayed the effective date of the guidance for fair value measurements for Sony until April 1, 2009 for certain nonfinancial assets and liabilities and removed certain leasing transactions from the scope of the guidance. In addition, in October 2008, the FASB issued guidance which clarifies the application of fair value measurements in a market that is not active, and was effective upon issuance. On April 1, 2008, Sony adopted the new accounting guidance for fair value measurements with regards to financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial

statements on a recurring basis. The adoption of the guidance for fair value measurements did not have a material impact on Sony's results of operations and financial position.

*Accounting for collaborative arrangements*

In December 2007, the FASB issued new accounting guidance for collaborative arrangements, which defines collaborative arrangements and establishes accounting and reporting requirements for transactions between

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participants in the arrangement and third parties. A collaborative arrangement is defined as a contractual arrangement that involves a joint operating activity. Sony adopted the provisions of this guidance, which are being applied retrospectively to all periods presented, for all collaborative arrangements on April 1, 2009. The adoption of this guidance did not have a material impact on Sony's results of operations and financial position.

***Business combinations***

In December 2007, the FASB issued new accounting guidance for business combinations, which principally applies on a prospective basis to business combinations for which the acquisition date is on or after April 1, 2009. This guidance 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 acquired and liabilities assumed in a business combination to be measured and recognized at their fair values as of the acquisition date, with limited exceptions. Also, under this guidance, changes in deferred tax asset valuation allowances and acquired income tax uncertainties after the acquisition date generally will affect income tax expense in periods subsequent to the acquisition date. Adjustments made to valuation allowances of deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to April 1, 2009 would also apply the provisions of this guidance with subsequent adjustments reflected through the results of operations. The adoption of this guidance did not have a material impact on Sony's results of operations and financial position.

In April 2009, the FASB issued new accounting guidance for assets acquired and liabilities assumed in a business combination that arise from contingencies. This guidance addresses the initial recognition, measurement and subsequent accounting for assets and liabilities arising from contingencies in a business combination, and requires that such assets acquired or liabilities assumed be initially recognized at fair value at the acquisition date if fair value can be determined during the measurement period. If the acquisition-date fair value cannot be determined, the asset acquired or liability assumed arising from a contingency is recognized only if certain criteria are met. For Sony, this guidance is effective for assets acquired or liabilities assumed arising from contingencies in business combinations for which the acquisition date is on or after April 1, 2009. The adoption of this guidance did not have a material impact on Sony's results of operations and financial position.

***Noncontrolling interests in consolidated financial statements***

In December 2007, the FASB issued new accounting guidance for noncontrolling interests in consolidated financial statements. This guidance requires that the noncontrolling interests 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 interests 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. As required, Sony adopted this guidance on April 1, 2009, via retrospective application of the financial statement presentation and related disclosure requirements. Upon the adoption of this guidance, noncontrolling interests, which were previously referred to as minority interest and classified between total liabilities and stockholders' equity on the consolidated balance sheets, are now included as a separate component of total equity. In addition, the net income (loss) on the consolidated statements of income now includes the net income (loss) attributable to noncontrolling interests. Consistent with the retrospective application required by this guidance, the prior year amounts in the consolidated financial statements have been reclassified or adjusted to conform to the current presentation. As a result of the reclassifications, the stockholders' equity on the consolidated balance sheet for the fiscal year ended at March 31, 2009 has increased by 251,949 million yen and the net income on the consolidated statement of income for the fiscal year ended March 31, 2008 has decreased by 5,779 million yen and the net loss on the consolidated statement of income for the fiscal year ended March 31, 2009 has increased by 3,276 million yen.

In January 2010, the FASB issued supplemental guidance clarifying the accounting for decreases in ownership interests and expanding the disclosure requirements about the deconsolidation of a subsidiary or deconsolidation of a group of assets. The adoption of this guidance did not have a material impact on Sony's results of operations and financial position.



**Table of Contents*****Determination of the useful life of intangible assets***

In April 2008, the FASB issued new accounting guidance for the determination of the useful life of intangible assets, which amends the list of factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets. This new guidance applies to (1) intangible assets that are acquired individually or with a group of other assets and (2) intangible assets acquired in both business combinations and asset acquisitions. Under this new guidance, entities estimating the useful life of a recognized intangible asset must consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension. For Sony, this new guidance applies to intangible assets acquired after March 31, 2009. The adoption of this new guidance did not have a material impact on Sony's results of operations and financial position.

***Equity method investment accounting considerations***

In November 2008, the FASB issued new accounting guidance, which addresses certain effects that the guidance for business combinations and noncontrolling interests in consolidated financial statements has on an entity's accounting for equity-method investments. This guidance indicates, among other things, that transaction costs for an investment should be included in the cost of the equity-method investment (and not expensed) and shares subsequently issued by the equity-method investee that reduce the investor's ownership percentage should be accounted for as if the investor had sold a proportionate share of its investment, with gains or losses recorded through earnings. Sony adopted this guidance on April 1, 2009. The adoption of this guidance did not have a material impact on Sony's results of operations and financial position.

***Postretirement benefit plan asset disclosures***

In December 2008, the FASB issued new disclosure guidance regarding postretirement benefit plan assets. This guidance requires additional disclosures about plan assets for sponsors of defined benefit pension and postretirement plans including expanded information regarding investment strategies, major classes of plan assets, and concentrations of risk within plan assets. Additionally, this guidance requires disclosures similar to those required for fair value measurements with respect to the fair value of plan assets such as the inputs and valuation techniques used to measure fair value and information with respect to classification of plan assets in terms of the hierarchy of the source of information used to determine their value. For Sony, the disclosures under this guidance are required beginning with the fiscal year ended March 31, 2010, but are not required for the earlier periods. Since this guidance impacts only disclosure, its adoption has no impact on Sony's results of operations and financial position. The additional disclosures are included in Note 15 to the notes to the consolidated financial statements.

***Recognition and presentation of other-than-temporary impairments for debt securities***

In April 2009, the FASB issued new accounting guidance for the recognition and presentation of other-than-temporary impairments for debt securities. This guidance is intended to provide greater clarity to investors about the credit and noncredit component of an other-than-temporary impairment event and to more effectively communicate when an other-than-temporary impairment event has occurred. This guidance requires the separate display of losses related to credit deterioration and losses related to other market factors. When an entity does not intend to sell a debt security and it is more likely than not that the entity will not have to sell the debt security before recovery of its cost basis, it must recognize the credit component of an other-than-temporary impairment in earnings and the remaining portion in other comprehensive income. In addition, upon the adoption of this guidance, an entity is required to record a cumulative-effect adjustment as of the beginning of the period of adoption to reclassify the noncredit component of a previously recognized other-than-temporary impairment from retained earnings to accumulated other comprehensive

income. Sony adopted this guidance on April 1, 2009. The adoption of this guidance did not have a material impact on Sony's results of operations and financial position.

***Fair value measurements when there is no active market***

In April 2009, the FASB issued new accounting guidance for determining fair value when there is no active market for an asset or when the pricing inputs used in determining the fair value of an asset represent a distressed sale. This guidance also reaffirms that the objective of fair value measurement is to reflect an asset's sale price in an orderly transaction at the date of the financial statements. This guidance was effective for Sony as of April 1, 2009,

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and was applied prospectively. The adoption of this guidance did not have a material impact on Sony's results of operations and financial position.

### ***Accounting Standards Codification***

In June 2009, the FASB issued the Accounting Standards Codification (the Codification). The Codification became the single source for all authoritative U.S. GAAP recognized by the FASB. The Codification is effective for financial statements issued for periods ending after September 15, 2009. The Codification does not change U.S. GAAP and did not have an effect on Sony's results of operations and financial position.

### ***Measuring liabilities at fair value***

In August 2009, the FASB issued new accounting guidance for measuring liabilities at fair value. This guidance clarifies how the fair value measurement principles should be applied to measuring liabilities carried at fair value. This guidance describes how to measure liabilities at fair value when quoted prices for identical liabilities in active markets are not available and clarifies that an entity should not make an adjustment to fair value for a restriction that prevents the transfer of the liability. This guidance was effective for interim and annual periods beginning after issuance. The adoption of this guidance did not have a material impact on Sony's results of operations and financial position.

### ***Investments in certain entities that calculate net asset value per share (or its equivalent)***

In September 2009, the FASB issued new accounting guidance for investments in certain entities that calculate net asset value per share (or its equivalent). This guidance permits, as a practical expedient, an entity to measure the fair value of an investment using the net asset value per share of the investment (or its equivalent) provided by the investee without further adjustment if the investment companies do not have readily determinable fair values as is the case with certain alternative investment funds. This guidance was effective for interim and annual periods ended after December 15, 2009. The adoption of this guidance did not have a material impact on Sony's results of operations and financial position.

### ***Fair value measurements disclosures***

In January 2010, the FASB issued new disclosure guidance regarding fair value measurements. This guidance adds new requirements for disclosures related to transfers into and out of level 1 and 2 in the fair value hierarchy, and separate disclosures about purchase, sales, issuances, and settlements relating to level 3 investment measurements. It also clarifies existing fair value disclosures about the level of disaggregation, as well as inputs and valuation techniques used to measure fair value. This guidance was effective for interim and annual periods beginning after December 15, 2009, except for the requirement to provide the level 3 activity of purchase, sales, issuance, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Since this guidance impacts disclosures only, its adoption has no impact on Sony's results of operations and financial position.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

### ***Multiple element arrangements and software deliverables***

In October 2009, the FASB issued new accounting guidance for arrangements with multiple deliverables. Specifically, the new standard requires an entity to allocate consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices. In the absence of the vendor-specific objective evidence or

third-party evidence of the selling prices, consideration must be allocated to the deliverables based on management's best estimate of the selling prices. In addition, the guidance eliminates the use of the residual method of allocation. Also in October 2009, the FASB issued accounting guidance which changes revenue recognition for tangible products containing software and hardware elements. Specifically, tangible products containing software and hardware that function together to deliver the tangible products' essential functionality are scoped out of the existing software revenue recognition guidance and will be accounted for under the revenue recognition guidance for multiple element arrangements. While it is mandatory for Sony to adopt this new guidance prospectively for

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revenue arrangements entered into or materially modified in fiscal years beginning April 1, 2011, early adoption is permitted. Sony is currently evaluating the potential early adoption of this guidance. The adoption is not expected to have a material impact on Sony's results of operations and financial position.

***Transfers of financial assets***

In June 2009, the FASB issued new accounting guidance on accounting for transfers of financial assets. This guidance amends previous guidance by including: the elimination of the qualifying special-purpose entity (QSPE) concept; a new participating interest definition that must be met for transfers of portions of financial assets to be eligible for sale accounting; clarifications and changes to the derecognition criteria for a transfer to be accounted for as a sale; and a change to the amount of recognized gain or loss on a transfer of financial assets accounted for as a sale when beneficial interests are received by the transferor. Additionally, the guidance requires new disclosures regarding an entity's involvement in a transfer of financial assets. Finally, existing QSPEs must be evaluated for consolidation in accordance with the applicable consolidation guidance upon the elimination of this concept. This guidance is effective for Sony as of April 1, 2010. The adoption of this guidance is not expected to have a material impact on Sony's results of operations and financial position.

***Variable interest entities***

In June 2009, the FASB issued new accounting guidance for determining whether to consolidate a variable interest entity (VIE). This guidance changes the approach for determining the primary beneficiary of a VIE from a quantitative risk and reward model to a qualitative model based on control, and requires an ongoing reassessment of whether an entity is the primary beneficiary. This guidance is effective for Sony as of April 1, 2010. The adoption of this guidance is not expected to have a material impact on Sony's results of operations and financial position.

**Item 6. *Directors, Senior Management and Employees*****Directors and Senior Management**

Set forth below are the current members of the Board of Directors and Corporate Executive Officers of Sony Corporation, their date of birth, the year in which they were first elected, their current position at Sony, prior positions, and other principal business activities outside Sony as of June 28, 2010.

**Board of Directors****Sir Howard Stringer**

Date of Birth: February 19, 1942

Director (Member of the Board) Since: 1999

Corporate Executive Officer Since: 2003

Current Positions within Sony: Chairman, Chief Executive Officer and President, Representative Corporate Executive Officer  
Chairman and Chief Executive Officer, Sony Corporation of America  
Member of the Nominating Committee

**Prior Positions:**

2005 Chairman and Chief Executive Officer, Sony Corporation

2003 Vice Chairman, Chief Operating Officer in charge of Entertainment Business Group, Sony Corporation

1997 President, Sony Corporation of America  
1995 Chairman and Chief Executive Officer, TELE-TV  
1988 President, CBS Broadcast Group, CBS Inc.  
1986 President, CBS News

Principal Business Activities Outside Sony: None

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**Ryoji Chubachi**

Date of Birth: September 4, 1947

Director (Member of the Board) Since: 2005

Corporate Executive Officer Since: 2004

Current Positions within Sony: Vice Chairman, Representative Corporate Executive Officer  
Member of the Nominating Committee  
Officer in charge of Product Quality & Safety and Environmental Affairs

Prior Positions:

2005 President and Electronics Chief Executive Officer, Sony Corporation

2004 Executive Deputy President, Sony Corporation

2003 Executive Vice President, Executive Officer, Sony Corporation

2002 Corporate Senior Vice President, Sony Corporation

1999 Corporate Vice President, Sony Corporation

1977 Entered Sony Corporation

Principal Business Activities Outside Sony: None

**Yotaro Kobayashi**

Date of Birth: April 25, 1933

Outside Director (Member of the Board) Since: 2003

Current Positions within Sony: Chairman of the Board and Chair of the Nominating Committee

Principal Business Activities Outside Sony:

Director, Nippon Telegraph and Telephone Corporation

Director, Callaway Golf Company

Prior Positions:

2006 Chief Corporate Advisor, Fuji Xerox Co., Ltd.

1999 Chairman of the Board, Fuji Xerox Co., Ltd.

1992 Chairman and Chief Executive Officer, Fuji Xerox Co., Ltd.

1987 Director, Xerox Corporation

1978 President and Chief Executive Officer, Fuji Xerox Co., Ltd.

**Yoshiaki Yamauchi**

Date of Birth: June 30, 1937

Outside Director (Member of the Board) Since: 2003

Current Position within Sony: Chair of the Audit Committee

Principal Business Activities Outside Sony:

Statutory Corporate Auditor, Stanley Electric Co., Ltd.

Director, amana holdings inc.

Prior Positions:

2002 Director, Sumitomo Mitsui Financial Group, Inc.

2001 Director, Sumitomo Mitsui Banking Corporation

1999 Director, Sumitomo Banking Corporation

1993 Executive Director, Asahi & Co.

1991 President, Inoue Saito Eiwa Audit Corporation

1986

President, Eiwa Audit Corporation  
Country Managing Partner - Japan, Arthur Andersen & Co.



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**Sir Peter Bonfield**

Date of Birth: June 3, 1944

Outside Director (Member of the Board) Since: 2005

Current Position within Sony: Member of the Nominating Committee

Principal Business Activities Outside Sony:

Chairman of the Supervisory Board, NXP B.V.

Director, Telefonaktiebolaget LM Ericsson, Sweden

Director, Mentor Graphics Corporation

Director, Taiwan Semiconductor Manufacturing Company Ltd.

Director, Actis Capital LLP

Prior Positions:

1996 Chief Executive Officer, British Telecom plc

1986 Chairman, ICL plc, U.K.

1984 Managing Director, ICL plc, U.K.

**Fujio Cho**

Date of Birth: February 2, 1937

Outside Director (Member of the Board) Since: 2006

Current Position within Sony: Member of the Nominating Committee

Principal Business Activities Outside Sony:

Representative Director, Chairman of the Board, Toyota Motor Corporation

Corporate Auditor, DENSO Corporation

Director, Central Japan Railway Company

Prior Positions:

2005 Vice Chairman, Toyota Motor Corporation

1999 President, Toyota Motor Corporation

**Ryuji Yasuda**

Date of Birth: April 28, 1946

Outside Director (Member of the Board) Since: 2007

Current Positions within Sony: Chair of the Compensation Committee

Director, Sony Financial Holdings Inc.

Principal Business Activities Outside Sony:

Professor, Graduate School of International Corporate Strategy, Hitotsubashi University

Director, Daiwa Securities Group Inc.

Director, Fukuoka Financial Group, Inc.

Director, Yakult Honsha Co., Ltd.

Prior Positions:

2006 Director, VANTEC CORPORATION

2005 Director, Fuji Fire and Marine Insurance Co., Ltd.

2003 Chairman, J-Will Partners Co., Ltd.

1996 Managing Director and Chairman, A.T. Kearney, Asia

1991 Director, McKinsey & Company

1986

Principal Partner, McKinsey & Company

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**Yukako Uchinaga:**

Date of Birth: July 5, 1946

Outside Director (Member of the Board) Since: 2008

Principal Business Activities Outside Sony:

Director and Executive Vice President, Benesse Holdings, Inc.

Chairman of the Board, Chief Executive Officer and President, Berlitz International, Inc.

Auditor, Sompo Japan Insurance Inc.

Chairman, Japan Women's Innovative Network

Prior Positions:

2008 Director and Vice Chairman, Benesse Corporation

2007 Technical Advisor, IBM Japan, Ltd.

2004 Senior Managing Director, IBM Japan, Ltd.

**Mitsuaki Yahagi**

Date of Birth: March 3, 1948

Outside Director (Member of the Board) Since: 2008

Current Position within Sony: Member of the Audit Committee

Principal Business Activities Outside Sony:

Representative Director and Chairman of the Board, The Japan Research Institute, Limited

Corporate Auditor, Toray Industries, Inc.

Corporate Auditor, Mitsui Engineering & Shipbuilding Co., Ltd.

Prior Positions:

2005 Deputy President, Sumitomo Mitsui Banking Corporation

2003 Director, Sumitomo Mitsui Financial Group, Inc.

1998 Director, The Sakura Bank, Ltd.

**Tsun-Yan Hsieh**

Date of Birth: December 29, 1952

Outside Director (Member of the Board) Since: 2008

Current Position within Sony: Member of the Compensation Committee

Principal Business Activities Outside Sony: Director Emeritus, McKinsey & Company

Prior Positions:

2000 Managing Director, Southeast Asia, McKinsey & Company

1997 Managing Director, Canada, McKinsey & Company

1990 Senior Partner, McKinsey & Company

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**Roland A. Hernandez**

Date of Birth: September 29, 1957

Outside Director (Member of the Board) Since: 2008

Current Position within Sony: Member of the Nominating Committee

Principal Business Activities Outside Sony:

Director, The Ryland Group, Inc.

Director, MGM Mirage, Inc.

Director, Vail Resorts, Inc.

Prior Positions:

1998 Chairman & Chief Executive Officer, Telemundo Group, Inc.

1995 President & Chief Executive Officer, Telemundo Group, Inc.

1986 Founder & President, Interspan Communications

**Kanemitsu Anraku**

Date of Birth: April 21, 1941

Outside Director (Member of the Board) Since: 2010

Current Position within Sony: Member of the Audit Committee

Principal Business Activities Outside Sony:

Director, Mizuho Financial Group, Inc.

Prior Positions:

2002 Representative Director and President, Nissan Real Estate Development Co., Ltd.

2000 Vice Chairman, Nissan Motor Co., Ltd.

1999 Representative Director and Executive Vice President, Nissan Motor Co., Ltd.

**Yorihiko Kojima**

Date of Birth: October 15, 1941

Outside Director (Member of the Board) Since: 2010

Current Position within Sony: Member of the Nominating Committee

Principal Business Activities Outside Sony:

Chairman of the Board, Mitsubishi Corporation

Director, NISSIN FOODS HOLDINGS CO., LTD.

Director, Mitsubishi Heavy Industries, Ltd.

Prior Positions:

2004 Member of the Board, President, Chief Executive Officer, Mitsubishi Corporation

2001 Member of the Board, Senior Executive Vice President, Group Chief Executive Officer, New Business Initiative Group, Mitsubishi Corporation

2000 Managing Director, Group Chief Executive Officer, New Business Initiative Group, Mitsubishi Corporation

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**Osamu Nagayama**

Date of Birth: April 21, 1947

Outside Director (Member of the Board) Since: 2010

Current Position within Sony: Member of the Compensation Committee

Principal Business Activities Outside Sony:

Chairman of the Board, President and Chief Executive Officer,  
Chugai Pharmaceutical Co., Ltd.

Prior Positions:

1989 Executive Deputy President, Chugai Pharmaceutical Co., Ltd.

1985 Deputy General Manager of the Development Planning Division, Director of the Business Planning  
Division, Member of the Board, Chugai Pharmaceutical Co., Ltd.

**Corporate Executive Officers**

In addition to Messrs. Stringer and Chubachi, the six individuals set forth below are the current Corporate Executive Officers of Sony Corporation as of June 28, 2010. Refer to Board Practices below.

**Yutaka Nakagawa**

Date of Birth: December 4, 1945

Corporate Executive Officer Since: 2005

Current Positions within Sony: Executive Deputy President, Officer in charge of Manufacturing, Logistics,  
Procurement and CS Platform for the electronics and game businesses.

Prior Positions:

1999 Corporate Senior Vice President, Sony Corporation

1997 Corporate Vice President, Sony Corporation

1968 Entered Sony Corporation

Principal Business Activities Outside Sony: None

**Hiroshi Yoshioka**

Date of Birth: October 26, 1952

Corporate Executive Officer Since: 2009

Current Positions within Sony: Executive Deputy President, Officer in charge of Consumer Products,  
Professional Solutions, and Devices businesses

Prior Positions:

2008 Executive Vice President, Sony Corporation

2005 Senior Vice President, Sony Corporation

2003 Corporate Vice President, Sony Ericsson Mobile Communications AB

2001 President, Sony Ericsson Mobile Communications Japan, Inc.

1979 Entered Sony Corporation

Principal Business Activities Outside Sony: None

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**Keiji Kimura**

Date of Birth: April 4, 1952

Corporate Executive Officer Since: 2004

Current Positions within Sony: Executive Vice President, Officer in charge of Intellectual Property, and the Disc Manufacturing business

Prior Positions:

2004 Senior Executive Vice President, Sony Corporation  
2003 Senior Vice President, Executive Officer, Sony Corporation  
2002 Corporate Senior Vice President, Sony Corporation  
2000 Corporate Vice President, Sony Corporation  
1977 Entered Sony Corporation

Principal Business Activities Outside Sony: None

**Nicole Seligman**

Date of Birth: October 25, 1956

Corporate Executive Officer Since: 2003

Current Positions within Sony: Executive Vice President and General Counsel  
Executive Vice President and General Counsel, Sony Corporation of America

Prior Positions:

2003 Group Deputy General Counsel, Sony Corporation  
2000 Entered Sony Corporation of America as Executive Vice President and General Counsel  
1992 Partner, Williams & Connolly LLP  
1985 Entered Williams & Connolly LLP  
1978 Associate Editorial Page Editor for The Asian Wall Street Journal, Hong Kong

Principal Business Activities Outside Sony: None

**Kazuo Hirai**

Date of Birth: December 22, 1960

Corporate Executive Officer Since: 2009

Current Positions within Sony: Executive Vice President, Officer in charge of Networked Products & Services businesses  
President and Group Chief Executive Officer, Sony Computer Entertainment Inc.

Prior Positions:

2006 Group Executive Officer, Sony Corporation  
President and Group Chief Operating Officer, Sony Computer Entertainment Inc.  
2003 President and Chief Executive Officer, Sony Computer Entertainment America  
1995 Joined Sony Computer Entertainment America  
1984 Entered CBS/Sony Inc. (currently Sony Music Entertainment (Japan) Inc.)

Principal Business Activities Outside Sony: None

**Table of Contents****Masaru Kato**

Date of Birth: February 22, 1952

Corporate Executive Officer Since: 2010

Current Positions within Sony: Executive Vice President, CFO  
Director, Sony Financial Holdings Inc.

## Prior Positions:

2009 Senior Vice President, Corporate Executive, Deputy CFO, Sony Corporation  
 2005 Representative Director of the Board, Sony Computer Entertainment Inc.  
 2004 Deputy President and Group Chief Financial Officer, Sony Computer Entertainment Inc.  
 2000 Member of the Board, Sony Computer Entertainment Inc.  
 1994 Joined Sony Computer Entertainment Inc.  
 1977 Entered Sony Corporation

Principal Business Activities Outside Sony: None

Howard Stringer, Ryoji Chubachi, Yutaka Nakagawa, Hiroshi Yoshioka, Keiji Kimura, Nicole Seligman, Kazuo Hirai and Masaru Kato are engaged on a full-time basis by Sony. There is no family relationship between any of the persons named above. There is no arrangement or understanding with major shareholders, customers, suppliers, or others pursuant to which any person named above was selected as a Director or a Corporate Executive Officer.

**Compensation**

Under the Financial Instruments and Exchange Act of Japan and ordinances thereunder, for fiscal years beginning with the fiscal year ended March 31, 2010, Sony is required to disclose the total remuneration paid by Sony Corporation itself to Directors and Corporate Executive Officers, as well as remuneration of any Director or Corporate Executive Officer who receives total aggregate annual remuneration exceeding 100 million yen from Sony Corporation and its subsidiaries, on an individual basis, in a fiscal year. The following table and accompanying footnotes show the information on such matters that Sony has disclosed in its annual Securities Report for the fiscal year ended March 31, 2010 filed on June 28, 2010 with the Financial Services Agency of Japan.

(1) Total amounts of remuneration paid by Sony Corporation itself to Directors and Corporate Executive Officers

|                                    | Fixed Remuneration   |                             | Bonus linked to business results |                             | Retirement Allowances<br>(including Phantom Restricted<br>Stock Plan) |                             |
|------------------------------------|----------------------|-----------------------------|----------------------------------|-----------------------------|---|-----------------------------|
|                                    | Number of<br>persons | Amount<br>(Yen in millions) | Number of<br>persons             | Amount<br>(Yen in millions) | Number of<br>persons  | Amount<br>(Yen in millions) |
| Directors                          | 12<br>(*)            | 181                         |                                  | (**)                        | 3   | 34<br>(***)                 |
| (Outside Directors)                | (12)                 | (181)                       | ( )                              | ( )                         | (3)   | (34)                        |
| Corporate<br>Executive<br>Officers | 8                    | 650<br>(****)               | 8                                | 324<br>(*****)              | 1   | 47<br>(***)                 |
| Total                              | 20                   | 831                         | 8                                | 324                         | 4   | 81                          |

\* The number of persons does not include three Directors who concurrently serve as Corporate Executive Officers, because Sony Corporation does not pay any additional remuneration for services as Director to Directors who concurrently serve as Corporate Executive Officers.

\*\* Sony Corporation does not pay bonuses linked to business results to Directors who do not concurrently serve as Corporate Executive Officers.

\*\*\* The amount of Retirement Allowances (including the Phantom Restricted Stock Plan) includes the amount that was paid to three Directors and a Corporate Executive Officer who resigned their offices in June 2010. Of the



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amount Sony Corporation paid as Retirement Allowances, the amount paid under the Phantom Restricted Stock Plan was calculated using the average market price of Sony Corporation's common stock for ten consecutive business days immediately prior to the date of resignation (June 18, 2010). For details of the Phantom Restricted Stock Plan, please see item (3) Basic policy regarding remuneration for Directors and Corporate Executive Officers below.

\*\*\*\* This amount does not include certain expenditures by Sony that either do not provide an economic benefit to the affected officers, including those incurred as a result of the imposition of income taxes on the relevant officers concurrently in the U.S. and Japan, or are related to the performance of an executive's duties. The same applies to table (2) below.

\*\*\*\*\* The amount includes bonuses linked to business results for the fiscal year ended March 31, 2010 that were paid in June 2010, but excludes the amount paid in June 2009 as bonuses linked to business results for the fiscal year ended March 31, 2009 (a total of 74 million yen for 4 Corporate Executive Officers).

\*\*\*\*\* In addition to the above, during the fiscal year ended March 31, 2010 Sony Corporation issued Stock Acquisition Rights for the purpose of granting stock options to Directors and Corporate Executive Officers and recorded 15 million yen in expenses for Directors (15 million yen for Outside Directors) and 578 million yen in expenses for Corporate Executive Officers. Such amount includes the amount that was recorded in the fiscal year ended March 31, 2010 for Stock Acquisition Rights granted in the past and vested to the retired Directors or Corporate Executive Officers. (Please also see Share Ownership in this Item 6.)

(2) Amounts of remuneration paid by Sony Corporation and its subsidiaries to Directors and Corporate Executive Officers on an individual basis

| Name            | Position   | Basic Remuneration (Yen in millions) | Bonus linked to business results (Yen in millions) | Retirement Allowances (including phantom restricted stock plan) (Yen in millions) | Total (Yen in millions) | Granted Number of Stock Acquisition Rights* (Thousand Shares) |
|-----------------|--|--------------------------------------|--|---|-------------------------|---|
| Howard Stringer | Sony Corporation Chairman, CEO & President, and Representative Corporate Executive Officer | 206 (**)                             | 66   |   | 408                     | 500   |
|                 | Sony Corporation of America Chairman & CEO   | 102                                  | 34   |   |                         |   |
| Ryoji Chubachi  |  | 83                                   | 65   |   | 148                     | 80  |

Sony  
Corporation  
Vice Chairman  
and  
Representative  
Corporate  
Executive  
Officer

Sony  
Corporation  
Former  
Executive  
Deputy  
President &  
CFO and  
Representative  
Corporate  
Executive  
Officer (until  
June 18, 2010)

Nobuyuki Oneda

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41

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| Name             | Position  | Basic<br>Remuneration<br>(Yen in<br>millions) | Bonus linked<br>to<br>business results<br>(Yen in<br>millions) | Retirement<br>Allowances<br>(including phantom<br>restricted stock<br>plan)<br>(Yen in<br>millions) | <b>Total<br/>(Yen in<br/>millions)</b> | Granted<br>Number of<br>Stock Acquisition<br>Rights*<br>(Thousand<br>Shares) |
|------------------|---|---|--|---|--|--|
| Yutaka Nakagawa  | Sony Corporation<br>Executive Deputy<br>President   | 60  | 43   |   | <b>103</b>                             | 30   |
| Hiroshi Yoshioka | Sony Corporation<br>Executive Deputy<br>President   | 55  | 40   |   | <b>95</b>                              | 50   |
| Nicole Seligman  | Sony Corporation<br>EVP & General<br>Counsel  | 96<br>(**)                                    | 26   |   | <b>183</b>                             | 30   |
|                  | Sony Corporation<br>of America EVP<br>& General<br>Counsel                                    | 47  | 14   |   |  |  |
|                  | Sony Corporation<br>EVP   | 35<br>(**)                                    | 20   |   | <b>110</b>                             | 50   |
| Kazuo Hirai      | Sony Computer<br>Entertainment Inc.<br>Representative<br>Director, President<br>and Group CEO | 35  | 20   |   |  |  |

\* The weighted-average fair value per share at the date of grant of stock acquisition rights granted during the fiscal year ended March 31, 2010 was 813 yen and was estimated using the Black-Scholes option-pricing model with several assumptions. Refer to Note 17 to the notes to the consolidated financial statements on page F-62 of this report for details. The weighted-average fair value per share does not indicate the actual value that would be realized by a Director or Corporate Executive Officer upon the exercise of the above-mentioned stock acquisition rights. The actual value, if any, that is realized by a Director or Corporate Executive Officer upon the exercise of any stock acquisition rights will depend on the extent to which the market value of Sony Corporation's Common Stock exceeds the exercise price of the stock acquisition rights on the date of exercise, and several other restrictions imposed on the exercise of the stock acquisition rights, including the period when a Director or a Corporate Executive Officer could exercise the stock acquisition rights. Accordingly, there is no assurance that the value realized or to be realized by a Director or Corporate Executive Officer upon the exercise of the stock acquisition rights is or will be at or near the weighted-average fair value per share presented above. In addition, the above weighted-average fair value per share was calculated to recognize compensation expense for the fiscal year ended March 31, 2010 for accounting purposes

and should not be regarded as any indication or predictor of future stock performance.

\*\* Apart from the remuneration contained in the above table, Sony also provided certain of its Corporate Executive Officers with certain personal benefits and perquisites, including fringe benefits (and in some instances the Company paid the Executive Officer's income taxes related to their perquisites), during the fiscal year ended March 31, 2010: for Howard Stringer Chairman, CEO & President, Sony Corporation 7 million yen / Sony Corporation of America 4 million yen; for Nicole Seligman EVP, Sony Corporation 10 million yen / Sony Corporation of America 5 million yen; and for Kazuo Hirai EVP, Sony Corporation 3 million yen / Sony Computer Entertainment Inc. 3 million yen.

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(3) Basic policy regarding remuneration for Directors and Corporate Executive Officers

The basic policy regarding remuneration for Directors and Corporate Executive Officers, as determined by the Compensation Committee, is as follows:

(a) Basic policy of Director remuneration

Taking into account that the main duty of the Directors is to supervise the performance of business operations of Sony and the fact that Sony Corporation is a global company, in order to improve such function of the Directors, the following two elements constitute the basic policy for the determination of the remuneration of Directors:

Attracting and retaining an adequate talent pool of Directors possessing the requisite abilities to excel in the global marketplace; and

Ensuring the effectiveness of the supervisory function of the Directors

Based upon the above, the remuneration of Directors shall consist of the following three components:

Fixed remuneration;

Remuneration linked to share price; and

Phantom Restricted Stock Plan.

The schedule for the amount of each component and its percentage of total remuneration shall be determined in conformance with the basic policy above. Remuneration of Directors shall be at an appropriate level determined based upon research by a third party regarding remuneration of directors of both domestic and foreign companies. Director remuneration shall not be paid to those Directors who concurrently serve as Corporate Executive Officers.

Regarding the Phantom Restricted Stock Plan which was introduced in the fiscal year ended March 31, 2006, points fixed every year by the Compensation Committee shall be granted to Directors every year during his/her tenure, and at the time of resignation, the remuneration amount shall be calculated by multiplying Sony Corporation's common stock price by accumulated points. The resigning Director shall purchase Sony Corporation's common stock with this remuneration.

(b) Basic policy of Corporate Executive Officer remuneration

Taking into account that Corporate Executive Officers are key members of management responsible for executing the business operations of Sony, in order to further improve the business results of Sony Corporation, the following two elements shall constitute the basic policy for the determination of the remuneration of Corporate Executive Officers:

Attracting and retaining an adequate talent pool of Corporate Executive Officers possessing the requisite abilities to excel in the global marketplace; and

Providing effective incentives to improve business results on a short term, medium and long term basis.

Based upon the above, remuneration of Corporate Executive Officers shall consist of the following four components:

Fixed remuneration;

Bonus linked to business results;

Remuneration linked to share price; and

Phantom Restricted Stock Plan.

The schedule for the amount of each component and its percentage of total remuneration shall be determined in conformance with the above basic policy with an emphasis on linking remuneration to business results and shareholder value. Remuneration of Corporate Executive Officers shall be at an appropriate level determined based upon research by a third party regarding remuneration of management of both domestic and foreign companies.

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Specifically, the amount of bonus linked to business results shall be determined based upon consolidated business results of Sony Corporation, such as operating margin and the level of achievement in respect of the business area(s) for which the relevant Corporate Executive Officer is responsible, and the amount paid to Corporate Executive Officers shall fluctuate within the range from 0 percent to 200 percent of the base fixed remuneration amount.

Regarding the Phantom Restricted Stock Plan which was introduced in the fiscal year ended March 31, 2006, points fixed every year by the Compensation Committee shall be granted to Corporate Executive Officers\* every year during his/her tenure in office, and at the time of resignation, the remuneration amount shall be calculated by multiplying Sony Corporation's common stock price by accumulated points. The resigning Corporate Executive Officer shall purchase Sony Corporation's common stock with this remuneration.

\* Corporate Executive Officers, other than Stringer Chairman, CEO & President, Seligman EVP and Hirai EVP, are entitled to participate in the Phantom Restricted Stock Plan. Mr. Stringer, Ms. Seligman and Mr. Hirai instead are covered under separate pension plans provided by Sony's subsidiaries in the United States.

## **Board Practices**

Sony Corporation has adopted a Company with Committees corporate governance system under the Companies Act of Japan (*Kaishaho*) and related regulations (collectively the Companies Act). Under this system, Sony Corporation has three committees: the Nominating Committee, the Audit Committee and the Compensation Committee. Under the Companies Act, each committee is required to consist of not less than three Directors, the majority of whom must be outside Directors. In order to qualify as an outside Director under the Companies Act, a Director must be a person (i) who is not a director of Sony Corporation or any of its subsidiaries engaged in the business operations of Sony Corporation or such subsidiaries, as the case may be, or a corporate executive officer or general manager or other employee of Sony Corporation or any of its subsidiaries, and (ii) who has never been a director of Sony Corporation or any of its subsidiaries engaged in the business operations of Sony Corporation or such subsidiaries, as the case may be, or a corporate executive officer or general manager or other employee of Sony Corporation or any of its subsidiaries.

Under the committee system, Directors as such have no power to execute the business of Sony Corporation except for limited circumstances as permitted by law. The Board of Directors must elect Corporate Executive Officers (*Shikko-yaku*), who are responsible for the execution of the business of Sony Corporation. A summary of the governance system adopted by Sony Corporation is set forth below.

The Board of Directors determines fundamental management policy and other important matters related to the management of Sony and oversees the performance of the duties of Directors and Corporate Executive Officers. Furthermore, the Board of Directors has the power and authority to appoint and dismiss the members of Sony Corporation's three committees and Corporate Executive Officers. Under the Companies Act, all Directors must be elected at the General Meeting of Shareholders from the candidates determined by the Nominating Committee. Under the Companies Act, the term of office of Directors expires at the conclusion of the Ordinary General Meeting of Shareholders held with respect to the last business year ending within one year after their election. Directors may serve any number of consecutive terms although, under the Charter of the Board of Directors of Sony Corporation, outside Directors may not be reelected more than five times without the consent of all Directors nor more than eight times even if the consent of all Directors is obtained. Yotaro Kobayashi and Yoshiaki Yamauchi were each reelected for a seventh term as an outside Director at the Ordinary General Meeting of Shareholders held on June 18, 2010 upon nomination by the Nominating Committee with the consent of all Directors pursuant to the Charter of the Board of Directors.

The Nominating Committee, which pursuant to the Charter of the Board of Directors of Sony Corporation consists of five or more Directors, determines the content of proposals to be submitted for approval at the General Meeting of Shareholders regarding the appointment and dismissal of Directors. As stated above, under the Companies Act, a majority of the members of the Nominating Committee must be outside Directors. Under the Charter of the Board of Directors of Sony Corporation, at least two members of the Nominating Committee must concurrently be Corporate Executive Officers. The Nominating Committee is comprised of the following members as of June 18, 2010: Yotaro Kobayashi, who is the Chair of the Nominating Committee and an outside Director;



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Peter Bonfield, Fujio Cho, Roland A. Hernandez and Yorihiro Kojima, who are each outside Directors; and Howard Stringer and Ryoji Chubachi, who are Corporate Executive Officers .

Under the Charter of the Board of Directors of Sony Corporation, the Audit Committee must consist of three or more Directors, a majority of whom, as stated above, must be outside Directors. In addition, under the Companies Act, a member of the Audit Committee may not concurrently be a director of Sony Corporation or any of its subsidiaries who is engaged in the business operations of Sony Corporation or such subsidiaries, as the case may be, or a corporate executive officer of Sony Corporation or any of its subsidiaries, or an accounting counselor, general manager or other employee of any of such subsidiaries. Further, under the Charter of the Board of Directors of Sony Corporation, members of the Audit Committee must meet the independence and other equivalent requirements of U.S. securities laws and regulations to the extent applicable to Sony Corporation. The Audit Committee's primary responsibility is to review the consolidated and non-consolidated financial statements and business reports to be submitted by the Board of Directors at the General Meeting of Shareholders; to monitor the performance of duties by Directors and Corporate Executive Officers (with respect to structures to ensure the adequacy of the financial reporting process, to enable management to ensure the effectiveness of internal control over financial reporting, to ensure timely and appropriate disclosure and to ensure compliance with any applicable law, Articles of Incorporation and internal policies and rules, and with respect to the status of any other items described in the Internal Control and Governance Framework determined or reaffirmed by the Board of Directors in accordance with Article 416, paragraph 1, item (1) of the Companies Act), in each case pursuant to the Companies Act; and to propose the appointment/dismissal or non-reappointment of, approve the compensation of, and oversee and evaluate the work of Sony's independent auditor and its independence and qualification. Under the Companies Act, the Audit Committee has a statutory duty to prepare and submit each year its audit report (*Kansa-hokoku*) to the Corporate Executive Officer designated by the Board of Directors. A member of the Audit Committee may note his or her opinion in the audit report if it is different from the opinion of the Audit Committee that is expressed in the audit report.

The Audit Committee discusses with Sony Corporation's independent auditor, PricewaterhouseCoopers Aarata, the scope and results of audits by the independent auditor including their evaluation of Sony Corporation's internal controls, compatibility with Generally Accepted Accounting Principles in the U.S., and the overall quality of financial reporting. The Audit Committee makes an assessment of the independence of PricewaterhouseCoopers Aarata by overseeing their activities through regular communications and discussions with them, and by pre-approving audit and non-audit services to be provided. The Audit Committee is comprised of the following members as of June 18, 2010: Yoshiaki Yamauchi, who is the Chair of the Audit Committee and an outside Director, and Mitsuaki Yahagi and Kanemitsu Anraku, who are also outside Directors. Yoshiaki Yamauchi and Kanemitsu Anraku are each audit committee financial experts within the meaning of Item 16A of this report.

As required by the Companies Act, the Compensation Committee determines the policy and the content of compensation, bonus and any other benefits (including equity-related rights or options given for the purpose of stock incentive options) to be received by each Director and Corporate Executive Officer in consideration of the execution of their duties. In addition to such statutory duties, the Compensation Committee sets policy on the composition of individual compensation to be received by other senior management of Sony Group (Directors or other officers of Sony Group companies whose appointment is subject to approval by the Chief Executive Officer ( CEO ) of Sony Corporation), and also submits proposals to the Board of Directors regarding the issuance of stock acquisition rights for the purpose of granting stock options and other forms of stock price-based compensation utilizing shares etc. of Sony Group, as individual compensation to the aforementioned senior management. Under the Charter of the Board of Directors, the Compensation Committee shall consist of three or more Directors, and as a general rule, at least one member shall concurrently serve as Corporate Executive Officer; provided, however, that a Director who is the CEO or the Chief Operating Officer ( COO ) of Sony Group or in any equivalent position shall not be a member of the Compensation Committee. As stated above, a majority of the members of the Compensation Committee must be outside Directors. The Compensation Committee is comprised of the following members as of June 18, 2010: Ryuji

Yasuda, who is the Chair of the Compensation Committee and an outside Director, and Tsun-yan Hsieh and Osamu Nagayama, who are also outside Directors.

During the fiscal year ended March 31, 2010, the Board of Directors convened nine times. The Nominating Committee met six times, the Audit Committee met 13 times and the Compensation Committee met five times. All

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12 outside Directors participated in all meetings of the Board of Directors held during his/her tenure period of the fiscal year ended March 31, 2010 except for Yoshihiko Miyauchi, Fujio Cho and Yukako Uchinaga. (Yoshihiko Miyauchi participated in eight meetings out of nine; Fujio Cho participated in eight meetings out of nine; Yukako Uchinaga participated in seven meetings out of nine.) Also, all 12 outside Directors who are members of Committees participated in at least 75 percent of the aggregate number of meetings of each Committee held during the fiscal year ended March 31, 2010, except for Yukako Uchinaga (Yukako Uchinaga was a member of the Nominating Committee and participated in two meetings out of six held during her tenure period of the fiscal year ended March 31, 2010.) All three outside Directors who are members of the Audit Committee participated in all meetings of the Audit Committee held during the fiscal year ended March 31, 2010.

No Directors have executed service contracts with Sony providing for benefits upon termination of service as a Director.

Under the Companies Act and the Articles of Incorporation of Sony Corporation, Sony Corporation may, by a resolution of the Board of Directors, exempt Directors from liabilities to Sony Corporation to the extent permitted by law arising in connection with their failure to execute their duties. Also, in accordance with the Companies Act and its Articles of Incorporation, Sony Corporation has entered into a liability limitation agreement with each outside Director that limits the maximum amount of liabilities owed by each outside Director to Sony Corporation arising in connection with their failure to execute their duties to the greater of either 30 million yen or an amount equal to the aggregate sum of the amounts prescribed in each item of Article 425, Paragraph 1 of the Companies Act.

The Board of Directors must appoint one or more Corporate Executive Officers who are authorized to determine matters delegated to them by the Board of Directors. The Corporate Executive Officers are responsible for conducting all the business operations of Sony within the scope of authority delegated by the Board of Directors. As of June 18, 2010, there are eight Corporate Executive Officers, some of whom are also Directors. Significant decision-making authority has been delegated to the CEO and also to each Corporate Executive Officer with respect to investments, strategic alliances and other actions related to the execution of business operations. Sony Corporation believes that this significant delegation enables Sony to be managed in a dynamic and responsive manner. The terms of office of Corporate Executive Officers must expire at the conclusion of the first meeting of the Board of Directors held immediately after the conclusion of the Ordinary General Meeting of Shareholders held with respect to the last business year ending within one year after their election. From among the Corporate Executive Officers who as a general rule are also Directors, the Board of Directors shall elect Representative Corporate Executive Officers. Each Representative Corporate Executive Officer has the statutory authority to represent Sony Corporation in the conduct of its affairs.

***(Reference)***

At a Board meeting held on April 26, 2006, the Board of Directors reaffirmed the internal control and governance framework in effect as of the date of determination and determined to continue to evaluate and improve such framework going forward, as appropriate. At a Board meeting held on May 13, 2009 the Board of Directors reaffirmed such internal control and governance framework, as slightly amended, in effect as of the date of determination and determined to continue to evaluate and improve such amended framework going forward, as appropriate. This determination was required by and met the requirements of the Companies Act. Details of the determination are posted on the following website:

<http://www.sony.net/SonyInfo/IR/library/control.html>

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 refer to Disclosure About Differences in Corporate Governance in Item 16G or visit Sony's website at:

<http://www.sony.net/SonyInfo/IR/NYSEGovernance.html>

**Employees**

As of March 31, 2010, Sony had approximately 167,900 employees, a decrease of approximately 3,400 employees from March 31, 2009. During the fiscal year ended March 31, 2010, while the employee

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numbers increased due to the recovery in production at manufacturing sites in East Asia excluding Japan, the total number of employees decreased due to restructuring initiatives implemented mainly in North America, Japan and Europe. As of March 31, 2010, approximately 60,200 employees were located in Japan and approximately 107,700 employees were located outside Japan. Approximately 23 percent of the total number of employees were members of labor unions.

As of March 31, 2009, Sony had approximately 171,300 employees, a decrease of approximately 9,200 employees from March 31, 2008. During the fiscal year ended March 31, 2009, while employees increased due to the consolidation of SONY BMG MUSIC ENTERTAINMENT ( SONY BMG ), the total number of employees decreased significantly due to restructuring and production adjustment implemented in the second half of the fiscal year, mainly at manufacturing sites in non-Japan Asia. As of March 31, 2009, approximately 63,400 employees were located in Japan and approximately 107,900 employees were located outside Japan. Approximately 24 percent of the total number of employees were members of labor unions.

The following table shows the number of employees by segment as of March 31, 2008, 2009 and 2010.

***Number of Employees by Segment***

|                                 | 2008    | March 31<br>2009 | 2010           |
|---------------------------------|---------|------------------|----------------|
| Consumer Products & Devices     | 127,800 | 108,600          | <b>105,300</b> |
| Networked Products & Services   | 10,500  | 13,100           | <b>13,800</b>  |
| B2B & Disc Manufacturing        | 15,000  | 17,100           | <b>16,300</b>  |
| Pictures                        | 7,400   | 7,000            | <b>6,400</b>   |
| Music                           | 2,100   | 7,200            | <b>7,100</b>   |
| Financial Services              | 6,800   | 7,200            | <b>7,400</b>   |
| All Other                       | 2,500   | 2,400            | <b>1,900</b>   |
| Unallocated Corporate employees | 8,400   | 8,700            | <b>9,700</b>   |
| Total                           | 180,500 | 171,300          | <b>167,900</b> |

As of March 31, 2010, the number of employees in the Consumer Products & Devices ( CPD ), B2B & Disc Manufacturing and Pictures segments, and All Other decreased compared to March 31, 2009, mainly due to restructuring activities.

As a part of transformation efforts during the fiscal year ended March 31, 2010, Sony's headquarters established three functional platforms for manufacturing, logistics, procurement and customer services, R&D and common software development, and global sales and marketing. The number of corporate employees increased as employees transferred from other segments, partially offset by restructuring activities at headquarters.

As of March 31, 2009, the number of employees in the Networked Products & Services ( NPS ) segment increased compared to March 31, 2008, primarily as a result of the transfer of Sony Online Entertainment Holdings, Inc and its subsidiaries from the Pictures segment to the NPS segment. The number of employees in the Music segment as of March 31, 2009 increased compared to March 31, 2008, primarily due to the consolidation of SONY BMG as of October 1, 2008.

In addition, the average number of employees for the fiscal years ended March 31, 2008, 2009 and 2010 calculated by averaging the total number of employees at the end of each quarter, was 175,800, 179,400 and 170,200 respectively.

Sony generally considers its labor relations to be good.

In Japan, Sony Corporation and several subsidiaries have labor unions.

Regarding labor relations in the CPD segment by area, in Asia, where Sony owns many manufacturing sites, a few of these sites have labor unions that have union contracts. In China, most employees are members of labor unions.

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In the U.S., no manufacturing sites have labor unions. In Europe, Sony maintains good labor relations with the Work Councils in each country, and, while some employees belong to unions, they are not eligible for union contracts.

In the Pictures segment, Sony also generally considers its labor relations to be good. A number of Pictures subsidiaries are signatories to union contracts. During the fiscal year ended March 31, 2010, negotiations were successfully concluded with the Screen Actors Guild ( SAG ) for new two-year agreements as follows: Basic Agreement, Television Agreement, Basic Cable Agreement, Basic Cable Animation Agreement and Television Animation Agreements. Negotiations were also successfully concluded for new three-year agreements with the American Federation of Musicians ( AFM ), the International Alliance of Theatrical and Stage Employees ( IATSE ) Local 839 Animation Guild and Affiliated Optical Electronic and Graphic Arts, IATSE Local 873 (Canada), IATSE Local 829 (New York) and the Union of British Columbia Performers ( UBCP ). Additionally, a new three year Area Standards Agreement was reached with the IATSE International.

Sony continuously strives to provide competitive wages and benefits and good working conditions for all of its employees.

**Share Ownership**

The total number of shares of Sony Corporation's Common Stock beneficially owned by Directors and Corporate Executive Officers (19 people) listed in Directors and Senior Management above was approximately 0.01 percent of the total shares outstanding as of May 31, 2010. Refer to Board Practices above.

During the fiscal year ended March 31, 2010, Sony granted stock acquisition rights, which represent rights to subscribe for shares of Common Stock of Sony Corporation, to Directors, Corporate Executive Officers, Corporate Executives, Group Executives, and selected employees. The stock acquisition rights cannot be exercised for one year from the date of grant and generally vest ratably up to three years from the date of grant and are generally exercisable up to ten years from the date of grant. The following table shows the portion of those stock acquisition rights which were granted by Sony to Directors and Corporate Executive Officers as of May 31, 2010 and which were outstanding as of the same date.

| <b>Year granted<br/>(Fiscal Year ended March 31)</b> | <b>Total number of<br/>shares subject to<br/>stock<br/>acquisition rights<br/>(in thousands)</b> | <b>Exercise price per share</b> |
|--|--|---------------------------------|
| 2010   | 580  | 29.56 U.S. dollars              |
| 2010   | 224  | 2,595 yen                       |
| 2009   | 560  | 30.24 U.S. dollars              |
| 2009   | 198  | 2,987 yen                       |
| 2008   | 460  | 48.15 U.S. dollars              |
| 2008   | 184  | 5,514 yen                       |
| 2007   | 454  | 40.05 U.S. dollars              |
| 2007   | 172  | 4,756 yen                       |
| 2006   | 335  | 34.14 U.S. dollars              |
| 2006   | 155  | 4,060 yen                       |
| 2005   | 230  | 40.34 U.S. dollars              |
| 2005   | 51   | 3,782 yen                       |

|      |     |                    |
|------|-----|--------------------|
| 2004 | 225 | 40.90 U.S. dollars |
| 2004 | 23  | 4,101 yen          |
| 2003 | 215 | 35.57 U.S. dollars |

Prior to the introduction of stock acquisition rights, in order to provide equity-based compensation to selected executives at Sony's U.S. subsidiaries, Sony Corporation has issued U.S. dollar-denominated Convertible Bonds ( CBs ) to a holding company in the U.S. and the holding company has sold the CBs to those executives. For the purpose of carrying out this plan, the holding company lent an amount equal to the principal amount of CBs to such executives for their purchase of the CBs until the date of conversion. The CBs generally vest ratably up to three



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years from the date of sale and are generally exercisable up to ten years from the date of sale. The following table shows the portion of those CBs which were held by current Directors and Corporate Executive Officers as of May 31, 2010 and which were outstanding as of the same date.

| <b>Year issued</b>                  | <b>Total number of<br/>shares</b>        | <b>Exercise price per<br/>share</b> |
|-------------------------------------|--|-------------------------------------|
| <b>(Fiscal Year ended March 31)</b> | <b>subject to CBs<br/>(in thousands)</b> | <b>(U.S. dollars)</b>               |
| 2003                                | 115                                      | 52.29                               |
| 2002                                | 106                                      | 71.28                               |

Regarding the above compensation plans, refer to Note 17 to the notes to the consolidated financial statements.

**Item 7. Major Shareholders and Related Party Transactions****Major Shareholders**

Dodge & Cox, an institutional investor based in San Francisco, California, filed a Schedule 13-F with the SEC on May 13, 2010. According to this filing, Dodge & Cox owned 35,513,937 American Depositary Receipts ( ADRs ) of Sony Corporation as of March 31, 2010. In addition, while Sony assumes no responsibility for the accuracy of this supplemental information, according to the website of Dodge & Cox, as of March 31, 2010, Dodge & Cox owned 12,200,600 shares of outstanding Sony Corporation Common Stock. As a result, it appears that in total, Dodge & Cox beneficially owned 47,714,537 shares of outstanding Sony Corporation Common Stock representing 4.8 percent of the total. To the knowledge of Sony Corporation, there were no significant changes in the percentage ownership held by any major beneficial shareholders during the past three fiscal years. Major shareholders of Sony Corporation do not have different voting rights.

As of March 31, 2010, there were 1,003,531,808 shares of Common Stock outstanding, of which 96,204,576 shares were in the form of ADRs and 158,088,089 shares were held of record in the form of Common Stock by residents in the U.S. As of March 31, 2010, the number of registered ADR holders was 6,814 and the number of registered holders of shares of Common Stock in the U.S. was 364.

To the knowledge of Sony Corporation, it is not directly or indirectly owned or controlled by any other corporation, by any foreign government or by any other natural or legal person severally or jointly. As far as is known to Sony Corporation, there are no arrangements the operation of which may, at a subsequent date, result in a change in control of Sony Corporation.

**Related Party Transactions**

In the ordinary course of business, Sony purchases materials, supplies, and services from numerous suppliers throughout the world, including firms with which certain members of the Board of Directors are affiliated. In addition, in the fiscal year ended March 31, 2010, Sony entered into the following sales/purchase transactions with equity affiliates accounted for under the equity method: sales to Sony Ericsson Mobile Communications AB ( Sony Ericsson ), a joint venture focused on mobile phone handsets, totaling 103.9 billion yen; sales to Kyoshin Technosonic Co., Ltd., a joint venture focused on marketing semiconductors and other electronic components, totaling 18.5 billion yen; purchases from S-LCD Corporation ( S-LCD ), a joint venture with Samsung Electronics Co., Ltd. for the manufacture

of amorphous thin film transistor ( TFT ) LCD panels, totaling 301.6 billion yen.

As of March 31, 2010, Sony held notes and accounts receivable, trade due from Sony Ericsson totaled 18.5 billion yen, in addition to notes and accounts payable, trade due to S-LCD totaled 56.5 billion yen. Because of the size of these transactions, Sony does not consider the amounts involved to be material to its business. Refer to Note 5 to the notes to the consolidated financial statements for additional information regarding Sony s investments in and transactions with equity affiliates.

Sumitomo Mitsui Financial Group, Inc. and Sumitomo Mitsui Banking Corporation have performed and continue to perform commercial banking services for Sony. Yoshiaki Yamauchi, who has served as a Sony Corporation Director since June 20, 2003, had been a Director of Sumitomo Mitsui Financial Group, Inc. and Sumitomo Mitsui Banking Corporation until June 26, 2009.

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**Interests of Experts and Counsel**

Not Applicable

**Item 8. *Financial Information***

**Consolidated Statements and Other Financial Information**

Refer to the consolidated financial statements and the notes to the consolidated financial statements.

**Legal Proceedings**

In October 2009, Sony Corporation's U.S. subsidiary, Sony Optiarc America Inc., received a subpoena from the U.S. Department of Justice ( DOJ ) Antitrust Division seeking information about its optical disk drive business. Sony Corporation understands that the DOJ and agencies outside the United States are investigating competition in optical disk drives. Sony Corporation intends to cooperate fully with the DOJ and other agencies in this inquiry. Subsequently, a number of purported class action lawsuits were filed in certain jurisdictions, including the United States, in which the plaintiffs allege that Sony Corporation, Sony Optiarc Inc., Sony Optiarc America Inc., other named defendants and other unnamed parties violated antitrust laws and seek recovery of damages and other remedies.

In addition, Sony Corporation and certain of its subsidiaries are defendants or otherwise involved in other pending legal and regulatory proceedings. However, based upon the information currently available to Sony and its legal counsel, the management of Sony believes that the outcome from such legal and regulatory proceedings would not have a material effect on Sony's consolidated financial statements.

**Dividend Policy**

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

A fiscal year-end dividend of 12.5 yen per share of Common Stock was approved at the Board of Directors meeting held on May 12, 2010 and was paid on June 2, 2010. Sony Corporation has already paid an interim dividend for Common Stock of 12.5 yen per share to each shareholder; accordingly, the total annual dividend per share of Common Stock for the fiscal year ended March 31, 2010 is 25.0 yen.

**Significant Changes**

No significant change has occurred since the date of the annual financial statements included in this annual report.

**Item 9. *The Offer and Listing***

**Offer and Listing Details**

Not Applicable

**Plan of Distribution**

Not Applicable

**Markets**

*Trading Markets*

The principal trading markets for Sony Corporation's ordinary shares are the Tokyo Stock Exchange (the "TSE") in the form of Common Stock and the New York Stock Exchange (the "NYSE") in the form of American

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Depository Shares ( ADSs ) evidenced by American Depositary Receipts ( ADRs ). Each ADS represents one share of Common Stock.

Sony Corporation's Common Stock, with no par value per share, has been listed on the TSE since 1958, and is also listed on the London Stock Exchange in the United Kingdom and the Osaka Securities Exchange in Japan.

Sony Corporation's ADRs have been traded in the U.S. since 1961 and have been listed on the NYSE since 1970 under the symbol SNE. Sony Corporation's ADRs are issued and exchanged by JPMorgan Chase Bank, as Depository.

**Trading on the TSE and NYSE**

The following table sets forth for the periods indicated the reported high and low sales prices per share of Sony Corporation's Common Stock on the TSE and the reported high and low sales prices per share of Sony Corporation's ADS on the NYSE.

|                                      | Tokyo Stock Exchange<br>Price Per<br>Share of Common<br>Stock |              | New York Stock<br>Exchange Price<br>Per Share of ADS |              |
|--------------------------------------|---|--------------|--|--------------|
|                                      | High<br>(yen)   | Low          | High<br>(U.S. dollars)                               | Low          |
| Annual highs and lows*               |   |              |  |              |
| The fiscal year ended March 31, 2006 | 6,040   | 3,660        | 51.16  | 31.80        |
| The fiscal year ended March 31, 2007 | 6,540   | 4,340        | 53.34  | 37.24        |
| The fiscal year ended March 31, 2008 | 7,190   | 3,910        | 59.84  | 39.91        |
| Quarterly highs and lows*            |   |              |  |              |
| The fiscal year ended March 31, 2009 |   |              |  |              |
| 1st quarter                          | 5,544   | 3,988        | 52.20  | 39.40        |
| 2nd quarter                          | 4,696   | 3,120        | 43.51  | 29.71        |
| 3rd quarter                          | 3,280   | 1,717        | 30.64  | 18.09        |
| 4th quarter                          | 2,335   | 1,491        | 24.32  | 15.64        |
| The fiscal year ended March 31, 2010 |   |              |  |              |
| 1st quarter                          | 2,800   | 2,050        | 28.22  | 21.27        |
| 2nd quarter                          | 2,810   | 2,145        | 30.15  | 23.60        |
| 3rd quarter                          | 2,830   | 2,250        | 30.82  | 26.25        |
| 4th quarter                          | 3,645   | 2,694        | 40.45  | 29.50        |
| Monthly highs and lows*              |   |              |  |              |
| 2009                                 |   |              |  |              |
| December                             | 2,730   | 2,250        | 29.58  | 26.76        |
| 2010                                 |   |              |  |              |
| January                              | 3,210   | 2,694        | 34.99  | 29.50        |
| February                             | 3,235   | 2,940        | 35.59  | 32.94        |
| March                                | 3,645   | 3,015        | 40.45  | 34.40        |
| April                                | 3,620   | 3,230        | 38.67  | 34.16        |
| May                                  | 3,225   | 2,691        | 34.70  | 29.85        |
| <b>June (through June 25)</b>        | <b>2,810</b>  | <b>2,431</b> | <b>30.95</b>   | <b>27.02</b> |

\* Stock price data are based on prices throughout the sessions for each corresponding period at each stock exchange.

On June 25, 2010, the closing sales price per share of Sony Corporation's Common Stock on the TSE was 2,442 yen.

On June 25, 2010, the closing sales price per share of Sony Corporation's ADS on the NYSE was 27.33 U.S. dollars.

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**Selling Shareholders**

Not Applicable

**Dilution**

Not Applicable

**Expenses of the Issue**

Not Applicable

**Item 10. *Additional Information***

**Share Capital**

Not Applicable

**Memorandum and Articles of Association**

***Organization***

Sony Corporation is a joint stock corporation (*Kabushiki Kaisha*) incorporated in Japan under the Companies Act (*Kaishaho*) of Japan. It is registered in the Commercial Register (*Shogyo Tokibo*) maintained by the Minato Branch Office of the Tokyo Bureau of Legal Affairs.

***Objects and purposes***

The Articles of Incorporation of Sony Corporation provide that its purpose is to engage in the following business activities:

- (i) manufacture and sale of electronic and electrical machines and equipment, medical instruments, optical instruments and other equipment, machines and instruments;
- (ii) planning, production and sale of audio-visual software and computer software programs;
- (iii) manufacture and sale of metal industrial products, chemical industrial products and ceramic industrial products, textile products, paper products and wood-crafted articles, daily necessities, foodstuffs and toys, transportation machines, equipment, petroleum and coal products;
- (iv) real estate activities, construction business, transportation business and warehousing business;
- (v) publishing business and printing business;
- (vi) advertising agency business, insurance agency business, broadcasting enterprise, recreation business such as travel, management of sporting facilities, etc. and other service enterprises;

- (vii) financial business;
- (viii) Type I and Type II telecommunications business under the Telecommunications Business Law;
- (ix) investing in stocks and bonds, etc.;
- (x) manufacture, sale, export and import of products which are incidental to or related to those mentioned above;
- (xi) rendering of services related to those mentioned above;
- (xii) investment in businesses mentioned above operated by other companies or persons; and
- (xiii) all businesses which are incidental to or related to those mentioned above.



**Table of Contents*****Directors***

Under the Companies Act, Directors have no power to execute the business of Sony Corporation except in limited circumstances as permitted by law. If a Director also serves concurrently as a Corporate Executive Officer, then he or she can execute the business of Sony Corporation in the capacity of Corporate Executive Officer. Under the Companies Act, Directors must refrain from engaging in any business competing with Sony Corporation unless approved by the Board of Directors, and any Director who has a material interest in the subject matter of a resolution to be taken by the Board of Directors cannot vote on such resolution. The amount of remuneration to each Director is determined by the Compensation Committee, which consists of Directors, the majority of whom are outside Directors (Refer to Board Practices in Item 6. *Directors, Senior Management and Employees* ). No member of the Compensation Committee may vote on a resolution with respect to his or her own compensation as a Director or a Corporate Executive Officer.

Neither the Companies Act nor Sony Corporation's Articles of Incorporation make a special provision as to the borrowing powers exercisable by Directors (subject to requisite internal authorizations as required by the Companies Act), their retirement age, or a requirement to hold any shares of capital stock of Sony Corporation.

For more information on Directors, refer to Board Practices in Item 6. *Directors, Senior Management and Employees*.

***Capital stock******(General)***

Unless indicated otherwise, set forth below is information relating to Sony Corporation's capital stock, including brief summaries of the relevant provisions of Sony Corporation's Articles of Incorporation and Share Handling Regulations, currently in effect, and of the Companies Act and related regulations.

On January 5, 2009, a central book-entry transfer system for shares of Japanese listed companies was established pursuant to the Act Concerning Book-entry Transfer of Corporate Bonds, Shares etc. ( Book-entry Transfer Act ), and this system is applied to the shares of Common Stock of Sony Corporation. Under this system, shares of all Japanese companies listed on any Japanese stock exchange are dematerialized, and shareholders must have accounts at account management institutions to hold their shares unless such shareholder has an account at Japan Securities Depository Center, Inc. ( JASDEC ). Account management institutions are financial instruments traders (i.e., securities companies), banks, trust companies and certain other financial institutions that meet the requirements prescribed by the Book-entry Transfer Act. Transfer of the shares of Common Stock of Sony Corporation is effected exclusively through entry in the records maintained by JASDEC and the account management institutions, and title to the shares passes to the transferee at the time when the transfer of the shares is recorded at the transferee's account at an account management institution. The holder of an account at an account management institution is presumed to be the legal holder of the shares recorded in such account.

Under the Companies Act and the Book-entry Transfer Act, in order to assert shareholders' rights against Sony Corporation, a shareholder of shares must have its name and address registered in Sony Corporation's register of shareholders. Under the central book-entry transfer system operated by JASDEC, shareholders shall notify the relevant account management institutions of certain information prescribed under the Book-entry Transfer Act or Sony Corporation's Share Handling Regulations, including their names and addresses, and the registration on Sony Corporation's register of shareholders is updated upon receipt by Sony Corporation of necessary information from JASDEC (as described in Record date ). On the other hand, in order to assert shareholders' rights to which shareholders are entitled regardless of record dates such as minority shareholders' rights, including the right to propose a matter to

be considered at a General Meeting of Shareholders, except for shareholders' rights to request that Sony Corporation purchase or sell shares constituting less than a full unit (as described in "Unit share system"), JASDEC shall, upon the shareholder's request, issue a notice of certain information, including the name and address of such shareholder, to Sony Corporation. Thereafter, such shareholder is required to present Sony Corporation a receipt of the notice request in accordance with the Sony Corporation's Share Handling Regulations. Under the Book-entry Transfer Act, the shareholder shall exercise such shareholders' right within four weeks after notice has been given.

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Mitsubishi UFJ Trust and Banking Corporation is the transfer agent for Sony Corporation's capital stock. As such, it keeps Sony Corporation's registers of shareholders in its office at 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo.

Non-resident shareholders are required to appoint a standing proxy in Japan or file notice of a mailing address in Japan. Notices from Sony Corporation to non-resident shareholders are delivered to such standing proxies or mailing address. Japanese securities companies and commercial banks customarily act as standing proxies and provide related services for standard fees. The recorded holder of deposited shares underlying the American Depositary Shares (ADSs) is the depositary for the ADSs. Accordingly, holders of ADSs will not be able to directly assert shareholders rights against Sony Corporation.

### *(Authorized capital)*

Under the Articles of Incorporation of Sony Corporation, Sony Corporation may only issue shares of Common Stock. Sony Corporation's Articles of Incorporation provide that the total number of shares authorized to be issued by Sony Corporation is 3.6 billion shares.

All shares of capital stock of Sony Corporation have no par value. All issued shares are fully-paid and non-assessable.

### *(Distribution of Surplus)*

#### **Distribution of Surplus – General**

Under the Companies Act, distributions of cash or other assets by joint stock corporations to their shareholders, so called dividends, are referred to as distributions of Surplus (Surplus is defined in Restriction on distributions of Surplus). Sony Corporation may make distributions of Surplus to shareholders any number of times per business year, subject to certain limitations described in Restriction on distributions of Surplus. Distributions of Surplus are required in principle to be authorized by a resolution of a General Meeting of Shareholders, but Sony Corporation may authorize distributions of Surplus by a resolution of the Board of Directors as long as its non-consolidated annual financial statements and certain documents for the last business year present fairly its assets and profit or loss, as required by ordinances of the Ministry of Justice.

Distributions of Surplus may be made in cash or in kind in proportion to the number of shares of Common Stock held by each shareholder. A resolution of the Board of Directors or a General Meeting of Shareholders authorizing a distribution of Surplus must specify the kind and aggregate book value of the assets to be distributed, the manner of allocation of such assets to shareholders, and the effective date of the distribution. If a distribution of Surplus is to be made in kind, Sony Corporation may, pursuant to a resolution of the Board of Directors or (as the case may be) a General Meeting of Shareholders, grant a right to the shareholders to require Sony Corporation to make such distribution in cash instead of in kind. If no such right is granted to shareholders, the relevant distribution of Surplus must be approved by a special resolution of a General Meeting of Shareholders (refer to *Voting rights* with respect to a special resolution).

Under the Articles of Incorporation of Sony Corporation, year-end dividends and interim dividends may be distributed to shareholders appearing in Sony Corporation's register of shareholders as of March 31 and September 30 each year, respectively, in proportion to the number of shares of Common Stock held by each shareholder following approval by the Board of Directors or (as the case may be) the General Meeting of Shareholders. Sony Corporation is not obliged to pay any dividends unclaimed for a period of five years after the date on which they first became payable.

In Japan, the ex-dividend date and the record date for dividends precede the date of determination of the amount of the dividends to be paid. The price of the shares of Common Stock generally goes ex-dividend on the second business day prior to the record date.

**Distribution of Surplus    Restriction on distribution of Surplus**

In making a distribution of Surplus, Sony Corporation must, until the sum of its additional paid-in capital and legal reserve reaches one quarter of its stated capital, set aside in its additional paid-in capital and/or legal reserve an amount equal to one-tenth of the amount of Surplus so distributed.

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The amount of Surplus at any given time must be calculated in accordance with the following formula:

$$A + B + C + D - (E + F + G)$$

In the above formula:

- A = the total amount of other capital surplus and other retained earnings, each such amount being that appearing on the non-consolidated balance sheet as of the end of the last business year
- B = (if Sony Corporation has disposed of its treasury stock after the end of the last business year) the amount of the consideration for such treasury stock received by Sony Corporation less the book value thereof
- C = (if Sony Corporation has reduced its stated capital after the end of the last business year) the amount of such reduction less the portion thereof that has been transferred to additional paid-in capital or legal reserve (if any)
- D = (if Sony Corporation has reduced its additional paid-in capital or legal reserve after the end of the last business year) the amount of such reduction less the portion thereof that has been transferred to stated capital (if any)
- E = (if Sony Corporation has cancelled its treasury stock after the end of the last business year) the book value of such treasury stock
- F = (if Sony Corporation has distributed Surplus to its shareholders after the end of the last business year) the total book value of the Surplus so distributed
- G = certain other amounts set forth in ordinances of the Ministry of Justice, including (if Sony Corporation has reduced Surplus and increased its stated capital, additional paid-in capital or legal reserve after the end of the last business year) the amount of such reduction and (if Sony Corporation has distributed Surplus to the shareholders after the end of the last business year) the amount set aside in additional paid-in capital or legal reserve (if any) as required by ordinances of the Ministry of Justice.

The aggregate book value of Surplus distributed by Sony Corporation may not exceed a prescribed distributable amount (the Distributable Amount), as calculated on the effective date of such distribution. The Distributable Amount at any given time shall be equal to the amount of Surplus less the aggregate of the followings:

- (a) the book value of its treasury stock;
- (b) the amount of consideration for any of treasury stock disposed of by Sony Corporation after the end of the last business year; and
- (c) certain other amounts set forth in ordinances of the Ministry of Justice, including (if the sum of one-half of goodwill and the deferred assets exceeds the total of stated capital, additional paid-in capital and legal reserve, each such amount being that appearing on the non-consolidated balance sheet as of the end of the last business year) all or certain part of such exceeding amount as calculated in accordance with ordinances of the Ministry of Justice.

As Sony Corporation has become a company with respect to which consolidated balance sheets should also be considered in the calculation of the Distributable Amount (*renketsu haito kisei tekiyo kaisha*), Sony Corporation must further deduct from the amount of Surplus the excess amount, if any, of (x) the total amount of stockholders' equity appearing on the non-consolidated balance sheet as of the end of the last business year and certain other amounts set forth by ordinances of the Ministry of Justice over (y) the total amount of stockholders' equity and certain other amounts set forth by ordinances of the Ministry of Justice appearing on the consolidated balance sheet as of the end of the last business year.

If Sony Corporation has prepared interim financial statements as described below, and if such interim financial statements have been approved by the Board of Directors or (if so required by the Companies Act) by a General Meeting of Shareholders, then the Distributable Amount must be adjusted to take into account the amount of profit

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or loss, and the amount of consideration for any of the treasury stock disposed of by Sony Corporation, during the period in respect of which such interim financial statements have been prepared. Sony Corporation may prepare non-consolidated interim financial statements consisting of a balance sheet as of any date subsequent to the end of the last business year and an income statement for the period from the first day of the current business year to the date of such balance sheet. Interim financial statements so prepared by Sony Corporation must be audited by the Audit Committee and the independent auditor, as required by ordinances of the Ministry of Justice.

*(Capital and reserves)*

Sony Corporation may generally reduce its additional paid-in capital or legal reserve by resolution of a General Meeting of Shareholders and, if so decided by the same resolution, may account for the whole or any part of the amount of such reduction as stated capital. On the other hand, Sony Corporation may generally reduce its stated capital by a special resolution of a General Meeting of Shareholders and, if so decided by the same resolution, may account for the whole or any part of the amount of such reduction as additional paid-in capital. In addition, Sony Corporation may reduce its Surplus and increase either (i) stated capital or (ii) additional paid-in capital and/or legal reserve by the same amount, in either case by resolution of a General Meeting of Shareholders.

*(Stock splits)*

Sony Corporation may at any time split shares in issue into a greater number of shares at the determination of the Chief Executive Officer ( CEO ), and may amend its Articles of Incorporation to increase the number of the authorized shares to be issued to allow such stock split pursuant to a resolution of the Board of Directors or a determination by a Corporate Executive Officer to whom the authority to make such determination has been delegated by a resolution of the Board of Directors, rather than relying on a special shareholders resolution, which is otherwise required for amending the Articles of Incorporation.

When a stock split is to be made, Sony Corporation must give public notice of the stock split, specifying the record date thereof, at least two weeks prior to such record date. Under the central book-entry transfer system operated by JASDEC, Sony Corporation must also give notice to JASDEC regarding a stock split at least two weeks prior to the relevant effective date of the stock split. On the effective date of the stock split, the numbers of shares recorded in all accounts held by Sony Corporation's shareholders at account managing institutions or JASDEC will be increased in accordance with the applicable ratio.

*(Consolidation of shares)*

Sony Corporation may at any time consolidate issued shares into a smaller number of shares by the special shareholders resolution (as defined in ( *Voting rights* ). When a consolidation of shares is to be made, Sony Corporation must give public notice or notice to each shareholder at least two weeks prior to the effective date of the consolidation of shares. Under the central book-entry transfer system operated by JASDEC, Sony Corporation must also give notice to JASDEC regarding a consolidation of shares at least two weeks prior to the effective date of the consolidation of shares. On the effective date of the consolidation of shares, the numbers of shares recorded in all accounts held by Sony Corporation's shareholders at account managing institutions or JASDEC will be decreased in accordance with the applicable ratio. Sony Corporation must disclose the reason for the consolidation of shares at a General Meeting of Shareholders.

*(General Meeting of Shareholders)*

The Ordinary General Meeting of Shareholders of Sony Corporation for each business year is normally held in June of each year in Tokyo, Japan. In addition, Sony Corporation may hold an Extraordinary General Meeting of Shareholders

whenever necessary by giving notice thereof at least two weeks prior to the date set for the meeting.

Notice of a shareholders meeting setting forth the place, time and purpose thereof must be mailed to each shareholder having voting rights (or, in the case of a non-resident shareholder, to such shareholder's resident proxy or mailing address in Japan) at least two weeks prior to the date set for the meeting. Under the Companies Act, such notice may be given to shareholders by electronic means, subject to obtaining consent by the relevant shareholders. The record date for an Ordinary General Meeting of Shareholders is March 31 of each year.



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Any shareholder or group of shareholders holding at least three percent of the total number of voting rights for a period of six months or more may require the convocation of a General Meeting of Shareholders for a particular purpose. Unless such a shareholders' meeting is convened promptly or a convocation notice of a meeting which is to be held not later than eight weeks from the day of such demand is dispatched, the requiring shareholder may, upon obtaining a court approval, convene such a shareholders' meeting.

Any shareholder or group of shareholders holding at least 300 voting rights or one percent of the total number of voting rights for a period of six months or more may propose a matter to be considered at a General Meeting of Shareholders by submitting a written request to Sony Corporation at least eight weeks prior to the date set for such meeting.

If the Articles of Incorporation so provide, any of the minimum voting rights or percentages, time periods and number of voting rights necessary for exercising the minority shareholder rights described above may be decreased or shortened. Sony Corporation's Articles of Incorporation currently do not include any such provisions.

*(Voting rights)*

So long as Sony Corporation maintains the unit share system, a holder of shares constituting one or more units is entitled to one vote for each such unit of stock (refer to ( *Unit share system* ) below; currently 100 shares constitute one unit), except that no voting rights with respect to shares of capital stock of Sony Corporation are afforded to Sony Corporation or any corporate or certain other entity more than one-quarter of the total voting rights of which are directly or indirectly held by Sony Corporation. If Sony Corporation eliminates from its Articles of Incorporation the provisions relating to units of stock, holders of capital stock will have one vote for each share they hold. Except as otherwise provided by law or by the Articles of Incorporation of Sony Corporation, a resolution can be adopted at a General Meeting of Shareholders by a majority of the number of voting rights of all the shareholders represented at the meeting. The Companies Act and Sony Corporation's Articles of Incorporation provide, however, that the quorum for the election of Directors shall be one-third of the total number of voting rights of all the shareholders. Sony Corporation's shareholders are not entitled to cumulative voting in the election of Directors. Shareholders may cast their votes in writing and may also exercise their voting rights through proxies, provided that the proxies are also shareholders holding voting rights. Shareholders may also exercise their voting rights by electronic means pursuant to the method designated by Sony Corporation.

The Companies Act of Japan and the Articles of Incorporation of Sony Corporation provide that in order to amend the Articles of Incorporation and in certain other instances, including:

- (1) acquisition of its own shares from a specific party other than its subsidiaries;
- (2) consolidation of shares;
- (3) any offering of new shares at a specially favorable price (or any offering of stock acquisition rights to acquire shares of capital stock, or bonds with stock acquisition rights on specially favorable conditions) to any persons other than shareholders;
- (4) the exemption of liability of a Director, Corporate Executive Officer or independent auditor with certain exceptions;
- (5) a reduction of stated capital with certain exceptions;
- (6) a distribution of in-kind dividends which meets certain requirements;

- (7) dissolution, merger, consolidation, or corporate split with certain exceptions;
- (8) the transfer of the whole or a material part of the business;
- (9) the taking over of the whole of the business of any other corporation with certain exceptions; or
- (10) share exchange or share transfer for the purpose of establishing 100 percent parent-subsidary relationships with certain exceptions,

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the quorum shall be one-third of the total number of voting rights of all the shareholders, and the approval by at least two-thirds of the number of voting rights of all the shareholders represented at the meeting is required (the special shareholders resolutions ).

*(Issue of additional shares and pre-emptive rights)*

Holders of Sony Corporation's shares of capital stock have no pre-emptive rights under its Articles of Incorporation. Authorized but unissued shares may be issued at such times and upon such terms as the Board of Directors or the CEO determines, subject to the limitations as to the offering of new shares at a specially favorable price mentioned under ( *Voting rights* ) above. In the case of an issuance of shares (including a transfer to treasury shares) of Sony Corporation or its stock acquisition rights by way of an allotment to a third party which would dilute the outstanding voting shares by 25 percent or more or change the controlling shareholder, in addition to a resolution of the Board of Directors, the approval of the shareholders or an affirmative vote from a person independent of the management is generally required pursuant to the regulations of the Japanese stock exchanges on which shares of Sony Corporation are listed. The Board of Directors or the CEO may, however, determine that shareholders shall be given subscription rights regarding a particular issue of new shares, in which case such rights must be given on uniform terms to all shareholders as of a record date of which not less than two weeks prior public notice is given. Each of the shareholders to whom such rights are given must also be given notice of the expiry thereof at least two weeks prior to the date on which such rights expire.

Subject to certain conditions, Sony Corporation may issue stock acquisition rights by a resolution of the Board of Directors or a determination by the CEO. Holders of stock acquisition rights may exercise their rights to acquire a certain number of shares within the exercise period as prescribed in the terms of their stock acquisition rights. Upon exercise of stock acquisition rights, Sony Corporation will be obliged to issue the relevant number of new shares or alternatively to transfer the necessary number of treasury stock held by it.

In cases where a particular issue of new shares or stock acquisition rights (i) violates laws and regulations or Sony Corporation's Articles of Incorporation, or (ii) will be performed in a manner materially unfair, and shareholders may suffer disadvantages therefrom, such shareholders may file an injunction to enjoin such issue with a court.

*(Liquidation rights)*

In the event of a liquidation of Sony Corporation, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed among the holders of shares of Common Stock in proportion to the respective numbers of shares of Common Stock held.

*(Record date)*

March 31 is the record date for Sony Corporation's year-end dividends, if declared. So long as Sony Corporation maintains the unit share system, shareholders who are registered as the holders of one or more unit of stock in Sony Corporation's register of shareholders at the end of each March 31 are also entitled to exercise shareholders' rights at the Ordinary General Meeting of Shareholders with respect to the business year ending on such March 31. September 30 is the record date for interim dividends. In addition, Sony Corporation may set a record date for determining the shareholders entitled to other rights and for other purposes by giving at least two weeks prior public notice.

JASDEC is required to promptly give Sony Corporation notice of the names and addresses of Sony Corporation's shareholders, the numbers of shares of Common Stock held by them and other relevant information as of such record date.

*(Acquisition by Sony Corporation of its capital stock)*

Under the Companies Act and the Articles of Incorporation of Sony Corporation, Sony Corporation may acquire shares of Common Stock (i) from a specific shareholder other than any of its subsidiaries (pursuant to the special shareholders resolution), (ii) from any of its subsidiaries (pursuant to a determination by the CEO as

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delegated by the Board of Directors), or (iii) by way of purchase on any Japanese stock exchange on which Sony Corporation's shares of Common Stock are listed or by way of tender offer (pursuant to a resolution of the Board of Directors, as long as its non-consolidated annual financial statements and certain documents for the last business year present fairly its assets and profit or loss, as required by ordinances of the Ministry of Justice).

In the case of (i) above, any other shareholder may make a request to Sony Corporation that such other shareholder be included as a seller in the proposed purchase, provided that no such right will be available if the purchase price or any other consideration to be received by the relevant specific shareholder will not exceed the last trading price of the shares on the relevant stock exchange on the day immediately preceding the date on which the resolution mentioned in (i) above was adopted (or, if there is no trading in the shares on the stock exchange or if the stock exchange is not open on such day, the price at which the shares are first traded on such stock exchange thereafter).

The total amount of the purchase price of shares of Common Stock may not exceed the Distributable Amount, as described in (Distribution of Surplus) *Distributions of Surplus* Restriction on distributions of Surplus.

Shares acquired by Sony Corporation may be held for any period or may be retired at the determination of the CEO. Sony Corporation may also transfer (by public or private sale or otherwise) to any person the shares held by it, subject to a determination by the CEO, and subject also to other requirements similar to those applicable to the issuance of new shares, as described in (*Issue of additional shares and pre-emptive rights*) above. Sony Corporation may also utilize its treasury stock for the purpose of transfer to any person upon exercise of stock acquisition rights or for the purpose of acquiring another company by way of merger, share exchange or corporate split through exchange of treasury stock for shares or assets of the acquired company.

*(Unit share system)*

The Articles of Incorporation of Sony Corporation provide that 100 shares constitute one unit of shares of stock. The Board of Directors or the Corporate Executive Officer to whom the authority to make such a determination has been delegated by a resolution of the Board of Directors is permitted to amend the Articles of Incorporation to reduce the number of shares that constitute a unit or to abolish the unit share system entirely. The number of shares constituting one unit cannot exceed 1,000 shares.

Under the unit share system, shareholders have one voting right for each unit of stock that they hold. Any number of shares less than one full unit have neither voting rights nor rights related to voting rights. Holders of shares constituting less than one unit will have no other shareholder rights if Sony Corporation's Articles of Incorporation so provide, except that such holders may not be deprived of certain rights specified in the Companies Act or an ordinance of the Ministry of Justice, including the right to receive distribution of Surplus.

A holder of shares constituting less than one full unit may require Sony Corporation to purchase such Shares at their market value in accordance with the provisions of the Share Handling Regulations of Sony Corporation. In addition, the Articles of Incorporation of Sony Corporation provide that a holder of shares constituting less than one full unit may request Sony Corporation to sell to such holder such amount of shares which will, when added together with the shares constituting less than one full unit, constitute one full unit of stock. Such request by a holder and the sale by Sony Corporation must be made in accordance with the provisions of the Share Handling Regulations of Sony Corporation. As prescribed in the Share Handling Regulations, such requests shall be made through an account management institution and JASDEC pursuant to the rules set by JASDEC, without going through the notification procedure required for the exercise of shareholders' rights entitled regardless of record dates as described in General Shares constituting less than a full unit are transferable, under the new book-entry transfer system described in General. Under the rules of the stock exchanges, however, shares constituting less than a full unit do not comprise a trading unit, except in limited circumstances, and accordingly may not be sold on the Japanese stock exchanges.



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*(Sale by Sony Corporation of shares held by shareholders whose location is unknown)*

Sony Corporation is not required to send a notice to a shareholder if a notice to such shareholder fails to arrive at the registered address of the shareholder in Sony Corporation's register of shareholders or at the address otherwise notified to Sony Corporation continuously for five years or more.

In addition, Sony Corporation may sell or otherwise dispose of shares of capital stock for which the location of the shareholder is unknown. Generally, if (i) notices to a shareholder fail to arrive continuously for five years or more at the shareholder's registered address in Sony Corporation's register of shareholders or at the address otherwise notified to Sony Corporation, and (ii) the shareholder fails to receive distributions of Surplus on the shares continuously for five years or more at the address registered in Sony Corporation's register of shareholders or at the address otherwise notified to Sony Corporation, Sony Corporation may sell or otherwise dispose of the shareholder's shares at the then market price of the shares by a determination of a Corporate Executive Officer and after giving at least three months prior public and individual notice, and hold or deposit the proceeds of such sale or disposal of shares for such shareholder.

## ***Reporting of substantial shareholdings***

The Financial Instruments and Exchange Act of Japan and its related regulations require any person, regardless of residence, who has become, beneficially and solely or jointly, a holder of more than five percent of the total issued shares of capital stock of a company listed on any Japanese stock exchange or whose shares are traded on the over-the-counter market in Japan to file with the Director General of the competent Local Finance Bureau of the Ministry of Finance within five business days a report concerning such shareholdings. A similar report must also be filed in respect of any subsequent change of one percent or more in any such holding, or any change in material matters set out in reports previously filed, with certain exceptions. For this purpose, shares issuable to such persons upon conversion of convertible securities or exercise of share subscription warrants or stock acquisition rights are taken into account in determining both the number of shares held by such holders and the issuer's total issued share capital. Any such report shall be filed with the Director General of the relevant Local Finance Bureau of the Ministry of Finance through the Electronic Disclosure for Investors' Network (EDINET) system. Copies of such report must also be furnished to the issuer of such shares and all Japanese stock exchanges on which such shares are listed.

Except for the general limitation under Japanese anti-trust and anti-monopoly regulations against holding of shares of capital stock of a Japanese corporation which leads or may lead to a restraint of trade or monopoly, and except for general limitations under the Companies Act or Sony Corporation's Articles of Incorporation on the rights of shareholders applicable regardless of residence or nationality, there is no limitation under Japanese laws and regulations applicable to Sony Corporation or under its Articles of Incorporation on the rights of non-resident or foreign shareholders to hold or exercise voting rights on the shares of capital stock of Sony Corporation.

There is no provision in Sony Corporation's Articles of Incorporation or internal regulations that would have an effect of delaying, deferring or preventing a change in control of Sony Corporation and that would operate only with respect to merger, acquisition or corporate restructuring involving Sony Corporation.

## **Material Contracts**

None

## **Exchange Controls**

The Foreign Exchange and Foreign Trade Act of Japan and its related cabinet orders and ministerial ordinances (the Foreign Exchange Regulations ) govern the acquisition and holding of shares of capital stock of Sony Corporation by exchange non-residents and by foreign investors. The Foreign Exchange Regulations currently in effect do not, however, affect transactions between exchange non-residents to purchase or sell shares outside Japan using currencies other than Japanese yen.



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Exchange non-residents are:

- individuals who do not reside in Japan; and
- corporations whose principal offices are located outside Japan.

Generally, branches and other offices of non-resident corporations that are located within Japan are regarded as residents of Japan. Conversely, branches and other offices of Japanese corporations located outside Japan are regarded as exchange non-residents.

Foreign investors are:

- individuals who are exchange non-residents;
- corporations that are organized under the laws of foreign countries or whose principal offices are located outside of Japan; and
- corporations (1) 50 percent or more of whose shares are held, directly or indirectly, by individuals who are exchange non-residents and/or corporations (a) that are organized under the laws of foreign countries or (b) whose principal offices are located outside of Japan or (2) a majority of whose officers, or officers having the power of representation, are individuals who are exchange non-residents.

In general, the acquisition of shares of a Japanese company (such as the shares of capital stock of Sony Corporation) by an exchange non-resident from a resident of Japan is not subject to any prior filing requirements. In certain limited circumstances, however, the Minister of Finance may require prior approval of an acquisition of this type. While prior approval, as described above, is not required, in the case where a resident of Japan transfers shares of a Japanese company (such as the shares of capital stock of Sony Corporation) for consideration exceeding 100 million yen to an exchange non-resident, the resident of Japan who transfers the shares is required to report on the transfer to the Minister of Finance within 20 days from the date of the transfer, unless the transfer was made through a bank, securities company or financial futures trader licensed under Japanese law.

If a foreign investor acquires shares of a Japanese company that is listed on a Japanese stock exchange (such as the shares of capital stock of Sony Corporation) or that is traded on an over-the-counter market in Japan and, as a result of the acquisition, the foreign investor, in combination with any existing holdings, directly or indirectly holds 10 percent or more of the issued shares of the relevant company, the foreign investor must file a report of the acquisition with the Minister of Finance and any other competent Ministers having jurisdiction over that Japanese company by the 15th day of the month immediately following the month in which such acquisition took place. In limited circumstances, such as where the foreign investor is in a country that is not listed on an exemption schedule in the Foreign Exchange Regulations, or where that Japanese company is engaged in certain businesses designated by the Foreign Exchange Regulations, a prior notification of the acquisition must be filed with the Minister of Finance and any other competent Ministers, who may then modify or prohibit the proposed acquisition.

Under the Foreign Exchange Regulations, dividends paid on and the proceeds from sales in Japan of shares of capital stock of Sony Corporation held by non-residents of Japan may generally be converted into any foreign currency and repatriated abroad.

## **Taxation**

The following is a summary of the major Japanese national tax and U.S. federal income tax consequences of the ownership, acquisition and disposition of shares of Common Stock of Sony Corporation and of ADRs evidencing ADSs representing shares of Common Stock of Sony Corporation by a non-resident of Japan or a non-Japanese corporation without a permanent establishment in Japan. The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular investor, and does not take into account any specific individual circumstances of any particular investor. Accordingly, holders of shares of Common Stock or ADSs of Sony Corporation are encouraged to consult their tax advisors regarding the application of the considerations discussed below to their particular circumstances.

This summary is based upon the representations of the depositary and the assumption that each obligation in the deposit agreement in relation to the ADSs dated as of June 1, 1961, as amended and restated as of October 31,

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1991, as further amended and restated as of March 17, 1995, and as of February 25, 2010, and in any related agreement, will be performed in accordance with its terms.

For purposes of the income tax convention between Japan and the United States (the *Treaty*) and the U.S. Internal Revenue Code of 1986, as amended (the *Code*), U.S. holders of ADSs generally will be treated as owning shares of Common Stock of Sony Corporation underlying the ADSs evidenced by the ADRs. For the purposes of the following discussion, a U.S. holder is a holder that:

- (i) is a resident of the U.S. for purposes of the Treaty;
- (ii) does not maintain a permanent establishment in Japan (a) with which shares of Common Stock or ADSs of Sony Corporation are effectively connected and through which the U.S. holder carries on or has carried on business or (b) of which shares of Common Stock or ADSs of Sony Corporation form part of the business property; and
- (iii) is eligible for benefits under the Treaty with respect to income and gain derived in connection with shares of Common Stock or ADSs of Sony Corporation.

### ***Japanese Taxation***

The following is a summary of the principal Japanese tax consequences (limited to national taxes) to non-residents of Japan or non-Japanese corporations without a permanent establishment in Japan ( *non-resident Holders* ) who are holders of shares of Common Stock of Sony Corporation or of ADRs evidencing ADSs representing shares of Common Stock of Sony Corporation.

Generally, non-resident Holders are subject to Japanese withholding tax on dividends paid by Japanese corporations. Such taxes are withheld prior to payment of dividends as required by Japanese law. Stock splits are, in general, not a taxable event.

In the absence of an applicable tax treaty, convention or agreement reducing the maximum rate of Japanese withholding tax or allowing exemption from Japanese withholding tax, the rate of Japanese withholding tax applicable to dividends paid by Japanese corporations to non-resident Holders is generally 20 percent, provided, with respect to dividends paid on listed shares issued by a Japanese corporation (such as the shares of Common Stock or ADRs of Sony Corporation) to non-resident Holders other than any individual shareholder who holds 5 percent or more of the total shares issued by the relevant Japanese corporation, the aforementioned 20 percent withholding tax rate is reduced to (i) 7 percent for dividends due and payable on or before December 31, 2011, and (ii) 15 percent for dividends due and payable on or after January 1, 2012. As of the date of this document, Japan has income tax treaties, conventions or agreements whereby the above-mentioned withholding tax rate is reduced, in most cases to 15 percent or 10 percent for portfolio investors (15 percent under the income tax treaties with, among other countries, Belgium, Canada, Denmark, Finland, Germany, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, and Switzerland, and 10 percent under the income tax treaties with Australia, France, the U.K. and the United States).

Under the Treaty, the maximum rate of Japanese withholding tax that may be imposed on dividends paid by a Japanese corporation to a U.S. holder that does not own directly or indirectly at least 10 percent of the voting stock of the Japanese corporation is generally reduced to 10 percent of the gross amount actually distributed, and dividends paid by a Japanese corporation to a U.S. holder that is a pension fund are exempt from Japanese income taxation by way of withholding or otherwise unless such dividends are derived from the carrying on of a business, directly or indirectly, by such pension fund.

If the maximum tax rate provided for in the income tax treaty applicable to dividends paid by Sony Corporation to any particular non-resident Holder is lower than the withholding tax rate otherwise applicable under Japanese tax law, or if any particular non-resident Holder is exempt from Japanese income tax with respect to such dividends under the income tax treaty applicable to such particular non-resident Holder, such non-resident Holder who is entitled to a reduced rate of or exemption from Japanese withholding tax on payment of dividends on shares of common stock by Sony Corporation is required to submit an Application Form for Income Tax Convention Regarding Relief from Japanese Income Tax on Dividends (together with any other required forms and documents)

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in advance through the withholding agent to the relevant tax authority before the payment of dividends. A standing proxy for non-resident Holders of a Japanese corporation may provide this application service. With respect to ADSs, this reduced rate or exemption is applicable if the depository or its agent submits two Application Forms (one before payment of dividends and the other within eight months after the record date concerning such payment of dividends). To claim this reduced rate or exemption, a non-resident Holder of ADSs will be required to file a proof of taxpayer status, residence and beneficial ownership (as applicable) and to provide other information or documents as may be required by the depository. A non-resident Holder who is entitled, under an applicable income tax treaty, to a reduced rate which is lower than the withholding tax rate otherwise applicable under Japanese tax law or an exemption from the withholding tax, but failed to submit the required application in advance will be entitled to claim the refund of taxes withheld in excess of the rate under an applicable tax treaty (if such non-resident Holder is entitled to a reduced treaty rate under the applicable income tax treaty) or the full amount of tax withheld (if such non-resident Holder is entitled to an exemption under the applicable income tax treaty) from the relevant Japanese tax authority, by complying with a certain subsequent filing procedure. Sony Corporation does not assume any responsibility to ensure withholding at the reduced treaty rate or to ensure not withholding for shareholders who would be so eligible under any applicable income tax treaty but where the required procedures as stated above are not followed.

Gains derived from the sale of shares of Common Stock or ADSs of Sony Corporation outside Japan by a non-resident Holder holding such shares or ADSs as portfolio investors are, in general, not subject to Japanese income tax or corporation tax. U.S. holders are not subject to Japanese income or corporation tax with respect to such gains under the Treaty.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired shares of Common Stock or ADSs of Sony Corporation as a legatee, heir or donee even though neither the individual nor the deceased nor donor is a Japanese resident.

Holders of shares of Common Stock or ADSs of Sony Corporation should consult their tax advisors regarding the effect of these taxes and, in the case of U.S. holders, the possible application of the Estate and Gift Tax Treaty between the U.S. and Japan.

***United States Taxation with respect to shares of Common Stock and ADSs***

The U.S. dollar amount of dividends received (prior to deduction of Japanese taxes) by a U.S. holder of ADSs or Common Stock will be included in income as ordinary income for U.S. federal income tax purposes to the extent paid out of current or accumulated earnings and profits of Sony Corporation as determined for U.S. federal income tax purposes. Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual prior to January 1, 2011 with respect to the ADSs or Common Stock will be subject to taxation at a maximum rate of 15 percent if the dividends are qualified dividends. Dividends paid on the Common Stock or ADSs will be treated as qualified dividends if Sony Corporation was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid a passive foreign investment company ( PFIC ). Based on Sony Corporation's audited financial statements and relevant market and shareholder data, Sony Corporation believes that it was not treated as a PFIC for U.S. federal income tax purposes with respect to its 2009 taxable year. In addition, based on Sony Corporation's audited financial statements and Sony Corporation's current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market and shareholder data, Sony Corporation does not anticipate becoming a PFIC for the 2010 taxable year. The U.S. Treasury has announced its intention to promulgate rules pursuant to which holders of ADSs or Common Stock and intermediaries through whom such securities are held will be permitted to rely on certifications from issuers to treat dividends as qualified for tax reporting purposes. Because such procedures have not yet been issued, it is not clear whether Sony Corporation will be able to comply with them. Holders of ADSs and Common Stock should consult their own tax advisors regarding the availability of the reduced dividend tax rate in light of the considerations

discussed above and their own particular circumstances.

Subject to applicable limitations and special considerations discussed below, a U.S. holder of ADSs or Common Stock of Sony Corporation will be entitled to a credit for Japanese tax withheld in accordance with the Treaty from dividends paid by Sony Corporation. For purposes of the foreign tax credit limitation, dividends will be foreign source

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income, and will generally constitute passive income. Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions and may not be allowed in respect of arrangements in which economic profit, after non-U.S. taxes, is insubstantial. Holders of ADSs and Common Stock should consult their own tax advisors regarding the implications of these rules in light of their particular circumstances.

Dividends paid by Sony Corporation to U.S. corporate holders of ADSs or Common Stock will not be eligible for the dividends-received deduction.

In general, a U.S. holder will recognize capital gain or loss upon the sale or other disposition of ADSs or Common Stock equal to the difference between the amount realized on the sale or disposition and the U.S. holder's tax basis in the ADSs or Common Stock. Such capital gain or loss will be long-term capital gain or loss if the ADSs or Common Stock have been held for more than one year on the date of the sale or disposition. The net amount of long-term capital gain recognized by an individual holder before January 1, 2011 generally is subject to taxation at a maximum rate of 15 percent. The net long-term capital gain recognized by an individual holder after December 31, 2010 generally is subject to taxation at a maximum rate of 20 percent.

Under the Code, a U.S. holder of ADSs or Common Stock may be subject, under certain circumstances, to information reporting and possibly backup withholding with respect to dividends and proceeds from the sale or other disposition of ADSs or Common Stock, unless the U.S. holder provides proof of an applicable exemption or correct taxpayer identification number and otherwise complies with applicable requirements of the backup withholding rules. Any amount withheld under the backup withholding rules is not additional tax and may be refunded or credited against the U.S. holder's federal income tax liability, so long as the required information is furnished to the U.S. Internal Revenue Service.

## **Dividends and Paying Agent**

Not Applicable

## **Statement by Experts**

Not Applicable

## **Documents on Display**

It is possible to read and copy documents referred to in this annual report on Form 20-F that have been filed with the SEC at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. You can also access the documents at the SEC's home page (<http://www.sec.gov/index.html>).

## **Subsidiary Information**

Not Applicable

## **Item 11. *Quantitative and Qualitative Disclosures about Market Risk***

Sony's business is continuously exposed to market fluctuation, such as fluctuations in currency exchange rates, interest rates or stock prices. Sony utilizes several derivative instruments, such as foreign exchange forward contracts, foreign currency option contracts, interest rate swap agreements and currency swap agreements in order to hedge the potential downside risk on the cash flow from the normal course of business caused by market fluctuation. Sony uses foreign

exchange forward contracts and foreign currency option contracts primarily to reduce the foreign exchange volatility risk that accounts receivable or accounts payable denominated in yen, U.S. dollars, euros or other currencies have through the normal course of Sony's worldwide business. Interest rate swap agreements and currency swap agreements are utilized to diversify funding conditions or to reduce funding costs, and in the Financial Services segment, these transactions are used for asset liability management. Sony uses these derivative financial instruments mainly for risk-hedging purposes as described above, and few derivative transactions, such as bond futures and bond options are held or utilized for trading purposes in the Financial Services segment. If hedge accounting cannot be applied because the accounts receivable or accounts payable to be



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hedged are not yet booked, or because cash flows from derivative transactions do not coincide with the underlying exposures recorded on Sony's balance sheet, such derivatives agreements are subject to a mark-to-market evaluation and their unrealized gains or losses are recognized in earnings. In addition, Sony holds marketable securities such as straight bonds, convertible bonds, and stocks in yen or other currencies in the Financial Services segment in order to obtain interest income or capital gain on the financial assets under management. Investments in marketable securities are also subject to market fluctuation.

Sony measures the economic impact of market fluctuations on the value of derivatives agreements and marketable securities by using Value-at-Risk ( VaR ) analysis in order to comply with Item 11 disclosure requirements. VaR in this context indicates the potential maximum amount of loss in fair value resulting from adverse market fluctuations for a selected period of time and at a selected level of confidence.

The following table shows the results of VaR. These analyses for the fiscal year ended March 31, 2010 indicate the potential maximum loss in fair value as predicted by the VaR analysis resulting from market fluctuations in one day at a 95 percent confidence level. The VaR of currency exchange rate risk principally consists of risks arising from the volatility of the exchange rates between the yen and U.S. dollar and between the yen and the euro, the currencies in which a significant amount of financial assets and liabilities and derivative transactions are maintained on a consolidated basis. The VaR of interest rate risk and stock price risk consists of risks arising from the volatility of the interest rates and stock prices against invested securities and derivatives transactions in the Financial Services segment.

The net VaR for Sony's entire portfolio is smaller than the simple aggregate of VaR for each component of market risk. This is due to the fact that market risk factors such as currency exchange rates, interest rates, and stock prices are not completely independent, and potential profits and losses arising from each market risk may to some degree be mutually offsetting.

The disclosed VaR amounts simply represent the calculated potential maximum loss on the specified date and does not necessarily indicate an estimate of actual or future loss.

**Consolidated**

|                                    | <b>June 30,<br/>2009</b> | <b>September 30,<br/>2009</b> | <b>December 30,<br/>2009</b> | <b>March 31,<br/>2010</b> |
|------------------------------------|--------------------------|-------------------------------|------------------------------|---------------------------|
|                                    | <b>(Yen in billions)</b> |                               |                              |                           |
| Net VaR                            | 3.6                      | 2.8                           | 2.1                          | <b>1.7</b>                |
| VaR of currency exchange rate risk | 3.9                      | 3.2                           | 2.2                          | <b>1.8</b>                |
| VaR of interest rate risk          | 0.4                      | 0.6                           | 0.6                          | <b>0.2</b>                |
| VaR of stock price risk            | 0.8                      | 0.4                           | 0.1                          | <b>0.0</b>                |

**Financial Services**

|         | <b>June 30,<br/>2009</b> | <b>September 30,<br/>2009</b> | <b>December 30,<br/>2009</b> | <b>March 31,<br/>2010</b> |
|---------|--------------------------|-------------------------------|------------------------------|---------------------------|
|         | <b>(Yen in billions)</b> |                               |                              |                           |
| Net VaR | 1.2                      | 0.7                           | 0.7                          | <b>0.6</b>                |

|                                    |     |     |     |            |
|------------------------------------|-----|-----|-----|------------|
| VaR of currency exchange rate risk | 1.3 | 0.6 | 0.7 | <b>0.7</b> |
| VaR of interest rate risk          | 0.4 | 0.5 | 0.6 | <b>0.2</b> |
| VaR of stock price risk            | 0.8 | 0.4 | 0.1 | <b>0.0</b> |

**All other segments excluding Financial Services**

|                                    | <b>June 30,<br/>2009</b> | <b>September 30,<br/>2009</b> | <b>December 30,<br/>2009</b> | <b>March 31,<br/>2010</b> |
|------------------------------------|--------------------------|-------------------------------|------------------------------|---------------------------|
|                                    | <b>(Yen in billions)</b> |                               |                              |                           |
| Net VaR                            | 2.7                      | 2.6                           | 1.6                          | <b>1.2</b>                |
| VaR of currency exchange rate risk | 2.7                      | 2.6                           | 1.7                          | <b>1.2</b>                |
| VaR of interest rate risk          | 0.1                      | 0.0                           | 0.1                          | <b>0.0</b>                |
| VaR of stock price risk            | 0.0                      | 0.0                           | 0.0                          | <b>0.0</b>                |

**Table of Contents****Item 12. Description of Securities Other Than Equity Securities**

## Item 12(d). American Depositary Shares

JPMorgan Chase Bank, N.A. (the Depository) serves as the depository for Sony's ADSs. ADS holders are required to pay various fees to the Depository and the Depository may refuse to provide any service for which a fee is assessed until the applicable fee has been paid.

ADS holders are required to pay the Depository an annual fee of 0.05 U.S. dollar per ADS (or portion thereof) for administering the ADS program, and amounts in respect of expenses incurred by the Depository or its agents on behalf of ADS holders, including expenses arising from (i) compliance with applicable law, taxes or other governmental charges, (ii) cable, telex or facsimile transmission, (iii) transfer or registration in connection with the deposit or withdrawal of deposited securities, and (iv) conversion of foreign currency into U.S. dollars. In each case, the fee may be charged on a periodic basis and the Depository may decide in its sole discretion to seek payment by either billing holders or by deducting the fee from one or more cash dividends or other cash distributions.

ADS holders are also required to pay additional fees for certain services provided by the Depository, as set forth in the table below.

| <b>Depository service</b>   | <b>Fee payable by ADS holders</b>                        |
|---|--|
| Issuance and delivery of ADRs, including in connection with share distributions, sales and stock splits | 5.00 U.S. dollars for each 100 ADSs (or portion thereof) |
| Cash distribution of dividends  | 0.05 U.S. dollar or less per ADS                         |
| Transfers of ADRs   | 1.50 U.S. dollars per ADS                                |
| Distribution or sale of securities other than ADRs  | 5.00 U.S. dollars for each 100 shares                    |
| Withdrawal, cancellation or reduction of shares underlying ADSs   | 5.00 U.S. dollars per 100 ADSs (or portion thereof)      |

**Direct and Indirect Payments by the Depository to Sony**

The Depository reimburses Sony for certain expenses Sony incurs in connection with its ADR program, subject to a ceiling agreed upon by Sony and the Depository from time to time. These reimbursable expenses currently include legal and accounting fees, listing fees, investor relations expenses and fees payable to service providers for the distribution of material to ADR holders. For the year ended March 31, 2010, such reimbursements totaled approximately 1.4 million U.S. dollars.

In addition, as part of its service to Sony, the Depository waives fees for the standard costs associated with the administration of the ADR program, associated operating expenses, investor relations advice and access to an internet-based tool used in Sony's investor relations activities. For the year ended March 31, 2010, the amount of these indirect payments was estimated to total 0.2 million U.S. dollars.

**Item 13. Defaults, Dividend Arrearages and Delinquencies**

None

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None

**Item 15. *Controls and Procedures***

Item 15(a). Disclosure Controls and Procedures

Sony has carried out an evaluation under the supervision and with the participation of Sony's management, including the Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), of the effectiveness of the design and operation of Sony's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e)

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under the Securities Exchange Act of 1934, as of March 31, 2010. Disclosure controls and procedures require that information to be disclosed in the reports Sony files or submits under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported as and when required, within the time periods specified in the applicable rules and forms, and that such information is accumulated and communicated to Sony's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon Sony's evaluation, the CEO and CFO have concluded that, as of March 31, 2010, the disclosure controls and procedures were effective.

**Item 15(b). 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, 2010 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, 2010.

Sony's independent registered public accounting firm, PricewaterhouseCoopers Aarata, has issued an audit report on our internal control over financial reporting as of March 31, 2010, presented on page (F-2).

**Item 15(c). Attestation Report of the Registered Public Accounting Firm**

Refer to the Report of Independent Registered Public Accounting Firm on page (F-2).

**Item 15(d). Changes in Internal Control over Financial Reporting**

There has been no change in Sony's internal control over financial reporting during the fiscal year ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect, Sony's internal control over financial reporting.

**Table of Contents****Item 16. [Reserved]****Item 16A. Audit Committee Financial Expert**

Sony's Board of Directors has determined that Yoshiaki Yamauchi and Kanemitsu Anraku each qualifies as an audit committee financial expert as defined in Item 16A of Form 20-F under the Securities Exchange Act of 1934, as amended. In addition, both are determined to be independent as defined under the New York Stock Exchange ( NYSE ) Corporate Governance Standards.

**Item 16B. Code of Ethics**

Sony has adopted a code of ethics, as defined in Item 16B of Form 20-F under the Securities Exchange Act of 1934, as amended. The code of ethics applies to Sony's Chief Executive Officer, Chief Financial Officer, chief accounting officer and persons performing similar functions, as well as to directors and all other officers and employees of Sony, as defined in the code of ethics. The code of ethics is available at <http://www.sony.net/code>

**Item 16C. Principal Accountant Fees and Services****Audit and Non-Audit Fees**

The following table presents fees for audit and other services rendered by PricewaterhouseCoopers for the fiscal years ended March 31, 2009 and 2010.

|                       | <b>Fiscal Year ended<br/>March 31</b> |              |
|-----------------------|---------------------------------------|--------------|
|                       | <b>2009</b>                           | <b>2010</b>  |
|                       | <b>Yen in millions</b>                |              |
| Audit Fees(1)         | 4,457                                 | <b>4,175</b> |
| Audit-Related Fees(2) | 323                                   | <b>152</b>   |
| Tax Fees(3)           | 27                                    | <b>1</b>     |
| All Other Fees(4)     | 26                                    | <b>74</b>    |
|                       | 4,833                                 | <b>4,402</b> |

- (1) Audit Fees consist of fees billed for the annual audit services engagement and other audit services, which are those services that only the external auditor can provide.
- (2) Audit-Related Fees consist of fees billed for assurance and related services, and primarily include advisory services relating to the implementation of the International Financial Reporting Standards, audit services relating to benefit plans, and audit services relating to business acquisitions and dispositions.
- (3) Tax Fees primarily consist of fees for tax advice.
- (4) All Other Fees comprise fees for all other services not included in any of the other categories noted above.

**Audit Committee's Pre-Approval Policies and Procedures**

Consistent with the U.S. Securities and Exchange Commission rules regarding auditor independence, Sony's Audit Committee is responsible for appointing, reviewing and setting compensation, retaining, and overseeing the work of Sony's independent auditor, so that the auditor's independence will not be impaired, including overseeing any separate firm that audits the financial statements of any subsidiary if Sony's independent auditor expressly relies on the audit report of such firm. The Audit Committee established a formal policy requiring pre-approval of all audit and permissible non-audit services provided by the independent auditor to Sony Corporation or any of its subsidiaries. The Audit Committee shall periodically review this policy with due regard for compliance with laws and regulations of host countries where Sony Corporation is listed.

Prior to the engagement of the independent auditor for the following fiscal year's audit, management shall submit an application form to the Audit Committee for comprehensive pre-approval of all recurring services expected to be rendered during that year. In order to obtain comprehensive pre-approval, management shall provide



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sufficient information regarding each service so that each service can be classified into one of four categories (Audit, Audit-Related, Tax, or All Other) as well as information regarding the fees expected to be budgeted for each service. Management shall describe each service in detail and indicate precisely and unambiguously the nature and scope of each particular service. Any additional services not contemplated in the application form shall require the Audit Committee's separate pre-approval on an individual basis. The Audit Committee will approve, if necessary, any changes in terms, conditions and fees, resulting from changes in the scope of services to be provided or from other circumstances. The Audit Committee Chair retains pre-approval authority and evaluates items for approval on a request basis. The Audit Committee or its designee shall establish procedures to assure that the independent auditor is aware in a timely manner of the services that have been pre-approved.

During the fiscal year ended March 31, 2010, the Audit Committee continued, as a matter of Sony's policy, to generally exclude individual tax services and corporate tax services from the list of permissible services to enhance auditor independence. The Audit Committee carefully reviewed these services and only permitted exceptional instances, which were not prohibited under the U.S. Securities and Exchange Commission rules and regulations. These exceptions were only allowed in situations in which difficulties were encountered in finding an alternative service provider immediately, or when a transitional period was needed.

**Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not Applicable.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The following table sets out information concerning purchases made by Sony during the fiscal year ended March 31, 2010.

| Period   | (a) Total<br>Number of<br>Shares<br>Purchased | (b) Average<br>Price Paid per<br>Share (yen) | (c) Total<br>Number of<br>Shares<br>Purchased as<br>Part of Publicly<br>Announced<br>Plans or<br>Programs | (d) Maximum<br>Number of<br>Shares that<br>May Yet Be<br>Purchased<br>Under the Plans<br>or Programs |
|--|---|--|---|--|
| April 1 <sup>st</sup> <del>30</del> , 2009     | 5,569   | 2,408.56                                     | N/A   | N/A  |
| May 1 <sup>st</sup> <del>31</del> , 2009       | 4,190   | 2,546.83                                     | N/A   | N/A  |
| June 1 <sup>st</sup> <del>30</del> , 2009      | 3,571   | 2,585.20                                     | N/A   | N/A  |
| July 1 <sup>st</sup> <del>31</del> , 2009      | 2,844   | 2,367.97                                     | N/A   | N/A  |
| August 1 <sup>st</sup> <del>31</del> , 2009    | 2,494   | 2,617.01                                     | N/A   | N/A  |
| September 1 <sup>st</sup> <del>30</del> , 2009 | 2,342   | 2,515.57                                     | N/A   | N/A  |
| October 1 <sup>st</sup> <del>31</del> , 2009   | 2,363   | 2,567.25                                     | N/A   | N/A  |
| November 1 <sup>st</sup> <del>30</del> , 2009  | 1,619   | 2,593.78                                     | N/A   | N/A  |
| December 1 <sup>st</sup> <del>31</del> , 2009  | 5,501   | 2,583.41                                     | N/A   | N/A  |
| January 1 <sup>st</sup> <del>31</del> , 2010   | 4,211   | 2,911.37                                     | N/A   | N/A  |
| February 1 <sup>st</sup> <del>28</del> , 2010  | 3,788   | 3,076.53                                     | N/A   | N/A  |
| March 1 <sup>st</sup> <del>31</del> , 2010     | 4,007   | 3,318.02                                     | N/A   | N/A  |
| Total  | 42,499  | 2,686.07                                     | N/A   | N/A  |

Under the Companies Act, a holder of shares constituting less than one full unit may require Sony Corporation to purchase such shares at their market value (Refer to Memorandum and Articles of Association *Capital stock (Unit share system)* in Item 10. *Additional Information* ). During the fiscal year ended March 31, 2010, Sony Corporation purchased 42,499 shares for a total purchase price of 114,155,123 yen upon such requests from holders of shares constituting less than one full unit.

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**Item 16F. *Change in Registrant's Certifying Accountant***

Not Applicable.

**Item 16G. *Disclosure About Differences in Corporate Governance***

The table below discloses the significant ways in which Sony's corporate governance practices differ from those required for U.S. companies under the listing standards of the NYSE. As a foreign private issuer listed on the NYSE, Sony is exempt from most of the exchange's corporate governance standards requirements. For further information on Sony's corporate governance practices and history, please refer to Board Practices in Item 6. *Director, Senior Management and Employees*.

**NYSE Standards**

**Board Independence.** A majority of board directors must be independent.

**Sony's Corporate Governance Practices**

Sony has adopted the Company with Committees system under the Companies Act of Japan and its related regulations (collectively the Companies Act).

Sony's Charter of the Board of Directors (attached as an exhibit 1.3 to this report) requires its board to consist of between 10 to 20 directors.

The Companies Act does not require Sony to have a majority of independent (in the meaning given by the NYSE Corporate Governance Standards) directors on its board; rather, it requires Sony to have a majority of outside directors (the definition of the term outside director is summarized below) on each of three statutory committees (the Nominating Committee, the Audit Committee and the Compensation Committee). In addition, the Securities Listing Regulations of the Tokyo Stock Exchange require Sony to have, at least one Independent Director on the Board of Directors.

Independent Director is defined in the Securities Listing Regulations of the Tokyo Stock Exchange as an outside director who is unlikely to have conflicts of interest with shareholders.

As of June 28, 2010, 12 of the 14 members of Sony's Board of Directors are qualified as outside directors. In addition, all 12 outside directors are also qualified and designated as Independent Directors under the Securities Listing Regulations of the Tokyo Stock Exchange.

**Director Independence.** A director is not independent if such director is

Outside director is defined in the Companies Act as:

(i) a person who the board determines has a material direct or indirect relationship with the company, its parent or a consolidated subsidiary;

(ii) a person who, within the last three years, has been an employee of the company or has an immediate family member of an executive officer of the company, its parent or a consolidated subsidiary;

(iii) a person who had received, or whose immediate family member had received, during any 12 month

A director (i) who is not a director of the company or any of its subsidiaries engaged in the business operations of the company or such subsidiary, as the case may be, or a corporate executive officer or a general manager or other employee of the company or any of its subsidiaries, and (ii) who has never been a director of the company or any of its subsidiaries engaged in the business operations of the company or such subsidiary, as the case may be, or a corporate executive officer or a general manager or other

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**NYSE Standards**

period within the last three years, more than 120,000 U.S dollars per year in direct compensation from the company, its parent or a consolidated subsidiary, other than director and committee fees or deferred compensation for prior services (provided such compensation is not contingent in any way on continued service);

(iv) (A) a person who is, or whose immediate family member is, a current partner or employee of a firm that is the company's internal or external auditor; (B) a person whose immediate family member is a partner of such a firm; (C) a person who has an immediate family member who is a current employee of such a firm and who personally participates in the firm's audit, assurance or tax compliance (but not tax planning) practice; or (D) a person who was, or has an immediate family member who was, within the last three years, a partner or employee of such a firm and personally worked on the listed company's audit within that time;

(v) a person who is, or whose immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of the listed company's present executive officers at the same time serves or served on that company's compensation committee; or

(vi) an executive officer or employee of a company, or has an immediate family member of an executive officer of a company, that makes payments to, or receives payments from, the listed company, its parent or a consolidated subsidiary for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of 1 million U.S. dollars or 2 percent of such other company's consolidated gross revenues.

**Sony's Corporate Governance Practices**

employee of the company or any of its subsidiaries.

Under the Companies Act, a director's status as an outside director is unaffected by the director's compensation, his or her affiliation with business partners, or the board's affirmative determination of independence. On the other hand, under the Companies Act, a director who has had a career as a management director, corporate executive officer, or other employee of the company or its subsidiaries is by definition not an outside director.

Sony's Charter of the Board of Directors includes a provision requiring that each outside director:

(i) Shall not have received directly from Sony Group, during any consecutive 12 month period within the last three years, more than an amount equivalent to 120,000 U.S dollars, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service);

(ii) Shall not be a director, a statutory auditor, a corporate executive officer, a general manager or other employees of any company whose aggregate amount of transactions with Sony Group, in any of the last three fiscal years, exceeds the greater of an amount equivalent to 1,000,000 U.S. dollars, or 2 percent of the annual consolidated sales of such company; and

(iii) Shall not be, or shall not have been, a director engaged in the business operation, a corporate executive officer, an accounting counselor, a general manager or other employees of Sony or its subsidiaries\*. (\* This provision of the Charter is based on the definition of outside director under the Companies Act.)

In addition, the Securities Listing Regulations of the Tokyo Stock Exchange requires Sony to have, at least one Independent Director on the Board of Directors.

Independent Director is defined in the Securities Listing Regulations of the Tokyo Stock Exchange as an officer who is unlikely to have conflicts of interest with shareholders.

As of June 28, 2010, 12 of the 14 members of Sony's Board of Directors qualified as outside directors. In addition, all those 12 outside directors are qualified and designated as Independent Directors under the Securities Listing Regulations of the Tokyo Stock Exchange.

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**NYSE Standards**

**Executive Sessions.** Non-management directors must meet in regularly scheduled executive sessions without management. Independent directors should meet alone in an executive session at least once a year.

**Nominating/Corporate Governance Committee.** A nominating/corporate governance committee of independent directors is required. The committee must have a charter that addresses the purpose, responsibilities (including development of corporate governance guidelines) and annual performance evaluation of the committee.

**Compensation Committee.** A compensation committee of independent directors is required. The committee must have a charter that addresses the purpose, responsibilities and annual performance evaluation of the committee.

**Sony's Corporate Governance Practices**

An outside director, as defined under the Companies Act, is equivalent to a non-management director under the NYSE rules because an outside director does not engage in the execution of business operations of the company. Neither the Companies Act nor Sony's Charter of the Board of Directors requires non-management directors to meet regularly without management and nothing requires outside directors to meet alone in an executive session at least once a year.

Sony's Nominating Committee consists of at least five directors. Under the Companies Act, the Committee is responsible for determining the contents of proposals regarding the appointment and dismissal of directors to be submitted for approval to the shareholders' meeting. Unlike listed U.S. companies under NYSE rules, it is not responsible for developing governance guidelines or overseeing the evaluation of the board and management. Under the Companies Act, a majority of its members must be outside directors, as defined under the Companies Act. Sony's Charter of the Board of Directors requires at least two of the directors on the Committee to be corporate executive officers.

Sony's Compensation Committee consists of at least three directors. Under the Companies Act, a majority of its members must be outside directors, as defined under the Companies Act. Sony's Charter of the Board of Directors recommends that at least one of the directors on the Committee be a corporate executive officer. The Charter prohibits the CEO and/or the COO (or a person at any equivalent position) from serving on the Compensation Committee. Under the Companies Act, the Committee is responsible for, among others, determining the compensation of each director and corporate executive officer.

**Audit Committee.** An audit committee satisfying the independence and other requirements of Rule 10A-3 under the Exchange Act. The committee must have at least three members. All members must be independent. The committee must have a charter addressing the committee's purpose, an annual performance evaluation of the committee and the duties and responsibilities of the committee.

Sony's Audit Committee consists of at least three directors. Under the Companies Act, a majority of its members must be outside directors, as defined under the Companies Act. In addition, pursuant to the Companies Act, no member of the Committee shall be a director of the company or any of its subsidiaries who is engaged in the business operations of the company or such subsidiary, as the case may be, or a corporate executive officer of the company or any of its subsidiaries, or an accounting counselor, general manager or other employee of any of such subsidiaries.

Sony's Charter of the Board of Directors also requires each member of the Audit Committee to meet the



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**NYSE Standards**

**Sony's Corporate Governance Practices**

independence requirements of the applicable U.S. securities laws and regulations, and requires at least one member to meet the audit committee financial expert requirements. Currently, all the members of Sony's Audit Committee are also independent as defined in the NYSE Corporate Governance Standards, and two members of the Committee are qualified as audit committee financial experts.

Sony's Charter of the Board of Directors discourages any Audit Committee member from concurrently being a member of other Committees.

**Equity Compensation Plans.** Equity compensation plans require shareholder approval, subject to limited exemptions.

Under the Companies Act, if Sony wishes to adopt an equity compensation plan under which stock acquisition rights are granted on specially favorable conditions, except where all of its shareholders are granted rights to subscribe for such stock acquisition rights or such stock acquisition rights are gratuitously allocated to all of its shareholders, each on a pro rata basis, then Sony must obtain shareholder approval by a special resolution of a general meeting of shareholders, where the quorum is one-third of the total number of voting rights of all of its shareholders and the approval by at least two-thirds of the number of voting rights of all the shareholders represented at the meeting is required under Sony's Articles of Incorporation.

**Corporate Governance Guidelines.** Corporate governance guidelines must be adopted and disclosed.

Sony is required to disclose the status of its corporate governance under the Companies Act and the Securities Listing Regulations of the Tokyo Stock Exchange; however, Sony does not have corporate governance guidelines that cover all the requirements described in the NYSE Corporate Governance Standards, as many of the provisions do not apply to Sony. Details of the status are posted on the following website:  
<http://www.sony.net/SonyInfo/IR/library/control.html>

**Code of Ethics.** A code of business conduct and ethics for directors, officers and employees must be adopted and disclosed, along with any waivers of the code for directors or executive officers.

Although this provision of the NYSE Corporate Governance Standards does not apply to Sony, Sony has adopted a code of conduct to be observed by all its directors, officers and other employees. The code of conduct is available at

[http://www.sony.net/SonyInfo/csr/management/compliance/code\\_of\\_conduct.pdf](http://www.sony.net/SonyInfo/csr/management/compliance/code_of_conduct.pdf)

The code's content covers principal items described in the NYSE Corporate Governance Standards.

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**Item 17. *Financial Statements***

Not Applicable

**Item 18. *Financial Statements***

Refer to the consolidated financial statements.

**Item 19. *Exhibits***

Documents filed as exhibits to this annual report:

- 1.1 Articles of Incorporation, as amended (English Translation)
- 1.2 Share Handling Regulations, as amended (English Translation)
- 1.3 Charter of the Board of Directors, as amended (English Translation)
- 8.1 Significant subsidiaries (as defined in §210.1-02(w) of Regulation S-X) of Sony Corporation, including additional subsidiaries that management has deemed to be significant, as of March 31, 2010: Incorporated by reference to Business Overview and Organizational Structure in Item 4. Information on the Company
- 12.1 302 Certification
- 12.2 302 Certification
- 13.1 906 Certification
- 15.1(a) Consent of PricewaterhouseCoopers Aarata
- 15.1(b) Consent of PricewaterhouseCoopers

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**SIGNATURES**

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

SONY CORPORATION  
(Registrant)

By: /s/ MASARU KATO

(Signature)  
Masaru Kato  
Executive Vice President and Chief Financial Officer

Date: June 28, 2010

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SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**

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| <u>Consolidated Statements of Income for the years ended March 31, 2008, 2009 and 2010</u>                                   | F-6         |
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All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes thereto.

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|--|------|
| <u>Consolidated Financial Statements of Sony Ericsson Mobile Communications AB</u> | A-1  |
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Consolidated Financial Statements of Sony Ericsson Mobile Communications AB are provided pursuant to Regulation S-X Rule 3-09.

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**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 operations, 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, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2010 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, 2010, 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 integrated audits. 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 the manner in which it accounts for uncertain income tax positions in the fiscal year ended March 31, 2008 and the manner in which it accounts for noncontrolling interests in the fiscal year ended March 31, 2010.

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  
May 31, 2010

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**Table of Contents****SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES****Consolidated Balance Sheets****March 31**

|   | <b>Yen in millions</b> |                   |
|---|------------------------|-------------------|
|   | <b>2009</b>            | <b>2010</b>       |
| <i>ASSETS</i>                                     |                        |                   |
| <b>Current assets:</b>                            |                        |                   |
| Cash and cash equivalents                         | 660,789                | 1,191,608         |
| Marketable securities                             | 466,912                | 579,493           |
| Notes and accounts receivable, trade              | 963,837                | 996,100           |
| Allowance for doubtful accounts and sales returns | (110,383)              | (104,475)         |
| Inventories                                       | 813,068                | 645,455           |
| Deferred income taxes                             | 189,703                | 197,598           |
| Prepaid expenses and other current assets         | 636,709                | 627,093           |
| Total current assets                              | 3,620,635              | 4,132,872         |
| Film costs  | 306,877                | 310,065           |
| <b>Investments and advances:</b>                  |                        |                   |
| Affiliated companies                              | 236,779                | 229,051           |
| Securities investments and other                  | 4,561,651              | 5,070,342         |
|   | 4,798,430              | 5,299,393         |
| <b>Property, plant and equipment:</b>             |                        |                   |
| Land  | 155,665                | 153,067           |
| Buildings   | 911,269                | 897,054           |
| Machinery and equipment                           | 2,343,839              | 2,235,032         |
| Construction in progress                          | 100,027                | 71,242            |
|   | 3,510,800              | 3,356,395         |
| Less Accumulated depreciation                     | 2,334,937              | 2,348,444         |
|   | 1,175,863              | 1,007,951         |
| <b>Other assets:</b>                              |                        |                   |
| Intangibles, net                                  | 396,348                | 378,917           |
| Goodwill  | 443,958                | 438,869           |
| Deferred insurance acquisition costs              | 400,412                | 418,525           |
| Deferred income taxes                             | 359,050                | 403,537           |
| Other   | 511,938                | 475,985           |
|   | 2,111,706              | 2,115,833         |
| <b>Total assets</b>                               | <b>12,013,511</b>      | <b>12,866,114</b> |

*(Continued on following page.)*

**Table of Contents****SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES****Consolidated Balance Sheets (Continued)**

|   | Yen in millions   |                   |
|---|-------------------|-------------------|
|   | 2009              | 2010              |
| <i>LIABILITIES</i>  |                   |                   |
| <b>Current liabilities:</b>   |                   |                   |
| Short-term borrowings   | 303,615           | 48,785            |
| Current portion of long-term debt                                   | 147,540           | 235,822           |
| Notes and accounts payable, trade                                   | 560,795           | 817,118           |
| Accounts payable, other and accrued expenses                        | 1,036,830         | 1,003,197         |
| Accrued income and other taxes                                      | 46,683            | 69,175            |
| Deposits from customers in the banking business                     | 1,326,360         | 1,509,488         |
| Other   | 389,077           | 376,340           |
| Total current liabilities   | 3,810,900         | 4,059,925         |
| Long-term debt  | 660,147           | 924,207           |
| Accrued pension and severance costs                                 | 365,706           | 295,526           |
| Deferred income taxes   | 188,359           | 236,521           |
| Future insurance policy benefits and other                          | 3,521,060         | 3,876,292         |
| Other   | 250,737           | 188,088           |
| <b>Total liabilities</b>  | <b>8,796,909</b>  | <b>9,580,559</b>  |
| <b>Commitments and contingent liabilities</b>                       |                   |                   |
| <i>EQUITY</i>   |                   |                   |
| <b>Sony Corporation's stockholders' equity:</b>                     |                   |                   |
| Common stock, no par value  |                   |                   |
| 2009 Shares authorized: 3,600,000,000, shares issued: 1,004,535,364 | 630,765           |                   |
| 2010 Shares authorized: 3,600,000,000, shares issued: 1,004,571,464 |                   | 630,822           |
| Additional paid-in capital  | 1,155,034         | 1,157,812         |
| Retained earnings   | 1,916,951         | 1,851,004         |
| Accumulated other comprehensive income                              |                   |                   |
| Unrealized gains on securities, net                                 | 30,070            | 62,337            |
| Unrealized losses on derivative instruments, net                    | (1,584)           | (36)              |
| Pension liability adjustment  | (172,709)         | (148,989)         |
| Foreign currency translation adjustments                            | (589,220)         | (582,370)         |
|   | (733,443)         | (669,058)         |
| Treasury stock, at cost   |                   |                   |
| Common stock  |                   |                   |
| 2009 1,013,287 shares   | (4,654)           |                   |
| 2010 1,039,656 shares   |                   | (4,675)           |
|   | 2,964,653         | 2,965,905         |
| Noncontrolling interests  | 251,949           | 319,650           |
| <b>Total equity</b>   | <b>3,216,602</b>  | <b>3,285,555</b>  |
| <b>Total liabilities and equity</b>                                 | <b>12,013,511</b> | <b>12,866,114</b> |

*The accompanying notes are an integral part of these statements.*



**Table of Contents****SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES****Consolidated Statements of Income****Fiscal Year Ended March 31**

|  | <b>Yen in millions</b> |             |             |
|--|------------------------|-------------|-------------|
|  | <b>2008</b>            | <b>2009</b> | <b>2010</b> |
| <b>Sales and operating revenue:</b>                                      |                        |             |             |
| Net sales  | 8,201,839              | 7,110,053   | 6,293,005   |
| Financial service revenue  | 553,216                | 523,307     | 838,300     |
| Other operating revenue  | 116,359                | 96,633      | 82,693      |
|  | 8,871,414              | 7,729,993   | 7,213,998   |
| <b>Costs and expenses:</b>   |                        |             |             |
| Cost of sales  | 6,290,022              | 5,660,504   | 4,892,563   |
| Selling, general and administrative                                      | 1,714,445              | 1,686,030   | 1,544,890   |
| Financial service expenses   | 530,306                | 547,825     | 671,550     |
| (Gain) loss on sale, disposal or impairment of assets, net               | (37,841)               | 38,308      | 42,988      |
|  | 8,496,932              | 7,932,667   | 7,151,991   |
| <b>Equity in net income (loss) of affiliated companies</b>               | 100,817                | (25,109)    | (30,235)    |
| <b>Operating income (loss)</b>   | 475,299                | (227,783)   | 31,772      |
| <b>Other income:</b>   |                        |             |             |
| Interest and dividends   | 34,272                 | 22,317      | 13,191      |
| Gain on sale of securities investments, net                              | 5,504                  | 1,281       | 9,953       |
| Foreign exchange gain, net   | 5,571                  | 48,568      |             |
| Gain on initial public offering of Sony Financial Holdings               | 81,040                 |             |             |
| Other  | 23,060                 | 26,659      | 20,690      |
|  | 149,447                | 98,825      | 43,834      |
| <b>Other expenses:</b>   |                        |             |             |
| Interest   | 22,931                 | 24,376      | 22,505      |
| Loss on devaluation of securities investments                            | 13,087                 | 4,427       | 2,946       |
| Foreign exchange loss, net   |                        |             | 10,876      |
| Other  | 21,594                 | 17,194      | 12,367      |
|  | 57,612                 | 45,997      | 48,694      |
| <b>Income (loss) before income taxes</b>                                 | 567,134                | (174,955)   | 26,912      |
| <b>Income taxes:</b>   |                        |             |             |
| Current  | 183,438                | 80,521      | 48,698      |
| Deferred   | 20,040                 | (153,262)   | (34,740)    |
|  | 203,478                | (72,741)    | 13,958      |
| <b>Net income (loss)</b>   | 363,656                | (102,214)   | 12,954      |
| Less Net income (loss) attributable to noncontrolling interests          | (5,779)                | (3,276)     | 53,756      |
| <b>Net income (loss) attributable to Sony Corporation's stockholders</b> | 369,435                | (98,938)    | (40,802)    |

*(Continued on following page.)*

**Table of Contents****SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES****Consolidated Statements of Income (Continued)**

|   | <b>2008</b> | <b>Yen<br/>2009</b> | <b>2010</b> |
|---|-------------|---------------------|-------------|
| <b>Per share data:</b>  |             |                     |             |
| Common stock  |             |                     |             |
| Net income (loss) attributable to Sony Corporation's stockholders |             |                     |             |
| Basic   | 368.33      | (98.59)             | (40.66)     |
| Diluted   | 351.10      | (98.59)             | (40.66)     |
| Cash dividends  | 25.00       | 42.50               | 25.00       |

*The accompanying notes are an integral part of these statements.*

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**Table of Contents****SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES****Consolidated Statements of Cash Flows****Fiscal Year Ended March 31**

|   |             | <b>Yen in millions</b> |             |
|---|-------------|------------------------|-------------|
|   | <b>2008</b> | <b>2009</b>            | <b>2010</b> |
| <b>Cash flows from operating activities:</b>  |             |                        |             |
| Net income (loss)   | 363,656     | (102,214)              | 12,954      |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities                             |             |                        |             |
| Depreciation and amortization, including amortization of deferred insurance acquisition costs                       | 428,010     | 405,443                | 371,004     |
| Amortization of film costs  | 305,468     | 255,713                | 277,665     |
| Stock-based compensation expense  | 4,130       | 3,446                  | 2,202       |
| Accrual for pension and severance costs, less payments  | (17,589)    | 16,654                 | (9,763)     |
| (Gain) loss on sale, disposal or impairment of assets, net  | (37,841)    | 38,308                 | 42,988      |
| (Gain) loss on sale or devaluation of securities investments, net   | 7,583       | 3,146                  | (7,007)     |
| (Gain) loss on revaluation of marketable securities held in the financial service business for trading purpose, net | 56,543      | 77,952                 | (49,837)    |
| (Gain) loss on revaluation or impairment of securities investments held in the financial service business, net      | 60,107      | 101,114                | (53,984)    |
| Gain on initial public offering of Sony Financial Holdings  | (81,040)    |                        |             |
| Deferred income taxes   | 20,040      | (153,262)              | (34,740)    |
| Equity in net (income) losses of affiliated companies, net of dividends   | (13,527)    | 65,470                 | 36,183      |
| Changes in assets and liabilities:  |             |                        |             |
| (Increase) decrease in notes and accounts receivable, trade   | 185,651     | 218,168                | (53,306)    |
| (Increase) decrease in inventories  | (140,725)   | 160,432                | 148,584     |
| Increase in film costs  | (353,343)   | (264,412)              | (296,819)   |
| Increase (decrease) in notes and accounts payable, trade  | (235,459)   | (375,842)              | 262,032     |
| Increase (decrease) in accrued income and other taxes   | 138,872     | (163,200)              | 63,619      |
| Increase in future insurance policy benefits and other  | 166,356     | 174,549                | 284,972     |
| Increase in deferred insurance acquisition costs  | (62,951)    | (68,666)               | (71,999)    |
| Increase in marketable securities held in the financial service business for trading purpose                        | (57,271)    | (26,088)               | (8,335)     |
| (Increase) decrease in other current assets   | (24,312)    | 134,175                | (32,405)    |
| Increase (decrease) in other current liabilities  | 51,838      | (105,155)              | 5,321       |
| Other   | (6,512)     | 11,422                 | 23,578      |
| Net cash provided by operating activities   | 757,684     | 407,153                | 912,907     |
| <i>(Continued on following page.)</i>   |             |                        |             |

**Table of Contents****SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES****Consolidated Statements of Cash Flows (Continued)**

|  | <b>2008</b> | <b>Yen in millions<br/>2009</b> | <b>2010</b> |
|--|-------------|---------------------------------|-------------|
| <b>Cash flows from investing activities:</b>   |             |                                 |             |
| Payments for purchases of long-lived assets  | (474,552)   | (496,125)                       | (338,050)   |
| Proceeds from sales of long-lived assets   | 144,741     | 153,439                         | 15,671      |
| Payments for investments and advances by financial service business  | (2,283,491) | (2,496,783)                     | (1,581,841) |
| Payments for investments and advances (other than financial service business)  | (103,082)   | (178,335)                       | (41,838)    |
| Proceeds from maturities of marketable securities, sales of securities investments and collections of advances by financial service business           | 1,441,496   | 1,923,264                       | 1,128,500   |
| Proceeds from maturities of marketable securities, sales of securities investments and collections of advances (other than financial service business) | 51,947      | 11,569                          | 54,324      |
| Proceeds from sales of shares of Sony Financial Holdings   | 305,280     |                                 |             |
| Other  | 7,219       | 1,629                           | 17,230      |
| Net cash used in investing activities  | (910,442)   | (1,081,342)                     | (746,004)   |
| <b>Cash flows from financing activities:</b>   |             |                                 |             |
| Proceeds from issuance of long-term debt   | 31,093      | 72,188                          | 510,128     |
| Payments of long-term debt   | (34,701)    | (264,467)                       | (144,105)   |
| Increase (decrease) in short-term borrowings, net  | 15,838      | 244,584                         | (250,252)   |
| Increase in deposits from customers in the financial service business, net   | 485,965     | 261,619                         | 276,454     |
| Dividends paid   | (25,098)    | (42,594)                        | (25,085)    |
| Proceeds from the issuance of shares under stock-based compensation plans  | 7,484       | 378                             | 114         |
| Proceeds from the issuance of shares of Sony Financial Holdings  | 28,800      |                                 |             |
| Other  | (3,863)     | (4,250)                         | (2,240)     |
| Net cash provided by financing activities  | 505,518     | 267,458                         | 365,014     |
| Effect of exchange rate changes on cash and cash equivalents   | (66,228)    | (18,911)                        | (1,098)     |
| Net increase (decrease) in cash and cash equivalents   | 286,532     | (425,642)                       | 530,819     |
| Cash and cash equivalents at beginning of the fiscal year  | 799,899     | 1,086,431                       | 660,789     |
| Cash and cash equivalents at end of the fiscal year  | 1,086,431   | 660,789                         | 1,191,608   |
| <b>Supplemental data:</b>  |             |                                 |             |
| Cash paid during the fiscal year for   |             |                                 |             |
| Income taxes   | 126,339     | 242,528                         | 60,022      |
| Interest   | 18,817      | 22,729                          | 19,821      |
| Non-cash investing and financing activities  |             |                                 |             |
| Obtaining assets by entering into capital lease  | 7,017       | 5,831                           | 2,553       |

*The accompanying notes are an integral part of these statements.*





**Table of Contents****SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES****Consolidated Statements of Changes in Stockholders' Equity**

|   | Yen in millions |                                  |                      |   |                               |  |                             |              |
|---|-----------------|----------------------------------|----------------------|---|-------------------------------|--|-----------------------------|--------------|
|   | Common<br>stock | Additional<br>paid-in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income | Treasury<br>stock, at<br>cost | Sony<br>Corporation's<br>stockholders'<br>equity | Noncontrolling<br>interests | Total equity |
| Balance at March 31, 2007                     | 626,907         | 1,143,423                        | 1,719,506            | (115,493)                                       | (3,639)                       | 3,370,704  | 38,970                      | 3,409,673    |
| Exercise of stock<br>acquisition rights       | 3,538           | 3,685                            |                      |   |                               | 7,223  | 105                         | 7,328        |
| Conversion of convertible<br>bonds            | 131             | 131                              |                      |   |                               | 262  |                             | 262          |
| Stock-based compensation                      |                 | 4,192                            |                      |   |                               | 4,192  |                             | 4,192        |
| Comprehensive income:<br>Income (loss)        |                 |                                  | 369,435              |   |                               | 369,435  | (5,779)                     | 363,656      |
| Cumulative effect of an<br>accounting change  |                 |                                  | (4,452)              |   |                               | (4,452)  |                             | (4,452)      |
| Other comprehensive<br>income, net of tax     |                 |                                  |                      |   |                               |  |                             |              |
| Realized losses on<br>securities              |                 |                                  |                      | (15,167)  |                               | (15,167)   | (7,259)                     | (22,426)     |
| Realized losses on<br>derivative instruments  |                 |                                  |                      | (2,296)   |                               | (2,296)  |                             | (2,296)      |
| Provision liability<br>adjustment             |                 |                                  |                      | (26,103)  |                               | (26,103)   | 602                         | (25,501)     |
| Foreign currency<br>translation adjustments   |                 |                                  |                      | (212,468)                                       |                               | (212,468)  | (1,821)                     | (214,289)    |
| Total comprehensive<br>income (loss)          |                 |                                  |                      |   |                               | 108,949  | (14,257)                    | 94,692       |
| Stock issue costs, net of tax                 |                 |                                  | (48)                 |   |                               | (48)   |                             | (48)         |
| Dividends declared                            |                 |                                  | (25,080)             |   |                               | (25,080)   | (3,563)                     | (28,643)     |
| Purchase of treasury stock                    |                 |                                  |                      |   | (1,231)                       | (1,231)  |                             | (1,231)      |
| Issuance of treasury<br>stock                 |                 | 16                               |                      |   | 102                           | 118  |                             | 118          |
| Transactions with<br>noncontrolling interests |                 |                                  |                      |   |                               |  |                             |              |
| Shareholders and other                        |                 |                                  |                      |   |                               |  | 255,594                     | 255,594      |
| Balance at March 31, 2008                     | 630,576         | 1,151,447                        | 2,059,361            | (371,527)                                       | (4,768)                       | 3,465,089  | 276,849                     | 3,741,935    |

*(Continued on following page.)*

**Table of Contents****SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES****Consolidated Statements of Changes in Stockholders' Equity (Continued)**

|  | Yen in millions |                                  |                      |   |                               |  |                             |              |
|--|-----------------|----------------------------------|----------------------|---|-------------------------------|--|-----------------------------|--------------|
|  | Common<br>stock | Additional<br>paid-in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income | Treasury<br>stock, at<br>cost | Sony<br>Corporation's<br>stockholders'<br>equity | Noncontrolling<br>interests | Total equity |
| Balance at March 31, 2008  | 630,576         | 1,151,447                        | 2,059,361            | (371,527)                                       | (4,768)                       | 3,465,089  | 276,849                     | 3,741,938    |
| Exercise of stock<br>option rights   | 189             | 189                              |                      |   |                               | 378  | 18                          | 3,423        |
| Stock-based compensation   |                 | 3,423                            |                      |   |                               | 3,423  |                             | 3,423        |
| Comprehensive income:  |                 |                                  |                      |   |                               |  |                             |              |
| Net loss   |                 |                                  | (98,938)             |   |                               | (98,938)   | (3,276)                     | (102,216)    |
| Other comprehensive<br>income, net of tax  |                 |                                  |                      |   |                               |  |                             |              |
| Realized losses on<br>securities   |                 |                                  |                      | (40,859)  |                               | (40,859)   | (15,992)                    | (56,851)     |
| Realized gains on<br>derivative instruments  |                 |                                  |                      | 1,787   |                               | 1,787  |                             | 1,787        |
| Provision liability<br>adjustment  |                 |                                  |                      | (74,517)  |                               | (74,517)   | (548)                       | (75,064)     |
| Foreign currency<br>translation adjustments  |                 |                                  |                      | (247,697)                                       |                               | (247,697)  | 797                         | (246,900)    |
| Total comprehensive loss   |                 |                                  |                      |   |                               | (460,224)  | (19,019)                    | (479,243)    |
| Stock issue costs, net of tax  |                 |                                  | (4)                  |   |                               | (4)  |                             | (4)          |
| Dividends declared   |                 |                                  | (42,648)             |   |                               | (42,648)   | (6,056)                     | (48,704)     |
| Purchase of treasury stock   |                 |                                  |                      |   | (302)                         | (302)  |                             | (302)        |
| Issuance of treasury<br>stock  |                 | (25)                             | (152)                |   | 416                           | 239  |                             | 2,026        |
| Transactions with<br>noncontrolling interests<br>shareholders and other<br>effects of changing the<br>pension plan measurement |                 |                                  | (668)                | (630)   |                               | (1,298)  | 157                         | 1,298        |
| Balance at March 31, 2009  | 630,765         | 1,155,034                        | 1,916,951            | (733,443)                                       | (4,654)                       | 2,964,653  | 251,949                     | 3,216,600    |

*(Continued on following page.)*

**Table of Contents****SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES****Consolidated Statements of Changes in Stockholders' Equity (Continued)**

|  | Yen in millions |                                  |                      |   |                               |  |                             |              |
|--|-----------------|----------------------------------|----------------------|---|-------------------------------|--|-----------------------------|--------------|
|  | Common<br>stock | Additional<br>paid-in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income | Treasury<br>stock, at<br>cost | Sony<br>Corporation's<br>stockholders'<br>equity | Noncontrolling<br>interests | Total equity |
| Balance at March 31, 2009                      | 630,765         | 1,155,034                        | 1,916,951            | (733,443)                                       | (4,654)                       | 2,964,653  | 251,949                     | 3,216,605    |
| Exercise of stock<br>acquisition rights        | 57              | 57                               |                      |   |                               | 114  | 6                           | 174          |
| Stock-based compensation                       |                 | 2,174                            |                      |   |                               | 2,174  |                             | 2,174        |
| Comprehensive income:                          |                 |                                  |                      |   |                               |  |                             |              |
| Net income (loss)                              |                 |                                  | (40,802)             |   |                               | (40,802)   | 53,756                      | 12,954       |
| Other comprehensive<br>income, net of tax      |                 |                                  |                      |   |                               |  |                             |              |
| Realized gains on<br>securities                |                 |                                  |                      | 32,267  |                               | 32,267   | 16,527                      | 48,794       |
| Realized gains on<br>derivative instruments    |                 |                                  |                      | 1,548   |                               | 1,548  | 2                           | 1,550        |
| Provision liability<br>adjustment              |                 |                                  |                      | 23,720  |                               | 23,720   | (27)                        | 23,693       |
| Foreign currency<br>translation adjustments    |                 |                                  |                      | 6,850   |                               | 6,850  | (343)                       | 6,507        |
| Total comprehensive<br>income                  |                 |                                  |                      |   |                               | 23,583   | 69,915                      | 93,498       |
| Dividends declared                             |                 |                                  | (25,088)             |   |                               | (25,088)   | (5,399)                     | (30,487)     |
| Purchase of treasury stock                     |                 |                                  |                      |   | (139)                         | (139)  |                             | (139)        |
| Issuance of treasury<br>stock                  |                 |                                  | (57)                 |   | 118                           | 61   |                             | 61           |
| Transactions with<br>noncontrolling interests  |                 |                                  |                      |   |                               |  |                             |              |
| Share repurchases by<br>stockholders and other |                 | 547                              |                      |   |                               | 547  | 3,179                       | 3,726        |
| Balance at March 31, 2010                      | 630,822         | 1,157,812                        | 1,851,004            | (669,058)                                       | (4,675)                       | 2,965,905  | 319,650                     | 3,285,559    |

*The accompanying notes are an integral part of these statements.*

**Table of Contents****SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES****Index to Notes to Consolidated Financial Statements**

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**Table of Contents****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, professional and industrial markets as well as game consoles and software. Sony's primary manufacturing facilities are located in Japan, Europe, and Asia. Sony also utilizes third-party contract manufacturers for certain products. Sony's products are marketed throughout the world by sales subsidiaries and unaffiliated 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 motion picture, home entertainment and television products. Sony is also engaged in the development, production, manufacture, and distribution of recorded music. Further, Sony is also engaged in various financial service businesses, including life and non-life insurance operations through its Japanese insurance subsidiaries, banking operations through a Japanese internet-based banking subsidiary and leasing and credit financing operations through a subsidiary in Japan. In addition to the above, Sony is engaged in a network service 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 statutory 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. The accompanying consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Certain adjustments and reclassifications have been incorporated in the accompanying consolidated financial statements to conform with U.S. GAAP. These adjustments were not recorded in the statutory books and records.

**(1) 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 has no significant 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. Sony's equity in current earnings or losses of such entities is reported net of income taxes and is included in operating income (loss) 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 estimated 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, the resulting gains or losses arising from the change in interest are recorded in earnings for the year the change in interest transaction occurs. However, prior to Sony's adoption of the new guidance on the accounting for noncontrolling interests and equity method investments on April 1, 2009, where the sale of such shares was part of a broader corporate reorganization, the reacquisition of such shares was contemplated at the time of issuance or

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realization of such gain was not reasonably assured (i.e., the entity was newly formed, non-operating, a research and development or start-up/development stage entity, or where the entity's ability to continue in existence was in question), the transaction was accounted for as a capital transaction. In addition, subsequent to Sony's adoption of the new guidance on the accounting for noncontrolling interests on April 1, 2009, a change in interest of a consolidated subsidiary that does not result in a change in control is accounted for as a capital transaction and no gains or losses are recorded in earnings.

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 tangible and intangible 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. 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 fair 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.

Sony regularly evaluates its investment portfolio to identify other-than-temporary impairments of individual securities. Factors that are considered by Sony in determining whether an other-than-temporary decline in value has

occurred include: the length of time and extent to which the market value of the security has been less than its original cost, the financial condition, operating results, business plans and estimated future cash flows of the issuer of the security, other specific factors affecting the market value, deterioration of the credit condition of the issuers, sovereign risk, and whether or not Sony is able to retain the investment for a period of time sufficient to allow for the anticipated recovery in market value.

In evaluating the factors for available-for-sale securities 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



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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.

Sony adopted the accounting guidance for the recognition and presentation of other-than-temporary impairments for debt securities on April 1, 2009. When an other-than-temporary impairment of a debt security has occurred, the amount of the other-than-temporary impairment recognized in income depends on whether Sony intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost. If the debt security meets either of these two criteria, the other-than-temporary impairment recognized in income is the credit loss, measured as the entire difference between the security's amortized cost and its fair value at the impairment measurement date. For other-than-temporary impairments of debt securities that do not meet these two criteria, the net amount recognized in income is equal to the difference between the amortized cost of the debt security and its net present value calculated by discounting Sony's best estimate of projected future cash flows at the effective interest rate implicit in the debt security prior to impairment. Any difference between the fair value and the net present value of the debt security at the impairment measurement date is recorded in accumulated other comprehensive income. Unrealized gains or losses on securities for which an other-than-temporary impairment has been recognized in income are presented as a separate component of accumulated other comprehensive income. Before the adoption of this guidance, an other-than-temporary impairment recognized in income for debt securities was equal to the total difference between amortized cost and fair value at the impairment measurement date.

***Equity securities in non-public companies -***

Equity securities in non-public companies are primarily carried at cost if 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.

***Allowance for doubtful accounts -***

Sony maintains an allowance for doubtful accounts to reserve for potentially uncollectible receivables. Sony reviews accounts receivable by amounts due by customers which are past due to identify specific customers with known disputes or collectability issues. In determining the amount of the reserve, Sony makes judgments about the creditworthiness of customers based on past collection experience and ongoing credit risk evaluations.

***Inventories -***

Inventories in the Consumer Products & Devices, Networked Products & Services, B2B & Disc Manufacturing and Music 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 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.

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Film costs include direct production costs, production overhead and acquisition costs for both theatrical and television productions and 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 using an individual-film-forecast method based on the ratio of current period actual revenues to the estimated remaining total lifetime revenues. Film costs also include broadcasting rights which consist of acquired programming to be aired on Sony's worldwide channel network and are recognized when the license period begins and the program is available for use. Broadcasting rights are stated at the lower of unamortized cost or net realizable value, classified as either current or non-current assets based on timing of expected use, and amortized based on estimated usage or on a straight-line basis over the useful life, as appropriate. Estimates used in calculating the fair value of the film costs and the net realizable value of the broadcasting rights are based upon assumptions about future demand and market conditions and 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 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 two to 50 years for buildings and from one to 17 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 useful 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. This approach uses significant estimates and assumptions including projected future cash flows, the timing of such cash flows, discount rates reflecting the risk inherent in future cash flows, perpetual growth rates, determination of appropriate comparable entities and the determination of whether a premium or discount should be applied to comparables. In addition to the estimates of future cash flows, two of the most significant estimates involved in the determination of fair value of the reporting units are the discount rates and perpetual growth rate applied to terminal values used in the discounted cash flow analysis. The discount rates used in the cash flow models for the goodwill impairment testing considers market and industry data as well as specific risk factors for each reporting unit. The perpetual growth rates for the individual reporting units, for purposes of the terminal value determination, are generally set after an initial three-year forecasted period, although certain reporting units utilized longer forecasted periods, and are based on historical experience, market and industry data.

Intangible assets with finite useful lives mainly consist of patent rights, know-how, license agreements, software to be sold, leased or otherwise marketed, music catalogs and artist contracts. Patent rights, know-how, license agreements and software to be sold, leased or otherwise marketed are generally amortized on a straight-line basis, generally, over three to eight years. Music catalogs and artist contracts are amortized on a straight-line basis, generally, over 10 to 40 years.

***Software to be sold, leased, or marketed -***

Sony accounts for software development costs in accordance with accounting guidance for the costs of software to be sold, leased, or marketed. The 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

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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. The 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 of the related software products.

***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, and are subject to recoverability testing at least annually to ensure that the capitalized amounts do not exceed the present value of anticipated gross profits or premiums less benefits and maintenance expenses, as applicable. 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. 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 Consumer Products & Devices, Networked Products & Services and B2B & Disc Manufacturing segments offer extended warranty programs. The consideration received for extended warranty service is deferred and recognized as revenue 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, withdrawals and other factors. 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 or asset group may not be recoverable. Long-lived assets to be held and used are reviewed for impairment by comparing the carrying value of the asset or asset group with their estimated undiscounted future cash flows. If the cash flows are determined to be less than the carrying value of the asset or asset group, an impairment loss has occurred and the loss would be recognized during the period for the difference between the carrying value of the asset or asset group and 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. Fair value is determined using the present value of estimated net cash flows or comparable market values. This approach uses significant estimates and assumptions including projected future cash flows, the timing of such cash flows, discount rates reflecting the risk inherent in future cash flows, perpetual growth rates, determination of appropriate market comparables and the determination of whether a premium or discount should be applied to comparables.

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***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.

The accounting guidance for hybrid financial instruments permits an entity to elect fair value remeasurement for any hybrid financial instrument if the hybrid instrument contains an embedded derivative that would otherwise be required to be bifurcated and accounted for separately under accounting guidance for derivative instruments and hedging activities. The election to measure the hybrid instrument at fair value is made on an instrument-by-instrument basis and is irreversible. Certain subsidiaries in the Financial Services segment have hybrid financial instruments, disclosed in Note 7 as debt securities, that contain embedded derivatives where the entire instrument is carried at fair value.

In accordance with accounting guidance 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.

***Derivatives not designated as hedges***

Changes in the fair value of derivatives that are not designated as hedges are recognized in current period earnings.

***Assessment of hedges***

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 -***

Sony accounts for stock-based compensation using the fair value based method in accordance with the accounting guidance for share-based payment. The expense is mainly included in selling, general and administrative expenses. 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.

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Sony estimated the forfeiture rate for the fiscal years ended March 31, 2008, 2009 and 2010, based on its historical experience in the stock acquisition rights plans where the majority of the vesting terms have been satisfied.

***Revenue recognition -***

Revenues from sales in the Consumer Products & Devices, Networked Products & Services, B2B & Disc Manufacturing and Music segments are recognized when products are delivered or services are rendered. Delivery 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. Revenues are recognized net of anticipated returns and sales incentives.

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 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 Disc™, net of anticipated returns and sales incentives, are recognized upon availability of sale to the public. Revenues from the sale of broadcast advertising are recognized when the advertisement is aired. Revenues from subscription fees received by the television networks are recognized when the service is provided.

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.

Revenue is recognized net of any taxes collected from customers and subsequently remitted to governmental authorities.

***Consideration given to a customer or a reseller -***

In accordance with the accounting guidance 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, 2008, 2009 and 2010, consideration given to a reseller, primarily for free promotional shipping and cooperative advertising programs included in selling, general and administrative expense totaled 37,018 million yen, 29,813 million yen and 23,591 million yen, respectively.

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***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, included in cost of sales, include items such as salaries, personnel expenses and other direct and indirect expenses associated with research and product development. 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.

***Financial service expenses -***

Financial service expenses include a provision for policy reserves and amortization of deferred insurance acquisition costs, 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.

***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 accounting guidance for 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.

***Prepaid expenses and other current assets -***

Prepaid expenses and other current assets includes receivables which relate to arrangements with certain component manufacturers whereby Sony procures goods and services, including product components, for these component manufacturers and is reimbursed for the related purchases. No revenue is recognized on these transfers. Sony usually will repurchase the inventory at a later date from the component manufacturers as either finished goods inventory or

as partially assembled product.

***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 method expected to be remitted in the foreseeable future. The asset and

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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 of assets and liabilities.

Carrying amounts of deferred tax assets require a reduction by a valuation allowance if, based on the available evidence, it is more likely than not that such assets will not be realized. Accordingly, the need to establish valuation allowances for deferred tax assets is assessed periodically with appropriate consideration given to all positive and negative evidence related to the realization of the deferred tax assets. Management's judgments related to this assessment consider, among other matters, the nature, frequency and severity of current and cumulative losses on an individual tax jurisdiction basis, forecasts of future profitability after consideration of uncertain tax positions, excess of appreciated asset value over the tax basis of net assets, the duration of statutory carryforward periods, Sony's experience with operating loss carryforwards not expiring unused, as well as prudent and feasible tax planning strategies which would be employed by Sony, if necessary, to ensure the realizability of certain deferred tax assets including net operating loss carryforwards.

Sony accounts for uncertain tax positions in accordance with the accounting guidance for uncertain tax positions. 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 authorities in different 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 judgmental and requires significant estimates. Sony assesses its income tax positions and records tax benefits for all years subject to examinations 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.

In connection with the adoption of the accounting guidance for uncertain tax positions on April 1, 2007, a charge against beginning retained earnings totaling 4,452 million yen was recorded.

***Net income (loss) attributable to Sony Corporation's stockholders per share (EPS) -***

Basic EPS is computed based on the weighted-average number of shares of common stock outstanding during each period. The computation of diluted EPS 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. All potentially dilutive securities are excluded from the calculation in a situation where there is a net loss attributable to Sony Corporation's stockholders.

**(2) Recently adopted accounting pronouncements:*****Fair value measurements -***

In September 2006, the Financial Accounting Standards Board ( FASB ) issued new accounting guidance for fair value measurements. This guidance establishes a framework for measuring fair value, clarifies the definition of fair value, and expands disclosures about the use of fair value measurements. This guidance is applicable to other accounting guidance that requires or permits fair value measurements and does not require any new fair value measurements. In February 2008, the FASB issued supplemental guidance that partially delayed the effective date of the guidance for fair value measurements for Sony until April 1, 2009 for certain nonfinancial assets and

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liabilities and removed certain leasing transactions from the scope of the guidance. In addition, in October 2008, the FASB issued guidance which clarifies the application of fair value measurements in a market that is not active, and was effective upon issuance. On April 1, 2008, Sony adopted the new accounting guidance for fair value measurements with regards to financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption of the guidance for fair value measurements did not have a material impact on Sony's results of operations and financial position.

***Accounting for collaborative arrangements -***

In December 2007, the FASB issued new accounting guidance for collaborative arrangements, which defines collaborative arrangements and establishes accounting and reporting requirements for transactions between participants in the arrangement and third parties. A collaborative arrangement is defined as a contractual arrangement that involves a joint operating activity. Sony adopted the provisions of this guidance, which are being applied retrospectively to all periods presented, for all collaborative arrangements on April 1, 2009. The adoption of this guidance did not have a material impact on Sony's results of operations and financial position.

***Business combinations -***

In December 2007, the FASB issued new accounting guidance for business combinations, which principally applies on a prospective basis to business combinations for which the acquisition date is on or after April 1, 2009. This guidance 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 acquired and liabilities assumed in a business combination to be measured and recognized at their fair values as of the acquisition date, with limited exceptions. Also, under this guidance, changes in deferred tax asset valuation allowances and acquired income tax uncertainties after the acquisition date generally will affect income tax expense in periods subsequent to the acquisition date. Adjustments made to valuation allowances of deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to April 1, 2009 would also apply the provisions of this guidance with subsequent adjustments reflected through the results of operations. The adoption of this guidance did not have a material impact on Sony's results of operations and financial position.

In April 2009, the FASB issued new accounting guidance for assets acquired and liabilities assumed in a business combination that arise from contingencies. This guidance addresses the initial recognition, measurement and subsequent accounting for assets and liabilities arising from contingencies in a business combination, and requires that such assets acquired or liabilities assumed be initially recognized at fair value at the acquisition date if fair value can be determined during the measurement period. If the acquisition-date fair value cannot be determined, the asset acquired or liability assumed arising from a contingency is recognized only if certain criteria are met. For Sony, this guidance is effective for assets acquired or liabilities assumed arising from contingencies in business combinations for which the acquisition date is on or after April 1, 2009. The adoption of this guidance did not have a material impact on Sony's results of operations and financial position.

***Noncontrolling interests in consolidated financial statements -***

In December 2007, the FASB issued new accounting guidance for noncontrolling interests in consolidated financial statements. This guidance requires that the noncontrolling interests 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 interests 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. As required, Sony adopted this guidance on April 1, 2009, via retrospective application of the financial statement presentation and related disclosure requirements. Upon the adoption of this guidance, noncontrolling interests, which were previously referred to as minority interest and classified between total liabilities and stockholders' equity on the consolidated balance sheets, are now included as a separate component of total equity. In addition, the net income (loss) on the consolidated statements of income now includes the net income (loss) attributable to

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noncontrolling interests. Consistent with the retrospective application required by this guidance, the prior year amounts in the consolidated financial statements have been reclassified or adjusted to conform to the current presentation. As a result of the reclassifications, the stockholders' equity on the consolidated balance sheet for the fiscal year ended at March 31, 2009 has increased by 251,949 million yen and the net income on the consolidated statement of income for the fiscal year ended March 31, 2008 has decreased by 5,779 million yen and the net loss on the consolidated statement of income for the fiscal year ended March 31, 2009 has increased by 3,276 million yen.

In January 2010, the FASB issued supplemental guidance clarifying the accounting for decreases in ownership interests and expanding the disclosure requirements about the deconsolidation of a subsidiary or deconsolidation of a group of assets. The adoption of this guidance did not have a material impact on Sony's results of operations and financial position.

***Determination of the useful life of intangible assets -***

In April 2008, the FASB issued new accounting guidance for the determination of the useful life of intangible assets, which amends the list of factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets. This new guidance applies to (1) intangible assets that are acquired individually or with a group of other assets and (2) intangible assets acquired in both business combinations and asset acquisitions. Under this new guidance, entities estimating the useful life of a recognized intangible asset must consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension. For Sony, this new guidance applies to intangible assets acquired after March 31, 2009. The adoption of this new guidance did not have a material impact on Sony's results of operations and financial position.

***Equity method investment accounting considerations -***

In November 2008, the FASB issued new accounting guidance, which addresses certain effects that the guidance for business combinations and noncontrolling interests in consolidated financial statements has on an entity's accounting for equity-method investments. This guidance indicates, among other things, that transaction costs for an investment should be included in the cost of the equity-method investment (and not expensed) and shares subsequently issued by the equity-method investee that reduce the investor's ownership percentage should be accounted for as if the investor had sold a proportionate share of its investment, with gains or losses recorded through earnings. Sony adopted this guidance on April 1, 2009. The adoption of this guidance did not have a material impact on Sony's results of operations and financial position.

***Postretirement benefit plan asset disclosures -***

In December 2008, the FASB issued new disclosure guidance regarding postretirement benefit plan assets. This guidance requires additional disclosures about plan assets for sponsors of defined benefit pension and postretirement plans including expanded information regarding investment strategies, major classes of plan assets, and concentrations of risk within plan assets. Additionally, this guidance requires disclosures similar to those required for fair value measurements with respect to the fair value of plan assets such as the inputs and valuation techniques used to measure fair value and information with respect to classification of plan assets in terms of the hierarchy of the source of information used to determine their value. For Sony, the disclosures under this guidance are required beginning with the fiscal year ended March 31, 2010, but are not required for the earlier periods. Since this guidance impacts only disclosure, its adoption has no impact on Sony's results of operations and financial position. The additional disclosures are included in Note 15.

***Recognition and presentation of other-than-temporary impairments for debt securities -***

In April 2009, the FASB issued new accounting guidance for the recognition and presentation of other-than-temporary impairments for debt securities. This guidance is intended to provide greater clarity to investors about the credit and noncredit component of an other-than-temporary impairment event and to more effectively communicate

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when an other-than-temporary impairment event has occurred. This guidance requires the separate display of losses related to credit deterioration and losses related to other market factors. When an entity does not intend to sell a debt security and it is more likely than not that the entity will not have to sell the debt security before recovery of its cost basis, it must recognize the credit component of an other-than-temporary impairment in earnings and the remaining portion in other comprehensive income. In addition, upon the adoption of this guidance, an entity is required to record a cumulative-effect adjustment as of the beginning of the period of adoption to reclassify the noncredit component of a previously recognized other-than-temporary impairment from retained earnings to accumulated other comprehensive income. Sony adopted this guidance on April 1, 2009. The adoption of this guidance did not have a material impact on Sony's results of operations and financial position.

***Fair value measurements when there is no active market -***

In April 2009, the FASB issued new accounting guidance for determining fair value when there is no active market for an asset or when the pricing inputs used in determining the fair value of an asset represent a distressed sale. This guidance also reaffirms that the objective of fair value measurement is to reflect an asset's sale price in an orderly transaction at the date of the financial statements. This guidance was effective for Sony as of April 1, 2009, and was applied prospectively. The adoption of this guidance did not have a material impact on Sony's results of operations and financial position.

***Accounting Standards Codification -***

In June 2009, the FASB issued the Accounting Standards Codification (the Codification). The Codification became the single source for all authoritative U.S. GAAP recognized by the FASB. The Codification is effective for financial statements issued for periods ending after September 15, 2009. The Codification does not change U.S. GAAP and did not have an affect on Sony's results of operations and financial position.

***Measuring liabilities at fair value -***

In August 2009, the FASB issued new accounting guidance for measuring liabilities at fair value. This guidance clarifies how the fair value measurement principles should be applied to measuring liabilities carried at fair value. This guidance describes how to measure liabilities at fair value when quoted prices for identical liabilities in active markets are not available and clarifies that an entity should not make an adjustment to fair value for a restriction that prevents the transfer of the liability. This guidance was effective for interim and annual periods beginning after issuance. The adoption of this guidance did not have a material impact on Sony's results of operations and financial position.

***Investments in certain entities that calculate net asset value per share (or its equivalent) -***

In September 2009, the FASB issued new accounting guidance for investments in certain entities that calculate net asset value per share (or its equivalent). This guidance permits, as a practical expedient, an entity to measure the fair value of an investment using the net asset value per share of the investment (or its equivalent) provided by the investee without further adjustment if the investment companies do not have readily determinable fair values as is the case with certain alternative investment funds. This guidance was effective for interim and annual periods ended after December 15, 2009. The adoption of this guidance did not have a material impact on Sony's results of operations and financial position.

***Fair value measurements disclosures -***

In January 2010, the FASB issued new disclosure guidance regarding fair value measurements. This guidance adds new requirements for disclosures related to transfers into and out of level 1 and 2 in the fair value hierarchy, and separate disclosures about purchase, sales, issuances, and settlements relating to level 3 investment measurements. It also clarifies existing fair value disclosures about the level of disaggregation, as well as inputs and valuation techniques used to measure fair value. This guidance was effective for interim and annual periods beginning after

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December 15, 2009, except for the requirement to provide the level 3 activity of purchase, sales, issuance, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Since this guidance impacts disclosures only, its adoption has no impact on Sony's results of operations and financial position.

**(3) Recent accounting pronouncements not yet adopted:*****Multiple element arrangements and software deliverables -***

In October 2009, the FASB issued new accounting guidance for arrangements with multiple deliverables. Specifically, the new standard requires an entity to allocate consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices. In the absence of the vendor-specific objective evidence or third-party evidence of the selling prices, consideration must be allocated to the deliverables based on management's best estimate of the selling prices. In addition, the guidance eliminates the use of the residual method of allocation. Also in October 2009, the FASB issued accounting guidance which changes revenue recognition for tangible products containing software and hardware elements. Specifically, tangible products containing software and hardware that function together to deliver the tangible products' essential functionality are scoped out of the existing software revenue recognition guidance and will be accounted for under the revenue recognition guidance for multiple element arrangements. While it is mandatory for Sony to adopt this new guidance prospectively for revenue arrangements entered into or materially modified in fiscal years beginning April 1, 2011, early adoption is permitted. Sony is currently evaluating the potential early adoption of this guidance. The adoption is not expected to have a material impact on Sony's results of operations and financial position.

***Transfers of financial assets -***

In June 2009, the FASB issued new accounting guidance on accounting for transfers of financial assets. This guidance amends previous guidance by including: the elimination of the qualifying special-purpose entity (QSPE) concept; a new participating interest definition that must be met for transfers of portions of financial assets to be eligible for sale accounting; clarifications and changes to the derecognition criteria for a transfer to be accounted for as a sale; and a change to the amount of recognized gain or loss on a transfer of financial assets accounted for as a sale when beneficial interests are received by the transferor. Additionally, the guidance requires new disclosures regarding an entity's involvement in a transfer of financial assets. Finally, existing QSPEs must be evaluated for consolidation in accordance with the applicable consolidation guidance upon the elimination of this concept. This guidance is effective for Sony as of April 1, 2010. The adoption of this guidance is not expected to have a material impact on Sony's results of operations and financial position.

***Variable interest entities -***

In June 2009, the FASB issued new accounting guidance for determining whether to consolidate a variable interest entity (VIE). This guidance changes the approach for determining the primary beneficiary of a VIE from a quantitative risk and reward model to a qualitative model based on control, and requires an ongoing reassessment of whether an entity is the primary beneficiary. This guidance is effective for Sony as of April 1, 2010. The adoption of this guidance is not expected to have a material impact on Sony's results of operations and financial position.

**(4) Reclassifications:**

Certain reclassifications of the financial statements for the fiscal years ended March 31, 2008 and 2009 have been made to conform to the presentation for the fiscal year ended March 31, 2010.

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Inventories are comprised of the following:

|  | <b>Yen in millions</b> |             |
|--|------------------------|-------------|
|  | <b>March 31</b>        |             |
|  | <b>2009</b>            | <b>2010</b> |
| Finished products                                | 573,952                | 456,698     |
| Work in process                                  | 79,848                 | 69,757      |
| Raw materials, purchased components and supplies | 159,268                | 119,000     |
|  | 813,068                | 645,455     |

**4. Film costs**

Film costs are comprised of the following:

|  | <b>Yen in millions</b> |             |
|--|------------------------|-------------|
|  | <b>March 31</b>        |             |
|  | <b>2009</b>            | <b>2010</b> |
| Motion pictures:   |                        |             |
| Released (including acquired film libraries)                         | 112,425                | 114,069     |
| Completed not released   | 23,778                 | 9,307       |
| In production and development  | 120,374                | 135,654     |
| Television licensing:  |                        |             |
| Released (including acquired film libraries)                         | 37,935                 | 40,518      |
| In production and development  | 4,180                  | 2,044       |
| Broadcasting rights  | 18,632                 | 23,927      |
| Less: current portion of broadcasting rights included in inventories | (10,447)               | (15,454)    |
| Film costs   | 306,877                | 310,065     |

Sony estimates that approximately 89% of the unamortized costs of released films at March 31, 2010 will be amortized within the next three years. Approximately 98 billion yen of completed film costs are expected to be amortized during the next twelve months. At March 31, 2010, there was no remaining balance for unamortized acquired film libraries. 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 if more than minor influence over the operation of the investee exists (generally through more than 3-5% ownership). Significant investments at March 31, 2010 of this nature include, but are not limited to, Sony's interest in Sony Ericsson Mobile Communications AB ( Sony Ericsson ) (50%) and S-LCD Corporation ( S-LCD ) (50% minus 1 share).

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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:

**Balance Sheets**

|  | <b>Yen in millions<br/>March 31, 2009</b> |                |                |                  |
|--|---|----------------|----------------|------------------|
|  | <b>Sony<br/>Ericsson</b>                  | <b>S-LCD</b>   | <b>Others</b>  | <b>Total</b>     |
| Current assets   | 421,910                                   | 107,243        | 204,841        | 733,994          |
| Noncurrent assets  | 84,991                                    | 321,264        | 90,922         | 497,177          |
| <b>Total assets</b>  | <b>506,901</b>                            | <b>428,507</b> | <b>295,763</b> | <b>1,231,171</b> |
| Current liabilities  | 372,482                                   | 117,401        | 134,990        | 624,873          |
| Long-term liabilities and noncontrolling interests   | 12,360                                    | 23,256         | 59,446         | 95,062           |
| Stockholders' equity   | 122,059                                   | 287,850        | 101,327        | 511,236          |
| Percentage of ownership in equity investees  | 50%                                       | 50%            | 20%-50%        |                  |
| Equity investment and undistributed earnings of affiliated companies, before consolidating and reconciling adjustments | 61,030                                    | 143,925        |                |                  |
| Consolidation and reconciling adjustments: Other   | (1,082)                                   | (1,382)        |                |                  |
| Investment in and advances to equity investees at cost plus equity in undistributed earnings since acquisition         | 59,948                                    | 142,543        | 34,288         | 236,779          |

|  | <b>Yen in millions<br/>March 31, 2010</b> |                |                |                  |
|--|---|----------------|----------------|------------------|
|  | <b>Sony<br/>Ericsson</b>                  | <b>S-LCD</b>   | <b>Others</b>  | <b>Total</b>     |
| Current assets                                     | 322,537                                   | 161,571        | 133,606        | 617,714          |
| Noncurrent assets                                  | 98,375                                    | 300,206        | 127,237        | 525,818          |
| <b>Total assets</b>                                | <b>420,912</b>                            | <b>461,777</b> | <b>260,843</b> | <b>1,143,532</b> |
| Current liabilities                                | 341,087                                   | 102,538        | 100,829        | 544,454          |
| Long-term liabilities and noncontrolling interests | 23,837                                    | 22,443         | 54,306         | 100,586          |

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|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Stockholders' equity   | 55,988  | 336,796 | 105,708 | 498,492 |
| Percentage of ownership in equity investees  | 50%     | 50%     | 20%-50% |         |
| Equity investment and undistributed earnings of affiliated companies, before consolidating and reconciling adjustments | 27,994  | 168,398 |         |         |
| Consolidation and reconciling adjustments:   |         |         |         |         |
| Other  | (1,088) | 61      |         |         |
| Investment in and advances to equity investees at cost plus equity in undistributed earnings since acquisition         | 26,906  | 168,459 | 33,686  | 229,051 |

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**Table of Contents****SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**Statements of Income

|   | <b>Yen in millions</b>                  |              |                     |               |              |
|---|---|--------------|---------------------|---------------|--------------|
|   | <b>Fiscal Year Ended March 31, 2008</b> |              |                     |               |              |
|   | <b>Sony<br/>Ericsson</b>                | <b>S-LCD</b> | <b>SONY<br/>BMG</b> | <b>Others</b> | <b>Total</b> |
| Net revenues  | 2,031,078                               | 670,745      | 445,697             | 615,240       | 3,762,760    |
| Operating income (loss)   | 220,980                                 | 19,695       | 38,054              | 13,762        | 292,491      |
| Other income (expense), net   | 4,262                                   | (1,379)      | (9,039)             |               |              |
| Income (loss) before income taxes   | 225,242                                 | 18,316       | 29,015              |               |              |
| Income tax (expense) benefit  | (60,935)                                | (520)        | (8,725)             |               |              |
| Noncontrolling interests (expense) benefit  | (4,917)                                 |              | (272)               |               |              |
| Net income (loss) attributable to controlling interests   | 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 (loss) of affiliated companies, before consolidating and reconciling adjustments | 79,695                                  | 8,898        | 10,009              |               |              |
| Consolidation and reconciling adjustments:  |   |              |                     |               |              |
| Other   | (214)                                   | (1,479)      |                     |               |              |
| Equity in net income (loss) of affiliated companies   | 79,481                                  | 7,419        | 10,009              | 3,908         | 100,817      |

|                                   | <b>Yen in millions</b>                  |              |               |              |
|-----------------------------------|---|--------------|---------------|--------------|
|                                   | <b>Fiscal Year Ended March 31, 2009</b> |              |               |              |
|                                   | <b>Sony<br/>Ericsson</b>                | <b>S-LCD</b> | <b>Others</b> | <b>Total</b> |
| Net revenues                      | 1,459,259                               | 670,311      | 550,691       | 2,680,261    |
| Operating income (loss)           | (92,762)                                | 1,393        | 15,475        | (75,894)     |
| Other income (expense), net       | 12,599                                  | 11,191       |               |              |
| Income (loss) before income taxes | (80,163)                                | 12,584       |               |              |

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|   |          |        |         |          |
|---|----------|--------|---------|----------|
| Income tax (expense) benefit  | 23,888   | (626)  |         |          |
| Noncontrolling interests (expense) benefit  | (3,434)  |        |         |          |
| Net income (loss) attributable to controlling interests   | (59,709) | 11,958 | 4,898   | (42,853) |
| Percentage of ownership in equity investees   | 50%      | 50%    | 20%-50% |          |
| Equity in net income (loss) of affiliated companies, before consolidating and reconciling adjustments | (29,855) | 5,979  |         |          |
| Consolidation and reconciling adjustments:  |          |        |         |          |
| Other   | (400)    | 916    |         |          |
| Equity in net income (loss) of affiliated companies   | (30,255) | 6,895  | (1,749) | (25,109) |

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|   | Yen in millions                  |         |         |           |
|---|----------------------------------|---------|---------|-----------|
|   | Fiscal Year Ended March 31, 2010 |         |         |           |
|   | Sony<br>Ericsson                 | S-LCD   | Others  | Total     |
| Net revenues  | 837,149                          | 796,575 | 323,576 | 1,957,300 |
| Operating income (loss)   | (81,385)                         | 3,825   | 29,686  | (47,874)  |
| Other income (expense), net   | (4,676)                          | (4,055) |         |           |
| Income (loss) before income taxes   | (86,061)                         | (230)   |         |           |
| Income tax (expense) benefit  | 20,470                           | 53      |         |           |
| Noncontrolling interests (expense) benefit  | (3,318)                          |         |         |           |
| Net income (loss) attributable to controlling interests   | (68,909)                         | (177)   | 17,064  | (52,022)  |
| Percentage of ownership in equity investees   | 50%                              | 50%     | 20%-50% |           |
| Equity in net income (loss) of affiliated companies, before consolidating and reconciling adjustments | (34,455)                         | (89)    |         |           |
| Consolidation and reconciling adjustments:  |                                  |         |         |           |
| Other   | (59)                             | 476     |         |           |
| Equity in net income (loss) of affiliated companies   | (34,514)                         | 387     | 3,892   | (30,235)  |

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 dividends of 44,194 million yen in May 2007, 37,045 million yen in March 2008 and 23,363 million yen in September 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 25,992 million yen and 13,273 million yen in S-LCD during the fiscal years ended March 31, 2008 and 2009, 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.

On October 1, 2008, Sony acquired Bertelsmann AG's 50% equity interest in SONY BMG MUSIC ENTERTAINMENT (SONY BMG). As a result of this acquisition, SONY BMG became a wholly owned subsidiary of Sony and its results are consolidated from the acquisition date. The summarized financial information for SONY BMG for the six months ended September 30, 2008 is included in Others in the table above. SONY BMG was established as a 50/50 joint venture on August 1, 2004 when 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. As a

result, the operations of SONY BMG were accounted for under the equity method from August 1, 2004 until Sony's acquisition of the remaining 50% equity interest.

There was no significant difference between Sony's proportionate share in the underlying net assets of the investees and the carrying value of investments in affiliated companies at March 31, 2009 and 2010.

Affiliated companies accounted for under the equity method with an aggregate carrying value of 7,144 million yen at March 31, 2009 were quoted on established markets at an aggregate value of 26,909 million yen. There were no affiliated companies accounted for under the equity method with a market quotation at March 31, 2010.

The number of affiliated companies accounted for under the equity method at March 31, 2009 and 2010 were 85 and 73, respectively.

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

|                            | <b>Yen in millions</b> |             |
|----------------------------|------------------------|-------------|
|                            | <b>March 31</b>        |             |
|                            | <b>2009</b>            | <b>2010</b> |
| Accounts receivable, trade | 28,030                 | 21,467      |
| Accounts payable, trade    | 24,915                 | 61,360      |

|           | <b>Yen in millions</b>            |             |             |
|-----------|-----------------------------------|-------------|-------------|
|           | <b>Fiscal Year Ended March 31</b> |             |             |
|           | <b>2008</b>                       | <b>2009</b> | <b>2010</b> |
| Sales     | 266,303                           | 204,578     | 132,937     |
| Purchases | 542,075                           | 332,286     | 309,550     |

Dividends from affiliated companies accounted for under the equity method for the fiscal years ended March 31, 2008, 2009 and 2010 were 87,290 million yen, 40,361 million yen and 5,948 million yen, respectively.

**6. Transfer of financial assets**

Sony has established several accounts receivable sales programs in Japan whereby Sony can sell up to 50,000 million yen of eligible trade accounts receivable in the aggregate at any one time. 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 the accounting guidance 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, 2008, 2009 and 2010 were 181,412 million yen, 130,847 million yen and 109,271 million yen, respectively. Losses from these transactions were insignificant. In addition to the cash proceeds from the sales transactions above, net cash flows between the qualified special purpose entities and Sony, including servicing fees, in the fiscal years ended March 31, 2008, 2009 and 2010 related to 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.

A subsidiary of the Financial Services segment has established several receivables sales programs whereby the subsidiary can sell up to 23,000 million yen of eligible receivables in the aggregate at any one time. 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 the accounting guidance for transfers and servicing of financial assets and extinguishments of liabilities, since the subsidiary has relinquished control of the

receivables. Total receivables sold during the fiscal years ended March 31, 2008, 2009 and 2010 were 113,755 million yen, 166,077 million yen and 183,805 million yen, respectively. Losses from these transactions were insignificant. In addition to the cash proceeds from the sales transactions above, net cash flows between the qualified special purpose entities and Sony, including servicing fees, in the fiscal years ended March 31, 2008, 2009 and 2010 related to 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.

During the fiscal year ended March 31, 2010, Sony established an accounts receivable sales program in the United States. Through this program, a newly created special purpose entity, which is consolidated by a U.S. subsidiary, can sell up to 450 million U.S. dollars of eligible trade accounts receivables in the aggregate at any one time to a commercial bank. These transactions are accounted for as a sale in accordance with the accounting guidance for transfers and servicing of financial assets and extinguishments of liabilities, because Sony



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has relinquished control of the receivables. Total trade accounts receivables sold during the fiscal year ended March 31, 2010 were 258,085 million yen (2,893 million U.S. dollars). Losses from these transactions were insignificant. In addition to the cash proceeds from the sales transactions above, net cash flows between the special purpose entity which is consolidated by Sony and the commercial bank, including servicing fees, in the fiscal year ended March 31, 2010 related to these transactions were insignificant. Although Sony continues servicing the receivables subsequent to being sold or contributed, no servicing liabilities are recorded as the costs of collection of the sold or contributed receivables are insignificant.

**7. Marketable securities and securities investments**

Marketable securities and securities investments, mainly included in the Financial Services segment, are comprised of 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 |  |   |            |           |  |   |            |
|------------------------------|-----------------|--|---|------------|-----------|--|---|------------|
|                              | Cost            | March 31, 2009<br>Gross<br>unrealized<br>gains | March 31, 2009<br>Gross<br>unrealized<br>losses | Fair value | Cost      | March 31, 2010<br>Gross<br>unrealized<br>gains | March 31, 2010<br>Gross<br>unrealized<br>losses | Fair value |
| Available-for-sale:          |                 |  |   |            |           |  |   |            |
| Debt securities:             |                 |  |   |            |           |  |   |            |
| Japanese national            |                 |  |   |            |           |  |   |            |
| Government bonds             | 1,399,125       | 46,815   | (6,494)   | 1,439,446  | 1,264,725 | 29,496   | (3,397)   | 1,290,824  |
| Japanese local government    |                 |  |   |            |           |  |   |            |
| bonds                        | 95,752          | 2,209  | (7)   | 97,954     | 27,750    | 1,097  | (5)   | 28,842     |
| Japanese corporate bonds     | 622,904         | 2,911  | (507)   | 625,308    | 360,554   | 3,773  | (106)   | 364,221    |
| Foreign corporate bonds      | 283,078         | 934  | (20,922)  | 263,090    | 281,003   | 4,818  | (6,492)   | 279,329    |
| Other                        | 34,987          | 625  | (312)   | 35,300     | 11,141    | 83   | (123)   | 11,101     |
|                              | 2,435,846       | 53,494   | (28,242)  | 2,461,098  | 1,945,173 | 39,267   | (10,123)  | 1,974,317  |
| Equity securities            | 114,910         | 11,254   | (8,974)   | 117,190    | 99,753    | 74,430   | (3,437)   | 170,746    |
| Held-to-maturity Securities: |                 |  |   |            |           |  |   |            |
| Japanese national            |                 |  |   |            |           |  |   |            |
| Government bonds             | 1,384,423       | 31,919   | (4,421)   | 1,411,921  | 2,248,230 | 3,318  | (30,740)  | 2,220,809  |
| Japanese local government    |                 |  |   |            |           |  |   |            |
| bonds                        | 28,419          | 304  | (1)   | 28,722     | 23,617    | 346  |   | 23,963     |
| Japanese corporate bonds     | 10,207          | 120  | (28)  | 10,299     | 32,041    | 150  | (321)   | 31,819     |
| Foreign corporate bonds      | 42,360          | 16   | (4)   | 42,372     | 50,831    | 18   | (7)   | 50,812     |
|                              | 1,465,409       | 32,359   | (4,454)   | 1,493,314  | 2,354,719 | 3,832  | (31,068)  | 2,327,483  |
| Total                        | 4,016,165       | 97,107   | (41,670)  | 4,071,602  | 4,399,645 | 117,529  | (44,628)  | 4,472,546  |



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The following table presents the cost and fair value of debt securities classified as available-for-sale securities and held-to-maturity securities by contractual maturity:

|                                       | <b>Yen in millions</b>               |                   |                                    |                   |
|---------------------------------------|--------------------------------------|-------------------|------------------------------------|-------------------|
|                                       | <b>March 31, 2010</b>                |                   |                                    |                   |
|                                       | <b>Available-for-sale securities</b> |                   | <b>Held-to-maturity securities</b> |                   |
|                                       | <b>Cost</b>                          | <b>Fair value</b> | <b>Cost</b>                        | <b>Fair value</b> |
| Due in one year or less               | 224,531                              | 222,474           | 7,746                              | 7,807             |
| Due after one year through five years | 583,230                              | 590,563           | 45,941                             | 46,520            |
| Due after five year through ten years | 469,253                              | 493,692           | 9,051                              | 9,506             |
| Due after ten years                   | 668,159                              | 667,588           | 2,291,981                          | 2,263,650         |
| <b>Total</b>                          | <b>1,945,173</b>                     | <b>1,974,317</b>  | <b>2,354,719</b>                   | <b>2,327,483</b>  |

Proceeds from sales of available-for-sale securities were 1,296,797 million yen, 1,165,451 million yen and 785,698 million yen for the fiscal years ended March 31, 2008, 2009 and 2010, respectively. On these sales, gross realized gains computed on the average cost basis were 36,832 million yen, 41,860 million yen and 39,622 million yen and gross realized losses were 8,418 million yen, 30,554 million yen and 37,537 million yen, respectively.

Marketable securities classified as trading securities at March 31, 2009 and 2010 were 286,323 million yen and 353,353 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, 2009 and 2010, totaled 60,400 million yen and 70,705 million yen, respectively. Non-public equity investments are primarily valued at cost as fair value is not readily determinable.

With respect to trading securities, primarily in the Financial Services segment, Sony recorded net unrealized losses of 57,003 million yen and 79,476 million yen for the fiscal years ended March 31, 2008 and 2009, respectively, and net unrealized gains of 50,992 million yen for the fiscal year ended March 31, 2010. Changes in the fair value of trading securities are primarily recognized in Financial service revenue in the consolidated statements of income.

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The following tables present 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, 2009 and 2010.

|                                     | <b>Yen in millions</b>     |                          |                          |                          |                   |                          |
|-------------------------------------|----------------------------|--------------------------|--------------------------|--------------------------|-------------------|--------------------------|
|                                     | <b>Less than 12 months</b> |                          | <b>12 months or More</b> |                          | <b>Total</b>      |                          |
|                                     | <b>Fair value</b>          | <b>Unrealized losses</b> | <b>Fair value</b>        | <b>Unrealized losses</b> | <b>Fair value</b> | <b>Unrealized losses</b> |
| <b>Available-for-sale:</b>          |                            |                          |                          |                          |                   |                          |
| <b>Debt securities:</b>             |                            |                          |                          |                          |                   |                          |
| Japanese national government bonds  | 198                        |                          | 95,493                   | (6,494)                  | 95,691            | (6,494)                  |
| Japanese local government bonds     | 3,444                      | (7)                      |                          |                          | 3,444             | (7)                      |
| Japanese corporate bonds            | 32,542                     | (101)                    | 12,067                   | (406)                    | 44,609            | (507)                    |
| Foreign corporate bonds             | 131,305                    | (9,968)                  | 89,475                   | (10,954)                 | 220,780           | (20,922)                 |
| Other                               | 20,223                     | (205)                    | 787                      | (107)                    | 21,010            | (312)                    |
|                                     | 187,712                    | (10,281)                 | 197,822                  | (17,961)                 | 385,534           | (28,242)                 |
| Equity securities                   | 38,745                     | (5,704)                  | 10,778                   | (3,270)                  | 49,523            | (8,974)                  |
| <b>Held-to-maturity Securities:</b> |                            |                          |                          |                          |                   |                          |
| Japanese national government bonds  | 492,521                    | (4,421)                  |                          |                          | 492,521           | (4,421)                  |
| Japanese local government bonds     | 789                        | (1)                      | 273                      |                          | 1,062             | (1)                      |
| Japanese corporate bonds            | 3,140                      | (28)                     |                          |                          | 3,140             | (28)                     |
| Foreign corporate bonds             | 606                        | (4)                      |                          |                          | 606               | (4)                      |
|                                     | 497,056                    | (4,454)                  | 273                      |                          | 497,329           | (4,454)                  |
| <b>Total</b>                        | <b>723,513</b>             | <b>(20,439)</b>          | <b>208,873</b>           | <b>(21,231)</b>          | <b>932,386</b>    | <b>(41,670)</b>          |

**Table of Contents****SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**

|                                    | Yen in millions<br>March 31, 2010 |                   |                   |                   |            |                   |
|------------------------------------|-----------------------------------|-------------------|-------------------|-------------------|------------|-------------------|
|                                    | 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:                   |                                   |                   |                   |                   |            |                   |
| Japanese national government bonds | 139,613                           | (891)             | 53,704            | (2,506)           | 193,317    | (3,397)           |
| Japanese local government bonds    | 1,887                             | (5)               |                   |                   | 1,887      | (5)               |
| Japanese corporate bonds           | 48,151                            | (84)              | 1,965             | (22)              | 50,116     | (106)             |
| Foreign corporate bonds            | 46,764                            | (378)             | 88,258            | (6,114)           | 135,022    | (6,492)           |
| Other                              | 6,441                             | (123)             |                   |                   | 6,441      | (123)             |
|                                    | 242,856                           | (1,481)           | 143,927           | (8,642)           | 386,783    | (10,123)          |
| Equity securities                  | 10,069                            | (934)             | 11,486            | (2,503)           | 21,555     | (3,437)           |
| Held-to-maturity Securities:       |                                   |                   |                   |                   |            |                   |
| Japanese national government bonds | 1,496,584                         | (11,066)          | 465,416           | (19,674)          | 1,962,000  | (30,740)          |
| Japanese local government bonds    | 100                               |                   |                   |                   | 100        |                   |
| Japanese corporate bonds           | 19,828                            | (314)             | 95                | (7)               | 19,923     | (321)             |
| Foreign corporate bonds            | 88                                | (4)               | 305               | (3)               | 393        | (7)               |
|                                    | 1,516,600                         | (11,384)          | 465,816           | (19,684)          | 1,982,416  | (31,068)          |
| Total                              | 1,769,525                         | (13,799)          | 621,229           | (30,829)          | 2,390,754  | (44,628)          |

For the fiscal years ended March 31, 2008, 2009 and 2010, total realized impairment losses were 37,117 million yen, 45,644 million yen and 5,508 million yen, respectively. No other-than-temporary impairment loss was recorded to accumulated other comprehensive income as a result of the adoption of the accounting guidance for the recognition and presentation of other than temporary impairments for debt securities for the fiscal year ended March 31, 2010.

At March 31, 2010, Sony determined that the decline in value for securities with unrealized losses shown in the above table is not other-than-temporary in nature.

**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. Sony has also entered into

capital lease arrangements with third parties to finance certain of its theatrical productions.

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Leased assets under capital leases are comprised of the following:

| <b>Class of property</b>        | <b>Yen in millions</b> |             |
|---------------------------------|------------------------|-------------|
|                                 | <b>2009</b>            | <b>2010</b> |
| Land                            | 66                     | 62          |
| Buildings                       | 1,610                  | 1,005       |
| Machinery, equipment and others | 18,168                 | 11,807      |
| Film costs                      | 22,757                 | 21,175      |
| Accumulated amortization        | (11,793)               | (7,543)     |
|                                 | 30,808                 | 26,506      |

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, 2010:

|   | <b>Yen in millions</b> |
|---|------------------------|
| Fiscal year ending March 31:                |                        |
| 2011  | 8,530                  |
| 2012  | 6,643                  |
| 2013  | 4,570                  |
| 2014  | 3,389                  |
| 2015  | 2,662                  |
| Later years                                 | 17,659                 |
| Total minimum lease payments                | 43,453                 |
| Less Amount representing interest           | 8,440                  |
| Present value of net minimum lease payments | 35,013                 |
| Less Current obligations                    | 7,131                  |
| Long-term capital lease obligations         | 27,882                 |

Total minimum capital lease payments have not been reduced by minimum sublease income of 6,245 million yen due in the future under noncancelable subleases.

Rental expenses under operating leases for the fiscal years ended March 31, 2008, 2009 and 2010 were 87,040 million yen, 87,360 million yen and 87,077 million yen, respectively. Sublease rentals received under operating leases for the fiscal years ended March 31, 2008, 2009 and 2010 were 1,718 million yen, 1,742 million yen and 1,675 million yen, respectively. The total minimum rentals to be received in the future under noncancelable subleases for operating leases as of March 31, 2010 were 5,151 million yen.





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The minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at March 31, 2010 are as follows:

|                              | <b>Yen in millions</b> |
|------------------------------|------------------------|
| Fiscal year ending March 31: |                        |
| 2011                         | 40,715                 |
| 2012                         | 32,685                 |
| 2013                         | 23,365                 |
| 2014                         | 17,892                 |
| 2015                         | 14,256                 |
| Later years                  | 55,170                 |
| Total minimum future rentals | 184,083                |

**9. Goodwill and intangible assets**

Intangible assets acquired during the fiscal year ended March 31, 2010 totaled 63,645 million yen, of which 63,419 million yen is subject to amortization and are comprised of the following:

|   | <b>Intangible assets<br/>acquired during the year<br/>Yen in millions</b> | <b>Weighted-average<br/>amortization<br/>period<br/>Years</b> |
|---|---|---|
| Patent rights, know-how and license agreements    | 16,835  | 6   |
| Software to be sold, leased or otherwise marketed | 27,401  | 3   |
| Music catalogs                                    | 463   | 8   |
| Other   | 18,720  | 5   |

Intangible assets subject to amortization are comprised of the following:

|   | <b>Yen in millions</b>           |                                     |                                  |                                     |
|---|----------------------------------|-------------------------------------|----------------------------------|-------------------------------------|
|   | <b>March 31, 2009</b>            |                                     | <b>March 31, 2010</b>            |                                     |
|   | <b>Gross carrying<br/>amount</b> | <b>Accumulated<br/>amortization</b> | <b>Gross carrying<br/>amount</b> | <b>Accumulated<br/>amortization</b> |
| Patent rights, know-how and license agreements    | 143,124                          | (69,898)                            | 146,932                          | (79,403)                            |
| Software to be sold, leased or otherwise marketed | 61,557                           | (21,664)                            | 71,300                           | (29,606)                            |
| Music catalogs                                    | 180,679                          | (31,538)                            | 175,172                          | (37,591)                            |
| Artist contracts                                  | 28,170                           | (12,331)                            | 28,958                           | (16,754)                            |

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|       |         |           |         |           |
|-------|---------|-----------|---------|-----------|
| Other | 76,165  | (37,784)  | 89,174  | (49,020)  |
| Total | 489,695 | (173,215) | 511,536 | (212,374) |

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The aggregate amortization expense for intangible assets for the fiscal years ended March 31, 2008, 2009 and 2010 was 39,138 million yen, 47,101 million yen and 57,069 million yen, respectively. The estimated aggregate amortization expense for intangible assets for the next five years is as follows:

|                              | <b>Yen in millions</b> |
|------------------------------|------------------------|
| Fiscal year ending March 31, |                        |
| 2011                         | 57,703                 |
| 2012                         | 46,113                 |
| 2013                         | 30,761                 |
| 2014                         | 20,958                 |
| 2015                         | 18,026                 |

Total carrying amount of intangible assets having an indefinite life are comprised of the following:

|                         | <b>Yen in millions</b> |             |
|-------------------------|------------------------|-------------|
|                         | <b>March 31</b>        |             |
|                         | <b>2009</b>            | <b>2010</b> |
| Trademarks              | 57,915                 | 57,857      |
| Distribution agreements | 18,834                 | 18,834      |
| Other                   | 3,119                  | 3,064       |
| Total                   | 79,868                 | 79,755      |

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The changes in the carrying amount of goodwill by segment for the fiscal years ended March 31, 2009 and 2010 are as follows:

|                                 | Yen in millions                      |                                     |                    |                |                |                       |               |                |
|---------------------------------|--------------------------------------|-------------------------------------|--------------------|----------------|----------------|-----------------------|---------------|----------------|
|                                 | Consumer<br>Products<br>&<br>Devices | Networked<br>Products<br>& Services | B2B &<br>Disc Mfg. | Pictures       | Music          | Financial<br>Services | All Other     | Total          |
| <b>Balance, March 31, 2008:</b> |                                      |                                     |                    |                |                |                       |               |                |
| Goodwill gross                  | 60,357                               | 122,832                             | 15,351             | 80,512         | 22,160         | 3,020                 | 11,860        | 316,092        |
| Accumulated impairments         | (5,320)                              |                                     | (300)              |                |                |                       | (6,049)       | (11,669)       |
| <b>Goodwill</b>                 | <b>55,037</b>                        | <b>122,832</b>                      | <b>15,051</b>      | <b>80,512</b>  | <b>22,160</b>  | <b>3,020</b>          | <b>5,811</b>  | <b>304,423</b> |
| Increase (decrease) due to:     |                                      |                                     |                    |                |                |                       |               |                |
| Acquisition                     | 10,826                               | 505                                 | 322                | 29,335         | 104,335        |                       | 19,545        | 164,868        |
| Impairments                     |                                      |                                     |                    |                | (306)          |                       | (7,655)       | (7,961)        |
| Translation adjustments         | (388)                                | (575)                               | (286)              | (1,633)        | (12,919)       |                       | (747)         | (16,548)       |
| Other*1                         | (128)                                | 670                                 |                    | (736)          | (613)          |                       | (17)          | (824)          |
| <b>Balance, March 31, 2009:</b> |                                      |                                     |                    |                |                |                       |               |                |
| Goodwill gross                  | 70,667                               | 123,432                             | 15,387             | 107,478        | 112,963        | 3,020                 | 30,641        | 463,588        |
| Accumulated impairments         | (5,320)                              |                                     | (300)              |                | (306)          |                       | (13,704)      | (19,630)       |
| <b>Goodwill</b>                 | <b>65,347</b>                        | <b>123,432</b>                      | <b>15,087</b>      | <b>107,478</b> | <b>112,657</b> | <b>3,020</b>          | <b>16,937</b> | <b>443,958</b> |
| Increase (decrease) due to:     |                                      |                                     |                    |                |                |                       |               |                |
| Acquisition                     |                                      | 724                                 | 1,591              | 6              | 7,848          |                       | 3,256         | 13,425         |
| Disposition                     |                                      | (27)                                |                    |                |                |                       | (202)         | (229)          |
| Impairments                     |                                      |                                     |                    |                |                | (706)                 | (349)         | (1,055)        |
| Translation adjustments         | (71)                                 | (249)                               | (608)              | (5,427)        | (1,943)        |                       | (170)         | (8,468)        |
| Other*1*2                       | (470)                                | 1                                   | 1                  | 424            | (8,676)        |                       | (42)          | (8,762)        |
| <b>Balance, March 31, 2010:</b> |                                      |                                     |                    |                |                |                       |               |                |
| Goodwill gross                  | 70,126                               | 123,881                             | 16,371             | 102,481        | 110,192        | 3,020                 | 27,085        | 453,156        |
| Accumulated impairments         | (5,320)                              |                                     | (300)              |                | (306)          | (706)                 | (7,655)       | (14,287)       |
| <b>Goodwill</b>                 | <b>64,806</b>                        | <b>123,881</b>                      | <b>16,071</b>      | <b>102,481</b> | <b>109,886</b> | <b>2,314</b>          | <b>19,430</b> | <b>438,869</b> |

\*1 Other primarily consists of purchase price adjustments for prior years.

\*2 The adjustment in the Music segment substantially all relates to a decrease of goodwill recognized from the acquisition of Bertelsmann's 50% interest in the SONY BMG joint venture by 8,649 million yen, primarily to reflect an increase in the deferred tax assets recognized in connection with the acquisition and a decrease in the

acquired liabilities as certain restructuring activities that were identified at the time of the acquisition will not be implemented (see Note 18).

As described in Note 2, Sony performs an annual impairment test for goodwill. During the fiscal year ended March 31, 2009, Sony recorded an impairment loss of 7,655 million yen for a reporting unit in All Other, which was related to goodwill recorded for Sony's acquisition of Gracenote, Inc. ( Gracenote ), a company that provides technology and services for digital media identification, enrichment and recommendation. The impairment charge for Gracenote reflected the impact of weakened economic conditions which resulted in lower growth forecasts for several key markets serviced by the company, including the automotive and mobile communications markets. The valuation of Gracenote also decreased due to the use of a higher discount rate in calculating the present value of future cash flows to reflect higher perceived economic risk due to the economic downturn. The impairment charges reflected the overall decline in the fair value of the reporting units. The fair values of the reporting units were estimated principally using a discounted cash flow analysis. See Note 24 for a further description of this acquisition.

**Table of Contents****SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES****10. Insurance-related accounts**

Sony's Financial Services segment subsidiaries in Japan maintain their accounting records as described in Note 2 in accordance with the accounting principles and practices generally accepted in Japan, which vary in some respects from U.S. GAAP.

Those differences are mainly that insurance acquisition costs for life and non-life insurance are charged to income when incurred in Japan whereas in the United States of America those costs are deferred and amortized generally over the premium-paying period of the related insurance policies, and that future policy benefits for life insurance calculated locally under the authorization of the supervisory administrative agencies are comprehensively adjusted to a net level premium method with certain adjustments of actuarial assumptions for U.S. GAAP purposes. For purposes of preparing the consolidated financial statements, appropriate adjustments have been made to reflect the accounting for these items in accordance with U.S. GAAP.

The combined amounts of statutory net equity of the insurance subsidiaries, which is not measured in accordance with U.S. GAAP, as of March 31, 2009 and 2010 were 154,409 million yen and 206,794 million yen, respectively.

**(1) Insurance policies:**

Life insurance policies that a subsidiary in the Financial Services segment underwrites, most of which are categorized as long-duration contracts, mainly consist of whole life, term life and accident and health insurance contracts. The life insurance revenues for the fiscal years ended March 31, 2008, 2009 and 2010 were 506,801 million yen, 526,303 million yen and 554,650 million yen, respectively. Property and casualty insurance policies that a subsidiary in the Financial Services segment underwrites are primarily automotive insurance contracts, which are categorized as short-duration contracts. The non-life insurance revenues for the fiscal years ended March 31, 2008, 2009 and 2010 were 53,035 million yen, 58,576 million yen and 64,987 million yen, respectively.

**(2) 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, and are subject to recoverability testing at least annually to ensure that the capitalized amounts do not exceed the present value of anticipated gross profits or premiums less benefits and maintenance expenses, as applicable. 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. Amortization charged to income for the fiscal years ended March 31, 2008, 2009 and 2010 amounted to 59,932 million yen, 64,599 million yen and 53,767 million yen, respectively.

**(3) Future insurance policy benefits:**

Liabilities for future policy benefits are established in amounts adequate to meet the estimated future obligations of policies in force. These liabilities, which require significant management judgment and estimates, are computed by the net level premium method based upon the assumptions as to future investment yield, morbidity, mortality, withdrawals and other factors. Future policy benefits are computed using interest rates ranging from 1.4% to 4.7% and are based on factors such as market conditions and expected investment returns. Morbidity, mortality and withdrawal

assumptions for all policies are based on either the subsidiary's own experience or various actuarial tables. Generally these assumptions are locked-in throughout the life of the contract upon the issuance of new insurance, although significant changes in experience or assumptions may require Sony to provide for expected future losses. At March 31, 2009 and 2010, future insurance policy benefits amounted to 2,486,259 million yen and 2,673,357 million yen, respectively.

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Short-term borrowings are comprised of the following:

|   | <b>Yen in millions</b> |             |
|---|------------------------|-------------|
|   | <b>March 31</b>        |             |
|   | <b>2009</b>            | <b>2010</b> |
| Unsecured commercial paper:<br>with a weighted-average interest rate of 0.66% | 172,465                |             |
| Unsecured loans:<br>with a weighted-average interest rate of 3.18%            | 121,150                |             |
| with a weighted-average interest rate of 3.08%                                |                        | 38,785      |
| Secured call money:<br>with a weighted-average interest rate of 0.48%         | 10,000                 |             |
| with a weighted-average interest rate of 0.15%                                |                        | 10,000      |
|   | 303,615                | 48,785      |

At March 31, 2010, securities investments with a book value of 10,480 million yen were pledged as collateral for 10,000 million yen of call money, by subsidiaries in the Financial Services segment. In addition, marketable securities with a book value of 69,256 million yen were pledged as collateral for cash settlements, variation margins of futures markets and certain other purposes at March 31, 2010.



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Long-term debt is comprised of the following:

|   | <b>Yen in millions</b> |             |
|---|------------------------|-------------|
|   | <b>March 31</b>        |             |
|   | <b>2009</b>            | <b>2010</b> |
| Unsecured loans, representing obligations principally to banks:             |                        |             |
| Due 2009 to 2020, with interest rates ranging from 0.67% to 5.24% per annum | 380,388                |             |
| Due 2010 to 2020, with interest rates ranging from 0.20% to 4.50% per annum |                        | 563,465     |
| Unsecured 1.01% bonds, due 2010, net of unamortized discount                | 39,999                 |             |
| Unsecured 2.04% bonds, due 2010, net of unamortized discount                | 49,996                 | 49,999      |
| Unsecured 0.80% bonds, due 2010, net of unamortized discount                | 49,997                 | 49,999      |
| Unsecured 1.52% bonds, due 2011, net of unamortized discount                | 49,999                 | 49,999      |
| Unsecured 1.16% bonds, due 2012, net of unamortized discount                | 39,990                 | 39,993      |
| Unsecured 1.52% bonds, due 2013, net of unamortized discount                | 34,998                 | 34,999      |
| Unsecured 1.57% bonds, due 2015, net of unamortized discount                | 29,987                 | 29,988      |
| Unsecured 1.75% bonds, due 2015, net of unamortized discount                | 24,995                 | 24,996      |
| Unsecured 2.35% bonds, due 2010   | 4,900                  | 4,900       |
| Unsecured 1.17% bonds, due 2011   | 10,500                 | 10,500      |
| Unsecured 0.95% bonds, due 2012   |                        | 60,000      |
| Unsecured 1.40% bonds, due 2013   | 10,700                 | 10,700      |
| Unsecured 1.30% bonds, due 2014   |                        | 110,000     |
| Unsecured 2.00% bonds, due 2018   | 16,300                 | 16,300      |
| Unsecured 2.07% bonds, due 2019   |                        | 50,000      |
| Capital lease obligations:  |                        |             |
| Due 2009 to 2018 with interest rates ranging from 0.78% to 9.14% per annum  | 43,060                 |             |
| Due 2010 to 2021 with interest rates ranging from 0.01% to 7.77% per annum  |                        | 35,013      |
| Guarantee deposits received   | 21,878                 | 19,178      |
|   | 807,687                | 1,160,029   |
| Less Portion due within one year  | 147,540                | 235,822     |
|   | 660,147                | 924,207     |

In June 2009, Sony executed unsecured syndicated loans totaling 162,500 million yen having three, five and seven year maturity terms. The proceeds were used for the redemption of a previously executed syndicated loan of 80,000 million yen which matured in June 2009 and for general business activities, including working capital requirements. In addition, Sony executed a 1,000 million U.S. dollar unsecured long-term bank loan in July 2009 with a three year term.

There are no significant adverse debt covenants or cross-default provisions related to the above borrowings.

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Aggregate amounts of annual maturities of long-term debt are as follows:

| <b>Fiscal Year Ending March 31</b> | <b>Yen in millions</b> |
|------------------------------------|------------------------|
| 2011                               | 235,822                |
| 2012                               | 94,076                 |
| 2013                               | 288,718                |
| 2014                               | 118,043                |
| 2015                               | 234,365                |
| Later years                        | 189,005                |
| <b>Total</b>                       | <b>1,160,029</b>       |

At March 31, 2010, Sony had unused committed lines of credit amounting to 813,545 million yen and can generally borrow up to 180 days from the banks with whom Sony has committed line contracts. Furthermore, at March 31, 2010, Sony has commercial paper programs, the size of which was 1,151,280 million yen. Sony can issue commercial paper for a period generally not in excess of 270 days up to the size of the programs.

**12. *Deposits from customers in the banking business***

All deposits from customers in the banking business within the Financial Services segment are interest bearing deposits. At March 31, 2009 and 2010, the balance of time deposits issued in amounts of 10 million yen or more were 225,354 million yen and 243,629 million yen, respectively. These amounts have been classified as current liabilities due to the ability of the customers to make withdrawals prior to maturity.

At March 31, 2010, aggregate amounts of annual maturities of time deposits with a remaining term of more than one year are as follows:

| <b>Fiscal Year Ending March 31</b> | <b>Yen in millions</b> |
|------------------------------------|------------------------|
| 2012                               | 23,847                 |
| 2013                               | 13,916                 |
| 2014                               | 3,320                  |
| 2015                               | 2,024                  |
| 2016                               | 5,367                  |
| Later years                        | 14,735                 |
| <b>Total</b>                       | <b>63,209</b>          |

**13. *Fair value measurements***

As discussed in Note 2, Sony adopted the accounting guidance for fair value measurements in two steps; effective April 1, 2008, Sony adopted this guidance for (a) all financial assets and liabilities and (b) nonfinancial assets and

liabilities that are recognized or disclosed in the financial statements at fair value on a recurring basis (at least annually) and effective April 1, 2009, for all nonfinancial assets and liabilities that are recognized or disclosed in the financial statements at fair value on a nonrecurring basis. The information below incorporates guidance relating to determining the fair value of financial assets when there is no active market for an asset or when the pricing inputs used in determining the fair value of an asset represent a distressed sale, which was effective April 1, 2009 for Sony. Under this guidance, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date.

The accounting guidance for fair value measurements specifies a hierarchy of inputs to valuation techniques based on the extent to which inputs used in measuring fair value are observable in the market. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect Sony's assumptions about

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the assumptions that market participants would use in pricing the asset or liability. Observable market data is used if such data is available without undue cost and effort. Each fair value measurement is reported in one of three levels which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1 Inputs are unadjusted quoted prices for identical assets and liabilities in active markets.

Level 2 Inputs are based on observable inputs other than level 1 prices, such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations, in which all significant inputs are observable in active markets.

Level 3 One or more significant inputs are unobservable.

Sony measures fair value as an exit price using the procedures described below for assets and liabilities subject to this guidance. When available, Sony uses unadjusted quoted market prices in active markets to measure fair value and classifies such items within level 1. If quoted market prices are not available, fair value is based upon internally developed valuation techniques that use, where possible, current market-based or independently sourced market parameters, such as interest rates, currency rates and option volatilities. Items valued using internally generated models are classified according to the lowest level input that is significant to the valuation. Additionally, Sony considers both counterparty credit risk and Sony's own creditworthiness in determining fair value. Sony attempts to mitigate credit risk to third parties by entering into netting agreements and actively monitoring the creditworthiness of counterparties and its exposure to credit risk through the use of credit limits and by selecting major international banks and financial institutions as counterparties.

**(1) Assets and liabilities that are measured at fair value on a recurring basis:**

The following section describes the valuation techniques used by Sony to measure different financial instruments at fair value, including an indication of the level in the fair value hierarchy in which each instrument is generally classified.

*Trading securities, Available-for-sale securities and Other investments*

Where quoted prices are available in an active market, securities are classified in level 1 of the fair value hierarchy. Level 1 securities include exchange-traded equities. If quoted market prices are not available for the specific security or the market is inactive, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows and mainly classified in level 2 of the hierarchy. Level 2 securities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, such as the majority of government bonds and corporate bonds. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within level 3 of the fair value hierarchy. Level 3 securities do not have actively traded quotes at the balance sheet date and require the use of unobservable inputs, such as indicative quotes from dealers and qualitative input from investment advisors, to value these securities. Level 3 assets include financial instruments whose value is determined using pricing models, discounted cash flow techniques, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation of assumptions that market participants would use in pricing the asset. Level 3 securities primarily include certain private equity investments and certain hybrid financial instruments not classified within level 1 or 2.

*Derivatives*

Exchange-traded derivatives valued using quoted prices are classified within level 1 of the fair value hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the majority of Sony's derivative positions are valued using internally developed models that use as their basis readily observable market parameters i.e. parameters that are actively quoted and can be validated to external sources, including industry pricing services. Depending on the types and contractual terms of derivatives, fair value can be modeled using a

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series of techniques, such as the Black-Scholes option pricing model, which are consistently applied. Where derivative products have been established for some time, Sony uses models that are widely accepted in the financial services industry. These models reflect the contractual terms of the derivatives, including the period to maturity, and market-based parameters such as interest rates, volatility, and the credit rating of the counterparty. Further, many of these models do not contain a high level of subjectivity as the techniques used in the models do not require significant judgment, and inputs to the model are readily observable from actively quoted markets. Such instruments are generally classified within level 2 of the fair value hierarchy.

In determining the fair value of Sony's interest rate swap derivatives, Sony uses the present value of expected cash flows based on market observable interest rate yield curves commensurate with the term of each instrument. For foreign currency derivatives, Sony's approach is to use forward contract and option valuation models employing market observable inputs, such as spot currency rates, time value and option volatilities. These derivatives are classified within level 2 since Sony primarily uses observable inputs in its valuation of its derivative assets and liabilities.

The fair value of Sony's assets and liabilities that are measured at fair value on a recurring basis at March 31, 2009 and 2010 are as follows:

|                                    | <b>Yen in millions</b> |                  |                |                  |
|------------------------------------|------------------------|------------------|----------------|------------------|
|                                    | <b>March 31, 2009</b>  |                  |                |                  |
|                                    | <b>Level 1</b>         | <b>Level 2</b>   | <b>Level 3</b> | <b>Total</b>     |
| <b>Assets:</b>                     |                        |                  |                |                  |
| Trading securities                 | 123,080                | 160,240          | 3,003          | 286,323          |
| Available-for-sale securities      |                        |                  |                |                  |
| <b>Debt securities</b>             |                        |                  |                |                  |
| Japanese national government bonds |                        | 1,439,446        |                | 1,439,446        |
| Japanese local government bonds    |                        | 97,954           |                | 97,954           |
| Japanese corporate bonds           | 44,794                 | 572,884          | 7,630          | 625,308          |
| Foreign corporate bonds            |                        | 211,292          | 51,798         | 263,090          |
| Other                              |                        | 35,300           |                | 35,300           |
| Equity securities                  | 92,464                 | 21,164           | 3,562          | 117,190          |
| Other investments*1                | 3,877                  |                  | 59,781         | 63,658           |
| Derivative assets*2                |                        | 24,401           |                | 24,401           |
| <b>Total assets</b>                | <b>264,215</b>         | <b>2,562,681</b> | <b>125,774</b> | <b>2,952,670</b> |
| <b>Liabilities:</b>                |                        |                  |                |                  |
| Derivative liabilities*2           |                        | 36,386           |                | 36,386           |
| <b>Total liabilities</b>           |                        | <b>36,386</b>    |                | <b>36,386</b>    |

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|                                    | <b>Yen in millions</b> |                  |                |                  |
|------------------------------------|------------------------|------------------|----------------|------------------|
|                                    | <b>March 31, 2010</b>  |                  |                |                  |
|                                    | <b>Level 1</b>         | <b>Level 2</b>   | <b>Level 3</b> | <b>Total</b>     |
| <b>Assets:</b>                     |                        |                  |                |                  |
| Trading securities                 | 180,414                | 172,939          |                | 353,353          |
| Available-for-sale securities      |                        |                  |                |                  |
| <b>Debt securities</b>             |                        |                  |                |                  |
| Japanese national government bonds |                        | 1,290,824        |                | 1,290,824        |
| Japanese local government bonds    |                        | 28,842           |                | 28,842           |
| Japanese corporate bonds           | 4,937                  | 358,187          | 1,097          | 364,221          |
| Foreign corporate bonds            |                        | 261,896          | 17,433         | 279,329          |
| Other                              | 365                    | 10,736           |                | 11,101           |
| Equity securities                  | 160,128                | 6,682            | 3,936          | 170,746          |
| Other investments*1                | 5,377                  | 38               | 69,672         | 75,087           |
| Derivative assets*2                |                        | 23,796           |                | 23,796           |
| <b>Total assets</b>                | <b>351,221</b>         | <b>2,153,940</b> | <b>92,138</b>  | <b>2,597,299</b> |
| <b>Liabilities:</b>                |                        |                  |                |                  |
| Derivative liabilities*2           |                        | 48,599           |                | 48,599           |
| <b>Total liabilities</b>           |                        | <b>48,599</b>    |                | <b>48,599</b>    |

\*1 Other investments include certain private equity investments and certain hybrid financial instruments.

\*2 Derivative assets and liabilities are recognized and disclosed on a gross basis.

There were no significant transfers between Levels 1 and 2 for the fiscal year ended March 31, 2010.

The changes in fair value of level 3 assets and liabilities for the fiscal years ended March 31, 2009 and 2010 are as follows:

|                   | <b>Yen in millions</b>                  |                                 |                                |              |                          |                          |
|-------------------|---|---------------------------------|--------------------------------|--------------|--------------------------|--------------------------|
|                   | <b>Fiscal Year Ended March 31, 2009</b> |                                 |                                |              |                          |                          |
|                   | <b>Assets</b>                           |                                 |                                |              |                          |                          |
|                   | <b>Available-for-sale securities</b>    |                                 |                                |              |                          |                          |
|                   | <b>Debt securities</b>                  |                                 |                                |              |                          |                          |
|                   | <b>Trading securities</b>               | <b>Japanese corporate bonds</b> | <b>Foreign corporate bonds</b> | <b>Other</b> | <b>Equity securities</b> | <b>Other investments</b> |
| Beginning balance | 178                                     | 9,403                           | 32,353                         | 1,125        | 4,381                    | 21,611                   |

|   |         |         |         |         |         |
|---|---------|---------|---------|---------|---------|
| Total realized and unrealized gains (losses):   |         |         |         |         |         |
| Included in earnings* <sup>1</sup>  | (1,424) | (1,332) | (465)   | (1,483) | (6,966) |
| Included in other comprehensive income (loss)   |         | (70)    | (6,219) | 664     | (2,650) |
| Purchases, issuances and settlements  | (116)   | (2,973) | 20,476  |         | 2,811   |
| Transfers in and/or out of level 3* <sup>2*3</sup>  | 4,365   | 2,602   | 5,653   | (1,125) | 44,975  |
| Ending balance  | 3,003   | 7,630   | 51,798  | 3,562   | 59,781  |
| Changes in unrealized gains (losses) relating to instruments still held at reporting date |         |         |         |         |         |
| Included in earnings* <sup>1</sup>  | (1,465) | (1,159) | (658)   | (1,483) | (8,535) |

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|   | <b>Yen in millions</b>                  |                                 |                                |                          |                          |                          |
|---|---|---------------------------------|--------------------------------|--------------------------|--------------------------|--------------------------|
|   | <b>Fiscal Year Ended March 31, 2010</b> |                                 |                                |                          |                          |                          |
|   | <b>Assets</b>                           |                                 |                                |                          |                          |                          |
|   | <b>Available-for-sale securities</b>    |                                 |                                | <b>Debt securities</b>   |                          |                          |
|   | <b>Trading securities</b>               | <b>Japanese corporate bonds</b> | <b>Foreign corporate bonds</b> | <b>Equity securities</b> | <b>Other investments</b> | <b>Derivative assets</b> |
| Beginning balance   | 3,003                                   | 7,630                           | 51,798                         | 3,562                    | 59,781                   |                          |
| Total realized and unrealized gains (losses):   |   |                                 |                                |                          |                          |                          |
| Included in earnings* <sup>1</sup>  | 181                                     | (260)                           | (404)                          | (2)                      | 6,288                    | (69)                     |
| Included in other comprehensive income (loss)   |   |                                 | 1,818                          | 374                      | 2,781                    |                          |
| Purchases, issuances and settlements  | (562)                                   | (5,660)                         | (4,247)                        | 2                        | 822                      | (186)                    |
| Transfers in and/or out of level 3* <sup>2</sup> * <sup>4</sup>                           | (2,622)                                 | (613)                           | (31,532)                       |                          |                          | 255                      |
| Ending balance  |   | 1,097                           | 17,433                         | 3,936                    | 69,672                   |                          |
| Changes in unrealized gains (losses) relating to instruments still held at reporting date |   |                                 |                                |                          |                          |                          |
| Included in earnings* <sup>1</sup>  |   |                                 | (40)                           |                          | 6,726                    |                          |

\*1 Earning effects are included in financial service revenue in the consolidated statements of income.

\*2 Transfers into or out of level 3 are reported as the value as of the beginning of the period in which the transfer occurs.

\*3 Certain hybrid financial instruments were transferred into Level 3 due to a significant decline in market activities.

\*4 Certain corporate bonds were transferred into Level 2 because the ability to corroborate significant inputs with market observable data became possible due to a significant recovery in credit markets.

**(2) Assets and liabilities that are measured at fair value on a nonrecurring basis:**

Disclosures for nonfinancial assets and liabilities that are measured at fair value, but are recognized and disclosed at fair value on a nonrecurring basis, are required prospectively beginning April 1, 2009. During the fiscal year ended March 31, 2010, such measurements of fair value related primarily to the impairments of long-lived assets.

*Long-lived assets impairments*

Long-lived assets are measured at the lesser of carrying value or fair value if such assets are held for sale or when there is a determination that the asset is impaired. During the fiscal year ended March 31, 2010, Sony recorded

impairment losses of 53,304 million yen related to long-lived assets with carrying values prior to impairment of 58,598 million yen; the fair value of the long-lived assets after impairments was 5,294 million yen. Sony's determination of fair value was based on the comparable market values or estimated net cash flows which considered prices and other relevant information generated by market transactions involving comparable assets or cash flow projections based upon the most recent business plan. These measurements are classified as level 3 because significant unobservable inputs, such as the conditions of the assets or projections of future cash flows, were considered in the fair value measurements.

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**Table of Contents****SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES****(3) Financial instruments:**

The estimated fair values of Sony's financial instruments are summarized as follows. The following summary excludes cash and cash equivalents, call loans, time deposits, notes and accounts receivable, trade, call money, short-term borrowings, notes and accounts payable, trade and deposits from customers in the banking business because the carrying values of these financial instruments approximated their fair values due to their short-term nature. The summary also excludes debt and equity securities which are disclosed in Note 7.

|  | Yen in millions    |                         |                    |                         |
|--|--------------------|-------------------------|--------------------|-------------------------|
|  | March 31, 2009     |                         | March 31, 2010     |                         |
|  | Carrying<br>amount | Estimated<br>fair value | Carrying<br>amount | Estimated<br>fair value |
| Long-term debt including the current portion   | 807,687            | 809,377                 | 1,160,029          | 1,168,354               |
| Investment contracts included in<br>policyholders' account in the life insurance<br>business | 286,104            | 289,905                 | 306,625            | 307,656                 |
| Housing loans in the banking business  | 468,310            | 521,251                 | 555,105            | 612,830                 |

The fair values of long-term debt including the current portion and investment contracts included in policyholders' account in the life insurance business were estimated based on either the market value or the discounted future cash flows using Sony's current incremental borrowing rates for similar liabilities. The fair values of housing loans in the banking business, included in securities investments and other in the consolidated balance sheets, were estimated based on the discounted future cash flows using interest rates reflecting London InterBank Offered Rate base yield curve with a certain risk premium.

**14. *Derivative instruments and hedging activities***

Sony has certain financial instruments including financial assets and liabilities acquired in the normal course of business. Such financial instruments are exposed to market risk arising from the changes of foreign currency exchange rates and interest rates. In applying a consistent risk management strategy for the purpose of reducing such risk, Sony uses derivative financial instruments, which include foreign exchange forward contracts, foreign currency option contracts, and interest rate swap agreements (including interest rate and currency swap agreements). Certain other derivative financial instruments are entered into in the Financial Services segment for investment purposes. These instruments are executed with creditworthy financial institutions, and virtually all foreign currency contracts are denominated in U.S. dollars, euros and other currencies of major countries. These derivatives generally mature or expire within six months after the balance sheet date. Other than derivatives utilized in the Financial Services segment for portfolio investments, Sony does not use derivative financial instruments for trading or speculative purposes. These derivative transactions utilized for portfolio investments in the Financial Services segment are executed within a certain limit in accordance with an internal risk management policy.

Derivative financial instruments held by Sony are classified and accounted for as described below.

***Fair value hedges***

Both the derivatives designated as fair value hedges and the hedged items are reflected at fair value in the consolidated balance sheet. Changes in the fair value of the derivatives designated as fair value hedges as well as offsetting changes in the carrying value of the underlying hedged items are recognized in income. For the fiscal years ended March 31, 2008, 2009 and 2010, these fair value hedges were fully effective. In addition, there were no amounts excluded from the assessment of hedge effectiveness of fair value hedges.

***Cash flow hedges***

Changes in the fair value of derivatives designated as cash flow hedges are initially recorded in other comprehensive income ( OCI ) and reclassified into earnings when the hedged transaction affects earnings. For the fiscal year ended March 31, 2008, these cash flow hedges were fully effective. For the fiscal years ended March 31,

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2009 and 2010, the ineffective portion of the hedging relationship is not significant. In addition, there were no amounts excluded from the assessment of hedge effectiveness for cash flow hedges.

***Derivatives not designated as hedges***

Changes in the fair value of derivatives not designated as hedges are recognized in income.

A description of the purpose and classification of the derivative financial instruments held by Sony is as follows:

***Foreign exchange forward contracts and foreign currency option contracts***

Foreign exchange forward contracts and purchased and written foreign currency option contracts are utilized primarily to limit the exposure affected by changes in foreign currency exchange rates on cash flows generated by anticipated intercompany transactions and intercompany accounts receivable and payable denominated in foreign currencies. The majority of written foreign currency option contracts are a part of range forward contract arrangements and expire in the same month with the corresponding purchased foreign currency option contracts.

Sony also enters into foreign exchange forward contracts, which effectively fix the cash flows from foreign currency denominated debt. Accordingly, these derivatives have been designated as cash flow hedges.

Foreign exchange forward contracts and foreign currency option contracts that do not qualify as hedges are marked-to-market with changes in value recognized in other income and expenses.

Foreign exchange forward contracts, foreign currency option contracts and currency swap agreements held by certain subsidiaries in the Financial Services segment are marked-to-market with changes in value recognized in financial service revenue.

***Interest rate swap agreements (including interest rate and currency swap agreements)***

Interest rate swap agreements are utilized primarily to lower funding costs, to diversify sources of funding and to limit Sony's exposure associated with underlying debt instruments and available-for-sale debt securities resulting from adverse fluctuations in interest rates, foreign currency exchange rates and changes in fair values.

Interest rate swap agreements entered into in the Financial Services segment are used for reducing the risk arising from the changes in the fair value of fixed rate available-for-sale debt securities. These derivatives are considered to be a hedge against changes in the fair value of available-for-sale debt securities in the Financial Services segment. Accordingly, these derivatives have been designated as fair value hedges.

Sony also enters into certain interest rate swap agreements for the purpose of reducing the risk arising from the changes in anticipated cash flows of variable rate debt and foreign currency denominated debt. These interest rate swap agreements, which effectively swap foreign currency denominated variable rate debt for functional currency denominated fixed rate debt, are considered to be a hedge against changes in the anticipated cash flows of Sony's foreign denominated variable rate obligations. Accordingly, these derivatives have been designated as cash flow hedges.

Certain subsidiaries in the Financial Services segment have interest rate swap agreements as part of their portfolio investments, which are marked-to-market with changes in value recognized in financial service revenue.

Any other interest rate swap agreements that do not qualify as hedges, which are used for reducing the risk arising from changes of variable rate debt, are marked-to-market with changes in value recognized in other income and expenses.

*Other agreements*

Certain subsidiaries in the Financial Services segment have credit default swap agreements, equity future contracts, other currency contracts and hybrid financial instruments as part of their portfolio investments, which are

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marked-to-market with changes in value recognized in financial service revenue. The hybrid financial instruments, disclosed in Note 7 as debt securities, contain embedded derivatives that are not required to be bifurcated because the entire instrument is carried at fair value.

The estimated fair values of Sony's outstanding derivative instruments are summarized as follows:

|   |   | Yen in millions   |        |                           |        |        |
|---|---|-------------------|--------|---------------------------|--------|--------|
|   |   | Asset derivatives |        | Liability derivatives     |        |        |
|   |   | Fair value        |        | Fair value                |        |        |
|   |   | March 31          |        | March 31                  |        |        |
| Derivatives designated as hedging instruments     | Balance sheet location                    | 2009              | 2010   | Balance sheet location    | 2009   | 2010   |
| Interest rate contracts                           | Prepaid expenses and other current assets | 294               | 853    | Current liabilities other | 7,115  | 10,260 |
| Interest rate contracts                           |   |                   |        | Liabilities other         | 1,428  | 1,880  |
| Foreign exchange contracts                        | Prepaid expenses and other current assets | 3,162             | 52     | Current liabilities other | 49     |        |
|   |   | 3,456             | 905    |                           | 8,592  | 12,140 |
|   |   | Yen in millions   |        |                           |        |        |
|   |   | Asset derivatives |        | Liability derivatives     |        |        |
|   |   | Fair value        |        | Fair value                |        |        |
|   |   | March 31          |        | March 31                  |        |        |
| Derivatives not designated as hedging instruments | Balance sheet location                    | 2009              | 2010   | Balance sheet location    | 2009   | 2010   |
| Interest rate contracts                           | Prepaid expenses and other current assets | 346               | 434    | Current liabilities other | 474    |        |
| Interest rate contracts                           |   |                   |        | Liabilities other         | 225    |        |
| Foreign exchange contracts                        | Prepaid expenses and other current assets | 19,461            | 22,334 | Current liabilities other | 27,094 | 30,000 |
| Foreign exchange contracts                        | Assets other                              | 2                 | 30     |                           |        |        |
| Other contracts                                   | Prepaid expenses and other current assets | 1,136             | 93     | Current liabilities other | 1      |        |
|   |   | 20,945            | 22,891 |                           | 27,794 | 30,000 |
| Derivatives                                       |   | 24,401            | 23,796 |                           | 36,386 | 40,000 |

Presented below are the effects of derivative instruments on the consolidated statements of income for the fiscal years ended March 31, 2009 and 2010 (yen in millions).

| Derivatives under fair value hedging relationships | Location of gain or (loss) recognized in income on derivative | Amount of gain or (loss) recognized in income on derivative |                                 |
|--|---|---|---------------------------------|
|  |   | Fiscal Year Ended March 31 2009                             | Fiscal Year Ended March 31 2010 |

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|                            |                                      |         |         |
|----------------------------|--------------------------------------|---------|---------|
| Interest rate contracts    | Financial service revenue            | (2,499) | (3,475) |
| Foreign exchange contracts | Foreign exchange gain or (loss), net | (8)     | 97      |
| Total                      |                                      | (2,507) | (3,378) |

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Fiscal Year Ended March 31, 2009**

| <b>Derivatives under<br/>cash flow<br/>hedging relationships</b> | <b>Amount of<br/>gain or (loss)<br/>recognized in<br/>OCI on<br/>derivative<br/>Amount</b> | <b>Gain or (loss) reclassified from<br/>accumulated OCI into income<br/>(effective portion)</b> |               | <b>Gain or (loss) recognized in<br/>income on derivative<br/>(ineffective portion)</b> |               |
|--|--|---|---------------|--|---------------|
|  |  | <b>Location</b>   | <b>Amount</b> | <b>Location</b>  | <b>Amount</b> |
| Interest rate contracts  | (242)  | Interest expense  | 192           | Interest expense   |               |
| Foreign exchange contracts                                       | (2,236)  | Foreign exchange<br>gain or (loss), net   | 3,685         | Foreign exchange<br>gain or (loss), net  | 65            |
| Total  | (2,478)  | Total   | 3,877         | Total  | 65            |

**Yen in millions  
Fiscal Year Ended March 31, 2010**

| <b>Derivatives under<br/>cash flow<br/>hedging relationships</b> | <b>Amount of<br/>gain or (loss)<br/>recognized in<br/>OCI on<br/>derivative<br/>Amount</b> | <b>Gain or (loss) reclassified from<br/>accumulated OCI into income<br/>(effective portion)</b> |               | <b>Gain or (loss) recognized in<br/>income on derivative<br/>(ineffective portion)</b> |               |
|--|--|---|---------------|--|---------------|
|  |  | <b>Location</b>   | <b>Amount</b> | <b>Location</b>  | <b>Amount</b> |
| Interest rate contracts  | (901)  | Interest expense  | 418           | Interest expense   |               |
| Foreign exchange contracts                                       | 1,814  | Foreign exchange<br>gain or (loss), net   | (1,516)       | Foreign exchange<br>gain or (loss), net  | 26            |
| Total  | 913  | Total   | (1,098)       | Total  | 26            |

At March 31, 2010, amounts related to derivatives qualifying as cash flow hedges amounted to a net reduction of equity of 36 million yen. Within the next twelve months, 1,134 million yen is expected to be reclassified from equity into earnings as a profit.

| <b>Derivatives not designated as<br/>hedging instruments</b> | <b>Location of gain or<br/>(loss) recognized in<br/>income on derivative</b> | <b>Amount of gain or (loss)<br/>recognized in income on<br/>derivative (Yen in millions)<br/>Fiscal Year Ended March 31</b> |             |
|--|--|---|-------------|
|  |  | <b>2009</b>   | <b>2010</b> |
| Interest rate contracts                                      | Financial service revenue  | (1,966)   | (884)       |
| Interest rate contracts                                      | Financial service expenses   | 21  | 32          |

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|                            |                            |          |         |
|----------------------------|----------------------------|----------|---------|
| Foreign exchange contracts | Financial service revenue  | 11,424   | 1,468   |
| Foreign exchange contracts | Foreign exchange gain, net | (39,542) | (8,779) |
| Equity contracts           | Financial service revenue  | 8,795    | 83      |
| Bond contracts             | Financial service revenue  | 78       | 68      |
| Credit contracts           | Financial service revenue  | 1,352    | (518)   |
| Total                      |                            | (19,838) | (8,530) |

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The following table summarizes additional information, including notional amounts, for each type of derivative:

|                                     | Yen in millions    |            |                    |            |
|-------------------------------------|--------------------|------------|--------------------|------------|
|                                     | March 31, 2009     |            | March 31, 2010     |            |
|                                     | Notional<br>amount | Fair value | Notional<br>amount | Fair value |
| Foreign exchange contracts:         |                    |            |                    |            |
| Foreign exchange forward contracts  | 1,914,649          | (5,337)    | 1,924,697          | (16,049)   |
| Currency option contracts purchased | 4,109              | 47         | 3,819              | 19         |
| Currency option contracts written   | 775                | (77)       | 407                | (11)       |
| Currency swap agreements            | 1,791              | 4          | 50,979             | 2,022      |
| Other currency contracts            | 29,678             | 845        | 46,499             | 850        |
| Interest rate contracts:            |                    |            |                    |            |
| Interest rate swap agreements       | 364,405            | (8,602)    | 456,213            | (11,700)   |
| Credit contracts:                   |                    |            |                    |            |
| Credit default swap agreements      | 11,819             | 1,135      | 10,497             | 66         |

**15. Pension and severance plans**

Upon terminating employment, employees of Sony Corporation and its subsidiaries in Japan are entitled, under most circumstances, to lump-sum indemnities or pension payments as described below. In July 2004, Sony Corporation and certain of its subsidiaries amended their pension plans and introduced a point-based plan under which a point is added every year reflecting the individual employee's performance over that year. Under the point-based plan, the amount of payment is determined based on sum of cumulative points from past services and interest points earned on the cumulative points regardless of whether or not the employee is voluntarily retiring.

Under the plans, in general, the defined benefits cover 65% of the indemnities under existing regulations to employees. The remaining indemnities are covered by severance payments by the companies. The pension benefits are payable at the option of the retiring employee either in a lump-sum amount or monthly pension payments. Contributions to the plans are funded through several financial institutions in accordance with the applicable laws and regulations.

Several of Sony's foreign subsidiaries have defined benefit pension plans or severance indemnity plans, which substantially cover all of their employees. Under such plans, the related cost of benefits is currently funded or accrued. Benefits awarded under these plans are based primarily on the current rate of pay and length of service.

In September 2006, the FASB issued new accounting guidance for defined benefit pension and other postretirement plans, which requires plan assets and benefit obligations be measured at fiscal year end date. Sony implemented the measurement date provisions of this guidance for the fiscal year ended March 31, 2009 and, accordingly, adjustments of beginning retained earnings totaling 668 million yen and accumulated other comprehensive income totaling 630 million yen were recorded, respectively.

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The components of net periodic benefit costs for the fiscal years ended March 31, 2008, 2009 and 2010 were as follows:

**Japanese plans:**

|                                     | <b>Yen in millions</b>            |             |             |
|-------------------------------------|-----------------------------------|-------------|-------------|
|                                     | <b>Fiscal Year Ended March 31</b> |             |             |
|                                     | <b>2008</b>                       | <b>2009</b> | <b>2010</b> |
| Service cost                        | 27,049                            | 28,652      | 30,980      |
| Interest cost                       | 14,603                            | 15,208      | 15,402      |
| Expected return on plan assets      | (19,763)                          | (18,950)    | (16,969)    |
| Recognized actuarial loss           | 10,173                            | 12,440      | 16,000      |
| Amortization of prior service costs | (10,334)                          | (10,358)    | (10,391)    |
| Net periodic benefit costs          | 21,728                            | 26,992      | 35,022      |

**Foreign plans:**

|  | <b>Yen in millions</b>            |             |             |
|--|-----------------------------------|-------------|-------------|
|  | <b>Fiscal Year Ended March 31</b> |             |             |
|  | <b>2008</b>                       | <b>2009</b> | <b>2010</b> |
| Service cost                                   | 6,321                             | 10,557      | 3,645       |
| Interest cost                                  | 10,963                            | 11,869      | 12,083      |
| Expected return on plan assets                 | (10,166)                          | (10,569)    | (8,652)     |
| Amortization of net transition asset           | 29                                | 212         | 67          |
| Recognized actuarial loss                      | 1,647                             | 507         | 857         |
| Amortization of prior service costs            | (298)                             | (262)       | 30          |
| Losses (gains) on curtailments and settlements | (100)                             | 1,569       | 1,766       |
| Net periodic benefit costs                     | 8,396                             | 13,883      | 9,796       |

The estimated net actuarial loss, prior service cost and obligation (asset) existing at transition for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit costs over the next fiscal year are 13,612 million yen, 9,781 million yen and 196 million yen, respectively.

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The changes in the benefit obligation and plan assets as well as the funded status and composition of amounts recognized in the consolidated balance sheets were as follows:

|   | <b>Japanese plans</b>  |             | <b>Foreign plans</b>   |             |
|---|------------------------|-------------|------------------------|-------------|
|   | <b>Yen in millions</b> |             | <b>Yen in millions</b> |             |
|   | <b>March 31</b>        |             | <b>March 31</b>        |             |
|   | <b>2009</b>            | <b>2010</b> | <b>2009</b>            | <b>2010</b> |
| Change in benefit obligation:                             |                        |             |                        |             |
| Benefit obligation at beginning of the fiscal year        | 667,022                | 709,098     | 188,639                | 196,750     |
| Service cost  | 28,652                 | 30,980      | 10,557                 | 3,645       |
| Interest cost   | 15,208                 | 15,402      | 11,869                 | 12,083      |
| Plan participants' contributions                          |                        |             | 493                    | 322         |
| Amendments  | (421)                  | (433)       | (259)                  | 3,950       |
| Actuarial (gain) loss                                     | 13,803                 | (10,103)    | (19,976)               | 36,311      |
| Foreign currency exchange rate changes                    |                        |             | (32,860)               | (5,968)     |
| Curtailments and settlements                              |                        |             | 1,003                  | (1,441)     |
| Effect of changes in consolidated subsidiaries            | 1,102                  |             | 46,050                 |             |
| Benefits paid   | (16,268)               | (35,390)    | (8,766)                | (14,311)    |
| Benefit obligation at end of the fiscal year              | 709,098                | 709,554     | 196,750                | 231,341     |
| Change in plan assets:                                    |                        |             |                        |             |
| Fair value of plan assets at beginning of the fiscal year | 498,162                | 443,977     | 133,713                | 98,739      |
| Actual return on plan assets                              | (76,217)               | 59,654      | (34,184)               | 31,775      |
| Foreign currency exchange rate changes                    |                        |             | (25,266)               | (1,502)     |
| Employer contribution                                     | 34,635                 | 32,803      | 9,747                  | 18,387      |
| Plan participants' contributions                          |                        |             | 493                    | 322         |
| Curtailments and settlements                              |                        |             | (797)                  | (407)       |
| Effect of changes in consolidated subsidiaries            | 428                    |             | 22,805                 |             |
| Benefits paid   | (13,031)               | (20,733)    | (7,772)                | (13,088)    |
| Fair value of plan assets at end of the fiscal year       | 443,977                | 515,701     | 98,739                 | 134,226     |
| Funded status at end of the fiscal year                   | (265,121)              | (193,853)   | (98,011)               | (97,115)    |

Amounts recognized in the consolidated balance sheets consist of:

|                   | <b>Japanese plans</b>  |             | <b>Foreign plans</b>   |             |
|-------------------|------------------------|-------------|------------------------|-------------|
|                   | <b>Yen in millions</b> |             | <b>Yen in millions</b> |             |
|                   | <b>March 31</b>        |             | <b>March 31</b>        |             |
|                   | <b>2009</b>            | <b>2010</b> | <b>2009</b>            | <b>2010</b> |
| Noncurrent assets | 882                    | 1,116       | 1,111                  | 2,760       |

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|                        |           |           |          |          |
|------------------------|-----------|-----------|----------|----------|
| Current liabilities    |           |           | (2,038)  | (2,778)  |
| Noncurrent liabilities | (266,003) | (194,969) | (97,084) | (97,097) |
| Ending balance         | (265,121) | (193,853) | (98,011) | (97,115) |

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Amounts recognized in accumulated other comprehensive income, excluding tax effects, consist of:

|                                   | <b>Japanese plans</b>  |             | <b>Foreign plans</b>   |             |
|-----------------------------------|------------------------|-------------|------------------------|-------------|
|                                   | <b>Yen in millions</b> |             | <b>Yen in millions</b> |             |
|                                   | <b>March 31</b>        |             | <b>March 31</b>        |             |
|                                   | <b>2009</b>            | <b>2010</b> | <b>2009</b>            | <b>2010</b> |
| Prior service cost (credit)       | (106,827)              | (96,865)    | (1,099)                | 2,966       |
| Net actuarial loss                | 338,011                | 270,241     | 41,066                 | 49,209      |
| Obligation existing at transition |                        |             | 398                    | 231         |
| Ending balance                    | 231,184                | 173,376     | 40,365                 | 52,406      |

The accumulated benefit obligations for all defined benefit pension plans were as follows:

|                                 | <b>Japanese plans</b>  |             | <b>Foreign plans</b>   |             |
|---------------------------------|------------------------|-------------|------------------------|-------------|
|                                 | <b>Yen in millions</b> |             | <b>Yen in millions</b> |             |
|                                 | <b>March 31</b>        |             | <b>March 31</b>        |             |
|                                 | <b>2009</b>            | <b>2010</b> | <b>2009</b>            | <b>2010</b> |
| Accumulated benefit obligations | 704,660                | 705,537     | 158,286                | 192,260     |

The projected benefit obligations, the accumulated benefit obligations and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were as follows:

|                                 | <b>Japanese plans</b>  |             | <b>Foreign plans</b>   |             |
|---------------------------------|------------------------|-------------|------------------------|-------------|
|                                 | <b>Yen in millions</b> |             | <b>Yen in millions</b> |             |
|                                 | <b>March 31</b>        |             | <b>March 31</b>        |             |
|                                 | <b>2009</b>            | <b>2010</b> | <b>2009</b>            | <b>2010</b> |
| Projected benefit obligations   | 709,098                | 709,554     | 152,803                | 177,131     |
| Accumulated benefit obligations | 704,660                | 705,537     | 140,588                | 163,120     |
| Fair value of plan assets       | 443,977                | 515,701     | 79,485                 | 100,526     |

Weighted-average assumptions used to determine benefit obligations as of March 31, 2009 and 2010 were as follows:

|                               | <b>Japanese plans</b> |             | <b>Foreign plans</b> |             |
|-------------------------------|-----------------------|-------------|----------------------|-------------|
|                               | <b>March 31</b>       |             | <b>March 31</b>      |             |
|                               | <b>2009</b>           | <b>2010</b> | <b>2009</b>          | <b>2010</b> |
| Discount rate                 | 2.2%                  | 2.3%        | 6.5%                 | 5.5%        |
| Rate of compensation increase | 2.7                   | *           | 3.2                  | 4.0         |

\* As of March 31, 2010, substantially all of Sony's Japanese pension plans are point-based. Point-based plans do not incorporate a measure of compensation rate increases.

Weighted-average assumptions used to determine the net periodic benefit costs for the fiscal years ended March 31, 2008, 2009 and 2010 were as follows:

|                                | <b>Japanese plans</b>    |             |             | <b>Foreign plans</b>     |             |             |
|--------------------------------|--------------------------|-------------|-------------|--------------------------|-------------|-------------|
|                                | <b>Fiscal Year Ended</b> |             |             | <b>Fiscal Year Ended</b> |             |             |
|                                | <b>March 31</b>          |             |             | <b>March 31</b>          |             |             |
|                                | <b>2008</b>              | <b>2009</b> | <b>2010</b> | <b>2008</b>              | <b>2009</b> | <b>2010</b> |
| Discount rate                  | 2.3%                     | 2.3%        | 2.2%        | 5.3%                     | 6.0%        | 6.5%        |
| Expected return on plan assets | 4.0                      | 3.9         | 3.6         | 7.1                      | 7.1         | 6.5         |
| Rate of compensation increase  | 2.5                      | 2.5         | 2.7         | 3.6                      | 3.4         | 3.2         |

Sony reviews these assumptions for changes in circumstances.

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The weighted-average rate of compensation increase is calculated based only on the pay-related plans. The point-based plans discussed above are excluded from the calculation because payments made under the plan are not based on employee compensation.

To determine the expected long-term rate of return on pension plan assets, Sony considers the current and expected asset allocations, as well as the historical and expected long-term rates of returns on various categories of plan assets. Sony's pension investment policy recognizes the expected growth and the variability risk associated with the long term nature of pension liabilities, the returns and risks of diversification across asset classes, and the correlation among assets. The asset allocations are designed to maximize returns consistent with levels of liquidity and investment risk that are considered prudent and reasonable. While the pension investment policy gives appropriate consideration to recent market performance and historical returns, the investment assumptions utilized by Sony are designed to achieve a long term return consistent with the long term nature of the corresponding pension liabilities.

The investment objectives of Sony's plan assets are designed to generate returns that will enable the plans to meet their future obligations. The precise amount for which these obligations will be settled depends on future events, including the retirement dates and life expectancy of the plans' participants. The obligations are estimated using actuarial assumptions, based on the current economic environment and other pertinent factors. Sony's investment strategy balances the requirement to generate returns, using potentially higher yielding assets such as equity securities, with the need to control risk in the portfolio with less volatile assets, such as fixed-income securities. Risks include, among others, inflation, volatility in equity values and changes in interest rates that could negatively impact the funding level of the plans, thereby increasing its dependence on contributions from Sony. To mitigate any potential concentration risk, thorough consideration is given to balancing the portfolio among industry sectors and geographies, taking into account interest rate sensitivity, dependence on economic growth, currency and other factors that affect investment returns. The target allocations as of March 31, 2010, are, as a result of Sony's asset liability management, 28% of equity securities, 58% of fixed income securities and 14% of other investments for the pension plans of Sony Corporation and most of its subsidiaries in Japan, and, on a weighted average basis, 53% of equity securities, 34% of fixed income securities and 13% of other investments for the pension plans of foreign subsidiaries.

The fair values of the assets held by Japanese and foreign plans, which are classified in accordance with the fair value hierarchy described in Note 13, are as follows:

| Asset class                            | Fair<br>value<br>at<br>March 31,<br>2010 | Japanese plans<br>Yen in millions |         |         |
|--|--|-----------------------------------|---------|---------|
|  |  | Fair value measurements           |         |         |
|  |  | using inputs considered as        |         |         |
|  |  | Level 1                           | Level 2 | Level 3 |
| Cash and cash equivalents              | 11,665                                   | 11,665                            |         |         |
| Equity:                                |  |                                   |         |         |
| Equity securities <sup>(a)</sup>       | 136,495                                  | 136,495                           |         |         |
| Fixed income:                          |  |                                   |         |         |
| Government bonds <sup>(b)</sup>        | 201,240                                  |                                   | 201,240 |         |
| Corporate bonds <sup>(c)</sup>         | 22,691                                   |                                   | 22,691  |         |
| Asset-backed securities <sup>(d)</sup> | 4,779                                    |                                   | 4,779   |         |

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|                                 |         |         |         |        |
|---------------------------------|---------|---------|---------|--------|
| Commingled funds <sup>(e)</sup> | 62,703  |         | 62,703  |        |
| Commodity funds <sup>(f)</sup>  | 1,638   |         | 1,638   |        |
| Private equity <sup>(g)</sup>   | 21,337  |         |         | 21,337 |
| Hedge funds <sup>(h)</sup>      | 51,498  |         |         | 51,498 |
| Real estate                     | 1,655   |         |         | 1,655  |
| Total                           | 515,701 | 148,160 | 293,051 | 74,490 |

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- (a) Includes approximately 62 percent of Japanese equity securities and 38 percent of foreign equity securities.
- (b) Includes approximately 63 percent of debt securities issued by Japanese national and local governments and 37 percent of debt securities issued by foreign national and local governments.
- (c) Includes debt securities issued by Japanese and foreign corporation and government related agencies.
- (d) Includes primarily mortgage-backed securities.
- (e) Commingled funds represent pooled institutional investments, including primarily investment trusts. They include approximately 38 percent of investments in equity, 57 percent of investments in fixed income, and 5 percent of investments in other.
- (f) Represents commodity futures funds.
- (g) Includes multiple private equity funds of funds that primarily invest in venture, buyout, and distressed markets in the U.S. and Europe.
- (h) Includes primarily funds that invest in a portfolio of a broad range of hedge funds to diversify the risks and reduce the volatilities associated with a single hedge fund.

| Asset class                          | Fair value<br>at March 31,<br>2010 | Foreign plans<br>Yen in millions                      |         |         |
|--------------------------------------|------------------------------------|---|---------|---------|
|                                      |                                    | Fair value measurements<br>using inputs considered as |         |         |
|                                      |                                    | Level 1   | Level 2 | Level 3 |
| Cash and cash equivalents            | 1,775                              | 1,775   |         |         |
| Equity:                              |                                    |   |         |         |
| Equity securities <sup>(a)</sup>     | 39,885                             | 33,657  | 6,228   |         |
| Fixed income:                        |                                    |   |         |         |
| Government bonds <sup>(b)</sup>      | 20,553                             |   | 20,553  |         |
| Corporate bonds <sup>(c)</sup>       | 12,584                             |   | 8,013   | 4,571   |
| Asset-backed securities              | 3,135                              |   | 3,060   | 75      |
| Insurance contracts <sup>(d)</sup>   | 6,166                              |   | 6,166   |         |
| Commingled funds <sup>(e)</sup>      | 45,655                             | 2,110   | 43,017  | 528     |
| Real estate and other <sup>(f)</sup> | 4,473                              | 653   | 43      | 3,777   |
| Total                                | 134,226                            | 38,195  | 87,080  | 8,951   |

- (a) Includes primarily foreign equity securities.
- (b) Includes primarily foreign government debt securities.
- (c) Includes primarily foreign corporate debt securities.

- (d) Represents annuity contracts with or without profit sharing.
- (e) Commingled funds represent pooled institutional investments including mutual funds, common trust funds, and collective investment funds. They include approximately 90 percent of investments in equity, 7 percent of investments in fixed income, and 3 percent of investments in other.
- (f) Includes primarily private real estate investment trusts.

Each level in the fair value hierarchy in which each plan asset is classified is determined based on inputs used to measure the fair values of the asset, and does not necessarily indicate the risks or rating of the asset.

The following is a description of the valuation techniques used to measure Japanese and foreign plan assets at fair value. There were no changes in valuation techniques during the fiscal years ended March 31, 2009 and 2010.

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Equity securities are valued at the closing price reported in the active market in which the individual securities are traded. These assets are generally classified as level 1.

The fair value of fixed income securities is typically estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows and are generally classified as level 2.

Commingled funds are typically valued using the net asset value provided by the administrator of the fund and reviewed by Sony. The net asset value is based on the value of the underlying assets owned by the fund, minus liabilities and divided by the number of shares or units outstanding. These assets are classified as level 1, level 2 or level 3 depending on availability of quoted market prices.

Commodity funds are valued using inputs that are derived principally from or corroborated by observable market data. These assets are generally classified as level 2.

Private equity and private real estate investment trust valuations require significant judgment due to the absence of quoted market prices, the inherent lack of liquidity and the long-term nature of such assets. These assets are initially valued at cost and are reviewed periodically utilizing available and relevant market data to determine if the carrying value of these assets should be adjusted. These investments are classified as level 3. The valuation methodology is applied consistently from period to period.

Hedge funds are valued using the net asset value as determined by the administrator or custodian of the fund. These investments are classified as level 3.

The following table sets forth a summary of changes in the fair values of Japanese and foreign plans level 3 assets for the year ended March 31, 2010:

|  | <b>Japanese plans</b>   |                    |                    |              |
|--|---|--------------------|--------------------|--------------|
|  | <b>Yen in millions</b>  |                    |                    |              |
|  | <b>Fair value measurement using significant unobservable inputs (Level 3)</b> |                    |                    |              |
|  | <b>Private equity</b>   | <b>Hedge funds</b> | <b>Real estate</b> | <b>Total</b> |
| Beginning balance at April 1, 2009     | 23,028  | 40,443             | 2,606              | 66,077       |
| Return on assets held at end of year   | (1,691)   | 79                 | (951)              | (2,563)      |
| Return on assets sold during the year  |   |                    |                    |              |
| Purchases, sales, and settlements, net |   | 10,976             |                    | 10,976       |
| Transfers, net                         |   |                    |                    |              |
| Ending balance at March 31, 2010       | 21,337  | 51,498             | 1,655              | 74,490       |

|  | <b>Foreign plans</b>  |
|--|---|
|  | <b>Yen in millions</b>  |
|  | <b>Fair value measurement using significant unobservable inputs (Level 3)</b> |

|  | <b>Corporate<br/>bonds</b> | <b>Asset-backed<br/>securities</b> | <b>Commingled<br/>funds</b> | <b>Real estate<br/>and other</b> | <b>Total</b> |
|--|----------------------------|------------------------------------|-----------------------------|----------------------------------|--------------|
| Beginning balance at April 1, 2009     |                            | 70                                 | 811                         | 3,938                            | 4,819        |
| Return on assets held at end of year   | 302                        | 14                                 | 5                           | 23                               | 344          |
| Return on assets sold during the year  |                            |                                    |                             | (89)                             | (89)         |
| Purchases, sales, and settlements, net | 4,269                      | (9)                                | (288)                       | (95)                             | 3,877        |
| Transfers, net                         |                            |                                    |                             |                                  |              |
| Ending balance at March 31, 2010       | 4,571                      | 75                                 | 528                         | 3,777                            | 8,951        |

Sony makes contributions to its defined benefit pension plans as deemed appropriate by management after considering the fair value of plan assets, expected return on plan assets and the present value of benefit obligations.

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Sony expects to contribute approximately 33 billion yen to the Japanese plans and approximately 17 billion yen to the foreign plans during the fiscal year ending March 31, 2011.

The expected future benefit payments are as follows:

|                              | <b>Japanese plans<br/>Yen in millions</b> | <b>Foreign plans<br/>Yen in millions</b> |
|------------------------------|---|--|
| Fiscal year ending March 31, |   |  |
| 2011                         | 23,827                                    | 8,919                                    |
| 2012                         | 24,983                                    | 10,118                                   |
| 2013                         | 26,585                                    | 9,921                                    |
| 2014                         | 28,907                                    | 10,592                                   |
| 2015                         | 32,286                                    | 11,086                                   |
| 2016 - 2020                  | 192,581                                   | 70,114                                   |

**16. *Stockholders equity*****(1) Common stock:**

Changes in the number of shares of common stock issued and outstanding during the fiscal years ended March 31, 2008, 2009 and 2010 have resulted from the following:

|                                      | <b>Number of<br/>shares</b> |
|--------------------------------------|-----------------------------|
| Balance at March 31, 2007            | 1,002,897,264               |
| Conversion of convertible bonds      | 37,800                      |
| Exercise of stock acquisition rights | 1,305,300                   |
| Exercise of warrants                 | 203,000                     |
| Balance at March 31, 2008            | 1,004,443,364               |
| Exercise of stock acquisition rights | 92,000                      |
| Balance at March 31, 2009            | 1,004,535,364               |
| Exercise of stock acquisition rights | 36,100                      |
| Balance at March 31, 2010            | 1,004,571,464               |

At March 31, 2010, 18,699,300 shares of common stock would be issued upon the conversion or exercise of all convertible bonds and stock acquisition rights outstanding.

Conversions of convertible bonds into common stock are accounted for in accordance with the provisions of the Japanese Companies Act by crediting approximately one-half of the conversion proceeds to the common stock

account and the remainder to the additional paid-in capital account.

Sony Corporation may purchase its own shares at any time by a resolution of the Board of Directors up to the retained earnings available for dividends to shareholders, in accordance with the Japanese Companies Act. No common stock had been acquired by the resolution of the Board of Directors during the fiscal years ended March 31, 2008, 2009 and 2010.

**(2) Retained earnings:**

The amount of statutory retained earnings of Sony Corporation available for dividends to shareholders as of March 31, 2010 was 801,178 million yen. The appropriation of retained earnings for the fiscal year ended March 31, 2010, including cash dividends for the six-month period ended March 31, 2010, has been incorporated in the accompanying consolidated financial statements. This appropriation of retained earnings was approved at the



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meeting of the Board of Directors of Sony Corporation held on May 12, 2010 and was then recorded in the statutory books of account, in accordance with the Japanese Companies Act.

Retained earnings include Sony's equity in undistributed earnings of affiliated companies accounted for by the equity method in the amount of 55,797 million yen and 16,034 million yen at March 31, 2009 and 2010, respectively.

**(3) Other comprehensive income:**

Other comprehensive income for the fiscal years ended March 31, 2008, 2009 and 2010 is comprised of the following:

|   | <b>Pre-tax amount</b> | <b>Yen in millions<br/>Tax<br/>benefit/(expense)</b> | <b>Net-of-tax<br/>amount</b> |
|---|-----------------------|--|------------------------------|
| For the fiscal year ended March 31, 2008:                 |                       |  |                              |
| Unrealized gains (losses) on securities, net              |                       |  |                              |
| Unrealized holding gains arising during the period*       | 13,437                | (3,081)  | 3,043                        |
| Less : Reclassification adjustment included in net income | (28,414)              | 10,204   | (18,210)                     |
| Unrealized gains (losses) on derivative instruments, net  |                       |  |                              |
| Unrealized holding losses arising during the period       | (2,588)               | 781  | (1,807)                      |
| Less : Reclassification adjustment included in net income | (559)                 | 70   | (489)                        |
| Pension liability adjustment*                             | (33,401)              | 7,900  | (26,103)                     |
| Foreign currency translation adjustments                  |                       |  |                              |
| Translation adjustments arising during the period         | (219,391)             | 6,231  | (213,160)                    |
| Less : Reclassification adjustment included in net income | 692                   |  | 692                          |
| Other comprehensive income (loss)                         | (270,224)             | 22,105   | (256,034)                    |

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|   | <b>Pre-tax amount</b> | <b>Yen in millions<br/>Tax<br/>benefit/(expense)</b> | <b>Net-of-tax<br/>amount</b> |
|---|-----------------------|--|------------------------------|
| For the fiscal year ended March 31, 2009:                 |                       |  |                              |
| Unrealized gains (losses) on securities, net              |                       |  |                              |
| Unrealized holding losses arising during the period*      | (105,145)             | 40,198   | (48,207)                     |
| Less : Reclassification adjustment included in net income | 11,306                | (3,958)  | 7,348                        |
| Unrealized gains (losses) on derivative instruments, net  |                       |  |                              |
| Unrealized holding losses arising during the period       | (2,988)               | 1,059  | (1,929)                      |
| Less : Reclassification adjustment included in net income | 5,335                 | (1,619)  | 3,716                        |
| Pension liability adjustment*                             | (127,222)             | 51,527   | (74,517)                     |
| Foreign currency translation adjustments                  |                       |  |                              |
| Translation adjustments arising during the period         | (250,085)             | 1,854  | (248,231)                    |
| Less : Reclassification adjustment included in net income | 534                   |  | 534                          |
| Other comprehensive income (loss)                         | (468,265)             | 89,061   | (361,286)                    |
| For the fiscal year ended March 31, 2010:                 |                       |  |                              |
| Unrealized gains (losses) on securities, net              |                       |  |                              |
| Unrealized holding gains arising during the period*       | 74,501                | (22,469)   | 33,502                       |
| Less : Reclassification adjustment included in net income | (1,896)               | 661  | (1,235)                      |
| Unrealized gains (losses) on derivative instruments, net  |                       |  |                              |
| Unrealized holding gains arising during the period        | 2,040                 | (415)  | 1,625                        |
| Less : Reclassification adjustment included in net income | (566)                 | 489  | (77)                         |
| Pension liability adjustment*                             | 45,767                | (22,074)   | 23,720                       |
| Foreign currency translation adjustments                  |                       |  |                              |
| Translation adjustments arising during the period         | 4,583                 | (22)   | 4,561                        |
| Less : Reclassification adjustment included in net income | 2,289                 |  | 2,289                        |
| Other comprehensive income                                | 126,718               | (43,830)   | 64,385                       |

\* Amounts allocable to the noncontrolling interests in the equity of a subsidiary and other are deducted from the net-of-tax amount for unrealized holding gains (losses) and pension liability adjustment arising during the period.

During the fiscal year ended March 31, 2008, 2009 and 2010, losses of 692 million yen, 534 million yen and 2,289 million yen, respectively, of foreign currency translation adjustments were transferred from other comprehensive income to net income as a result of the liquidation or sale of certain foreign subsidiaries.

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**Table of Contents****SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES****17. Stock-based compensation plans**

Sony has three types of stock-based compensation plans as incentive plans for selected directors, corporate executive officers and employees.

**(1) Stock Acquisition Rights plan:**

Sony has an equity-based compensation plan that issues common stock acquisition rights for the purpose of granting stock options to selected directors, corporate executive officers and employees of Sony, pursuant to the Companies Act of Japan. The stock acquisition rights generally vest ratably over a period of three years and are exercisable up to ten years from the date of grant.

The weighted-average fair value per share at the date of grant of stock acquisition rights granted during the fiscal years ended March 31, 2008, 2009 and 2010 was 1,839 yen, 398 yen and 813 yen, respectively. The fair value of stock acquisition rights granted on the date of grant and used to recognize compensation expense for the fiscal years ended March 31, 2008, 2009 and 2010 was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

|                              | <b>Fiscal Year Ended March 31</b> |             |             |
|------------------------------|-----------------------------------|-------------|-------------|
|                              | <b>2008</b>                       | <b>2009</b> | <b>2010</b> |
| Weighted-average assumptions |                                   |             |             |
| Risk-free interest rate      | 3.04%                             | 2.07%       | 2.08%       |
| Expected lives               | 6.10 years                        | 6.23 years  | 6.49 years  |
| Expected volatility*         | 30.48%                            | 33.35%      | 33.70%      |
| Expected dividends           | 0.47%                             | 1.29%       | 0.99%       |

\* Expected volatility was based on the historical volatilities of Sony's common stock over the expected life of the stock acquisition rights.

Presented below is a summary of the activities regarding the stock acquisition rights plan during the fiscal year ended March 31, 2010.

|   | <b>Number of<br/>Shares</b> | <b>Fiscal Year Ended March 31<br/>2010</b>              |   | <b>Total<br/>Intrinsic<br/>Value<br/>Yen in<br/>millions</b> |
|---|-----------------------------|---|---|--|
|   |                             | <b>Weighted-<br/>average<br/>exercise price<br/>Yen</b> | <b>Weighted-<br/>average<br/>remaining<br/>life<br/>Years</b> |  |
| Outstanding at beginning of the fiscal year | 13,392,200                  | 4,041   |   |  |
| Granted                                     | 2,318,800                   | 2,674   |   |  |
| Exercised                                   | (36,100)                    | 3,020   |   |  |

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|                                       |            |       |      |       |
|---------------------------------------|------------|-------|------|-------|
| Forfeited or expired                  | (460,500)  | 3,932 |      |       |
| Outstanding at end of the fiscal year | 15,214,400 | 3,743 | 6.70 | 4,133 |
| Exercisable at end of the fiscal year | 10,430,100 | 4,046 | 5.62 | 899   |

The total intrinsic value of shares exercised under the stock acquisition rights plan during the fiscal years ended March 31, 2008, 2009 and 2010 was 2,643 million yen, 95 million yen and 20 million yen, respectively.

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Presented below is a summary of the activities regarding the nonvested stock acquisition rights during the fiscal year ended March 31, 2010.

|   | <b>Fiscal Year Ended March 31<br/>2010</b> |  |
|---|--|--|
|   | <b>Number of<br/>Shares</b>                | <b>Weighted-<br/>average<br/>Grant-date<br/>Fair value<br/>Yen</b> |
| Outstanding at beginning of the fiscal year | 4,983,700                                  | 1,085  |
| Granted                                     | 2,318,800                                  | 813  |
| Vested                                      | (2,207,800)                                | 1,378  |
| Forfeited or expired                        | (310,400)                                  | 1,279  |
| Outstanding at end of the fiscal year       | 4,784,300                                  | 805  |

As of March 31, 2010, there was 1,963 million yen of total unrecognized compensation expense related to nonvested stock acquisition rights. This expense is expected to be recognized over a weighted-average period of 2.04 years. The total fair value of stock acquisition rights vested during the fiscal years ended March 31, 2008, 2009 and 2010 was 3,927 million yen, 3,333 million yen and 2,136 million yen, respectively.

**(2) Convertible Bond plan:**

Sony has an equity-based compensation plan for selected executives of Sony's U.S. subsidiaries using U.S. dollar-denominated non-interest bearing convertible bonds, which have characteristics similar to that of an option plan. Each convertible bond can be converted into 100 shares of the common stock of Sony Corporation at an exercise price based on the prevailing market rate shortly before the date of grant. The convertible bonds vest ratably over a three-year period and are exercisable up to ten years from the date of grant. As the convertible bonds were issued in exchange for a non-interest bearing employee loan and a right of offset exists between the convertible bonds and the employee loans, no accounting recognition was given to either the convertible bonds or the employee loans in Sony's consolidated balance sheet.

Presented below is a summary of the activities regarding the convertible bond plan during the fiscal year ended March 31, 2010.

|  | <b>Fiscal Year Ended March 31<br/>2010</b> |                              |                                      |
|--|--|------------------------------|--------------------------------------|
|  | <b>Number of</b>                           | <b>Weighted-<br/>average</b> | <b>Weighted-<br/>average</b>         |
|  | <b>Shares</b>                              | <b>exercise price</b>        | <b>remaining</b>                     |
|  |  | <b>Yen</b>                   | <b>life</b>                          |
|  |  |                              | <b>Years</b>                         |
|  |  |                              | <b>Total<br/>Intrinsic<br/>Value</b> |

**Yen in  
millions**

|   |           |       |      |
|---|-----------|-------|------|
| Outstanding at beginning of the fiscal year | 1,632,700 | 9,092 |      |
| Exercised                                   |           |       |      |
| Expired                                     | (11,200)  | 8,064 |      |
| Outstanding at end of the fiscal year       | 1,621,500 | 9,099 | 1.24 |
| Exercisable at end of the fiscal year       | 1,621,500 | 9,099 | 1.24 |

There were no shares granted under the convertible bond plan during the fiscal years ended March 31, 2008, 2009 and 2010. The total intrinsic value of shares exercised under the convertible bond plan during the fiscal year ended March 31, 2008 was 17 million yen. There were no shares exercised under the convertible bond plan during the fiscal years ended March 31, 2009 and 2010. All shares under the convertible bond plan were exercisable as of March 31, 2010.

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**(3) Stock appreciation rights ( SARs ) plan:**

Sony granted SARs in the United States of America for selected employees. Under the terms of these plans, employees upon exercise of such rights receive cash equal to the amount that the market price of Sony Corporation's common stock exceeds the strike price of the SARs. The SARs generally vest ratably over a period of three years, and are generally exercisable up to ten years from the date of grant.

There were no SARs granted during the fiscal years ended March 31, 2008, 2009 and 2010. As of March 31, 2010, there were 91,750 SARs outstanding and the weighted-average exercise price was 7,742 yen. All SARs were exercisable as of March 31, 2010.

The compensation expense for the SARs is measured as the excess of the quoted market price of Sony Corporation's common stock over the SARs strike price. SAR compensation expense for the fiscal years ended March 31, 2008, 2009, and 2010 was insignificant.

The stock-based compensation expense for the fiscal years ended March 31, 2008, 2009 and 2010 was 4,130 million yen, 3,446 million yen and 2,202 million yen, respectively. The income tax benefit related to the stock-based compensation expense for the fiscal years ended March 31, 2008, 2009 and 2010 was 952 million yen, 543 million yen and 271 million yen, respectively. The total cash received from exercises under all the stock-based compensation plans during the fiscal years ended March 31, 2008, 2009 and 2010 was 7,484 million yen, 378 million yen and 114 million yen, respectively. Sony issued new shares upon exercise of these rights. The actual income tax benefit realized for tax deductions from exercises under all the stock-based compensation plans for the fiscal years ended March 31, 2008, 2009 and 2010 totaled 318 million yen, 4 million yen and 7 million yen, respectively.

**18. *Restructuring charges and asset impairments***

As part of its effort to improve the performance of the various businesses, Sony has undertaken a number of restructuring initiatives. Sony defines restructuring initiatives as activities initiated by Sony, such as exiting a business or product category or implementing a headcount reduction program, which are designed to generate a positive impact on future profitability. For the fiscal years ended March 31, 2008, 2009 and 2010, Sony recorded total restructuring charges of 47,273 million yen, 75,390 million yen and 116,472 million yen, respectively.

Sony anticipates recording approximately 80 billion yen of restructuring charges for the fiscal year ending March 31, 2011.



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The changes in the accrued restructuring charges for the fiscal years ended March 31, 2008, 2009 and 2010 are as follows:

|                           | Yen in millions                     |   |                           | Total     |
|---------------------------|-------------------------------------|---|---------------------------|-----------|
|                           | Employee<br>termination<br>benefits | Non-cash<br>write-downs and<br>disposals* | Other associated<br>costs |           |
| Balance at March 31, 2007 | 7,447                               |   | 9,898                     | 17,345    |
| Restructuring costs       | 12,627                              | 25,937                                    | 8,709                     | 47,273    |
| Non-cash charges          |                                     | (25,937)                                  |                           | (25,937)  |
| Cash payments             | (8,339)                             |   | (11,926)                  | (20,265)  |
| Adjustments               | (842)                               |   | (1,012)                   | (1,854)   |
| Balance at March 31, 2008 | 10,893                              |   | 5,669                     | 16,562    |
| SME acquisition           | 8,980                               |   | 2,637                     | 11,617    |
| Restructuring costs       | 56,385                              | 10,182                                    | 8,823                     | 75,390    |
| Non-cash charges          |                                     | (10,182)                                  |                           | (10,182)  |
| Cash payments             | (21,900)                            |   | (5,160)                   | (27,060)  |
| Adjustments               | (545)                               |   | (508)                     | (1,053)   |
| Balance at March 31, 2009 | 53,813                              |   | 11,461                    | 65,274    |
| Restructuring costs       | 65,133                              | 31,928                                    | 19,411                    | 116,472   |
| Non-cash charges          |                                     | (31,928)                                  |                           | (31,928)  |
| Cash payments             | (88,803)                            |   | (21,754)                  | (110,557) |
| Adjustments               | (2,925)                             |   | (156)                     | (3,081)   |
| Balance at March 31, 2010 | 27,218                              |   | 8,962                     | 36,180    |

\* Significant asset impairments excluded from restructuring charges are described below.

At March 31, 2010, the accrual for other associated costs in the table above primarily relates to restructuring efforts in the Consumer Products & Devices segment.

The total amount of costs incurred in connection with these restructuring programs by segment for the fiscal years ended March 31, 2008, 2009 and 2010 are as follows:

|                               | Yen in millions            |        |        |
|-------------------------------|----------------------------|--------|--------|
|                               | Fiscal Year Ended March 31 |        |        |
|                               | 2008                       | 2009   | 2010   |
| Consumer Products & Devices   | 33,621                     | 49,334 | 64,692 |
| Networked Products & Services | 890                        | 3,062  | 3,682  |
| B2B & Disc Manufacturing      | 273                        | 5,275  | 5,428  |

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|                         |        |        |         |
|-------------------------|--------|--------|---------|
| Pictures                |        | 4,908  | 5,605   |
| Music                   | 813    | 6,337  | 5,225   |
| Financial Services      |        | 789    | 5,078   |
| All Other and Corporate | 11,676 | 5,685  | 26,762  |
| Total net charges       | 47,273 | 75,390 | 116,472 |

In addition to the restructuring charges in the tables above, Sony recorded in cost of sales 7,851 million yen of non-cash charges related to depreciation associated with restructured assets for the fiscal year ended March 31, 2010. Depreciation associated with restructured assets as used in the context of the disclosures regarding restructuring activity refers to the increase in depreciation expense caused by shortening the useful life or updating

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the salvage value of depreciable fixed assets to coincide with the end of production under an approved restructuring plan. Any impairment of the asset is recognized immediately in the period.

***Consumer Products & Devices segment***

In an effort to improve the performance of the Consumer Products & Devices segment, Sony has undergone a number of restructuring efforts to reduce its operating costs. These efforts included headcount reduction programs, initiatives to advance rationalization of manufacturing operations, shifting and aggregating manufacturing to low-cost areas, and utilizing the services of third-party original equipment and design manufacturers (OEMs and ODMs). The restructuring charges of the Consumer Products & Devices segment in the tables above include non-cash inventory and long-lived asset write downs and disposals which represent a substantial majority of Sony's total such charges. Significant restructuring activities are as follows:

***Retirement programs -***

In an effort to improve the performance of the Consumer Products & Devices segment, Sony has undergone several headcount reduction programs to further reduce operating costs. Through measures including the realignment of its manufacturing sites, a review of its development and design structure, and the streamlining of its sales and administrative functions, Sony has implemented and will continue a company-wide (including Headquarters) rationalization. Sony intends to reallocate and optimize its workforce through programs including work reassignments and outplacements. As a result of these measures, Sony recorded in the Consumer Products & Devices segment restructuring charges related mainly to employee termination benefits totaling 4,819 million yen, 37,931 million yen and 35,870 million yen for the fiscal years ended March 31, 2008, 2009 and 2010, respectively, in selling, general and administrative expenses in the consolidated statements of income. These staff reductions were achieved worldwide mostly through the implementation of early retirement programs. Sony will continue to implement programs to reduce headcount by streamlining business operations, including closure and consolidation of manufacturing sites, and the consolidation of headquarters and administrative functions.

***Realignment of manufacturing operations in Japan -***

During the fiscal year ended March 31, 2010, Sony implemented extensive measures to better compete in terms of speed to market and profitability, including the reevaluation of both its domestic and overseas manufacturing operations. As part of this process, manufacturing operations in Japan for certain of its product categories were consolidated in order to increase their efficiency.

As a result of this realignment of manufacturing operations in Japan, restructuring charges for the closure of production facilities totaling 13,219 million yen consisted mainly of personnel related costs and the disposal or impairment of assets. Of the total restructuring charges, 8,859 million yen for employee termination benefits was recorded in selling, general and administrative expense and 3,716 million yen for the disposal or impairment of assets was recorded in (gain) loss on sale, disposal or impairment of assets, net in the consolidated statements of income. In addition to the restructuring charges, 5,622 million yen of non-cash charges related to depreciation associated with restructured assets were recorded in cost of sales in the consolidated statements of income as a result of this realignment of manufacturing operations in Japan. At March 31, 2010, there was no material remaining liability.

***Asset-impairment of TFT LCD related fixed assets -***

In an effort to increase efficiency and strengthen operations in the small- and medium-sized TFT LCD business by consolidating manufacturing operations, Sony recorded 7,832 million yen for the impairment of TFT LCD related fixed assets for the fiscal year ended March 31, 2010. These charges were recorded in (gain) loss on sale, disposal or impairment of assets, net in the consolidated statements of income.

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*Asset-impairment of OLED related equipment -*

During the fiscal year ended March 31, 2010, Sony recorded 5,265 million yen for the impairment of OLED related equipment, which was rendered obsolete due to the utilization of an alternative technology in the manufacture of OLED products. These charges were recorded in (gain) loss on sale, disposal or impairment of assets, net in the consolidated statements of income.

*Termination of LCD rear-projection televisions operations -*

During the fiscal year ended March 31, 2008, Sony continued the restructuring of its LCD rear-projection television business. Due to the continued downsizing of the worldwide LCD rear-projection market, Sony made the decision to discontinue its worldwide LCD rear-projection television business during the fiscal year ended March 31, 2008. Restructuring charges totaling 19,732 million yen, consisted mainly of inventory write downs and the disposal or impairment of assets, were recorded in the fiscal year ended March 31, 2008. Of the total restructuring charges, 11,947 million yen was recorded in cost of sales and 6,730 million yen was recorded in (gain) loss on sale, disposal or impairment of assets, net in the consolidated statements of income.

During the fiscal year ended March 31, 2009, restructuring activities related to Sony's LCD rear-projection television business were nearly completed. As of March 31, 2010 there was no material remaining liability.

*Networked Products & Services and B2B & Disc Manufacturing segments*

In an effort to improve the performance of the Networked Products & Services and B2B & Disc Manufacturing segments, Sony has undergone a number of restructuring efforts to reduce operating costs.

The resulting restructuring charges for these segments, included in the table above, were related mainly to employee termination benefits and included in selling, general and administrative expenses in the consolidated statements of income.

*Pictures segment*

In an effort to improve the performance of the Pictures segment, Sony has initiated a number of restructuring efforts beginning in the fiscal year ended March 31, 2009 to reduce the Pictures segment's operating costs and to rationalize certain operations. During the fiscal year ended March 31, 2010, Sony expanded the scope of its restructuring efforts.

Sony recorded total restructuring charges of 4,908 million yen for the fiscal year ended March 31, 2009. These restructuring charges mainly consisted of personnel related costs. Sony recorded total restructuring charges of 5,605 million yen for the fiscal year ended March 31, 2010 which consisted of 4,319 million yen of personnel related costs, 539 million yen of lease and contract termination costs and 747 million yen of other exit costs. For both fiscal years, substantially all of these charges were recorded in selling, general and administrative expense in the consolidated statements of income. At March 31, 2010, the remaining liability balance was 5,218 million yen, the majority of which will be paid or settled over the next year.

*Music segment*

In an effort to improve the performance of the Music segment due to the continued contraction of the physical music market, Sony has undergone a number of restructuring efforts to reduce operating costs.

The resulting restructuring charges, included in the table above, were related mainly to employee termination benefits and included in selling, general and administrative expenses in the consolidated statements of income.

At March 31, 2010, the remaining liability balance was 6,745 million yen, the majority of which will be paid or settled over the next year.

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**

*Restructuring liabilities related to the SONY BMG acquisition -*

As a result of the acquisition of SME, Sony reflected in its balance sheet 8,884 million yen of restructuring liabilities which related to restructuring activities undertaken by SME prior to Sony's acquisition of Bertelsmann AG's 50% ownership interest, but which had not yet been paid or settled by SME. The restructuring liability relates to activities previously accrued by SONY BMG but which were unpaid as of the acquisition date representing severance costs of 6,517 million yen and lease, other contract termination and other exit costs of 2,367 million yen. In connection with the acquisition, Sony also recorded additional restructuring accruals of 2,733 million yen, primarily related to Sony's plans to consolidate certain SME operations with those of other Sony entities. These restructuring accruals included severance benefits of 2,463 million yen and lease, other contract termination and other exit costs of 270 million yen. During the fiscal year ended March 31, 2010, SME determined that certain of the restructuring activities identified at the time of the acquisition would not be implemented. As a result, 1,557 million yen of this restructuring liability, primarily for severance benefits, was reversed and recorded as a reduction to the goodwill that was recorded in connection with the acquisition of SME.

***Financial Services segment***

In an effort to improve the performance of the Financial Services segment, Sony has undergone restructuring efforts to reduce operating costs.

During the fiscal year ended March 31, 2010, Sony recorded restructuring charges of 3,718 million yen in financial service expenses, and 1,360 million yen in (gain) loss on sale, disposal or impairment of assets, net in the consolidated statements of income. These restructuring charges are related mainly to the realignment of credit financing operations and the disposal or impairment of assets.

At March 31, 2010, the remaining liability balance was 2,284 million yen, the majority of which will be paid or settled over the next year.

***All Other and Corporate***

*Realignment of manufacturing operations in Japan -*

During the fiscal year ended March 31, 2010, Sony implemented extensive measures to better compete in terms of speed to market and profitability, including the reevaluation of both its domestic and overseas manufacturing operations. As part of this process, mobile phone customer service and manufacturing operations in Japan were consolidated in order to establish an integrated operational structure from manufacturing through to customer service.

As a result of this realignment, restructuring charges for the closure of production facilities totaling 6,041 million yen were recorded, which consisted mainly of personnel related costs and the disposal or impairment of assets. Of the total restructuring charges, 4,900 million yen for employee termination benefits was recorded in selling, general and administrative expense, and 862 million yen for the disposal or impairment of assets was recorded in (gain) loss on sale, disposal or impairment of assets, net in the consolidated statements of income. In addition to the restructuring charges, 553 million yen of non-cash charges related to depreciation associated with restructured assets were recorded in cost of sales in the consolidated statements of income. At March 31, 2010, there was no material remaining liability.

*Withdrawal from property lease contract -*

During the fiscal year ended March 31, 2010, Sony withdrew from the property management operation of an entertainment complex in Japan and terminated the property lease contract. Sony recorded 6,495 million yen of termination payments in cost of sales in the consolidated statements of income. At March 31, 2010, there was no remaining liability.

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**Table of Contents****SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES***Corporate restructuring charges related to headquarters -*

During the fiscal year ended March 31, 2010, Sony has undergone headquarters restructuring activities. As a result, 5,897 million yen for employee termination benefits were recorded in selling, general and administrative expense in the consolidated statements of income for the fiscal year ended March 31, 2010. At March 31, 2010, there was no remaining liability.

*Other asset impairment information*

Sony recorded a 27,100 million yen impairment charge, included within the Consumer Products & Devices segment, related to the LCD TV assets group in the fiscal year ended March 31, 2010. The impairment charge primarily reflects a decrease in the estimated fair value of property, plant and equipment and certain intangible assets. During the fourth quarter of the fiscal year ended March 31, 2010, management updated its strategic plans, which resulted in decreases in the assets' estimated service periods and corresponding estimated future cash flows leading to the impairment charge. Sony has excluded this loss on impairment from restructuring charges as it is not directly related to Sony's ongoing restructuring initiatives.

**19. *Research and development costs, advertising costs and shipping and handling costs*****(1) Research and development costs:**

Research and development costs charged to cost of sales for the fiscal years ended March 31, 2008, 2009 and 2010 were 520,568 million yen, 497,297 million yen and 432,001 million yen, respectively.

**(2) Advertising costs:**

Advertising costs included in selling, general and administrative expenses for the fiscal years ended March 31, 2008, 2009 and 2010 were 468,674 million yen, 436,412 million yen and 383,540 million yen, respectively.

**(3) Shipping and handling costs:**

Shipping and handling costs for finished goods included in selling, general and administrative expenses for the fiscal years ended March 31, 2008, 2009 and 2010 were 136,506 million yen, 120,175 million yen and 83,622 million yen, respectively, which included the internal transportation costs of finished goods.

**20. *Significant transactions*****(1) Gain on initial public offering of Sony Financial Holdings**

In October 2007, Sony Financial Holdings Inc. issued 75,000 shares at 384,000 yen per share with a total value of 28,800 million yen in connection with its initial public offering. Sony Corporation sold 725,000 shares of Sony Financial Holdings Inc., at 384,000 yen per share with a total value of 278,400 million yen. In November 2007, Sony Corporation sold 70,000 shares of Sony Financial Holdings Inc., at 384,000 yen per share with a total value of 26,880 million yen. As a result of these transactions, Sony recorded a 7,010 million yen gain on issuance of stock by Sony Financial Holdings Inc. and provided deferred taxes on this gain. In addition, Sony recorded a 74,030 million yen gain on the sale of its shares of Sony Financial Holdings Inc. These transactions reduced Sony's ownership interest from 100% to 60.0%.

The total gain of 81,040 million was recorded in other income due to the nature of the transaction. Those transactions were not part of a broader corporate reorganization and the reacquisition of such shares was not contemplated at the time of issuance.

**(2) Other significant transactions**

During the fiscal years ended March 31 2008 and 2009, Sony sold portions of the site of its former headquarters and recorded gains of 60,683 million yen and 3,810 million yen, respectively.

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In March 2008, Sony sold a portion of its semiconductor operations in Nagasaki, Japan, including machinery and equipment for 90,868 million yen and recorded a gain of 15,600 million yen. Concurrent with the sale, Sony and the purchaser formed a joint venture which is accounted for under the equity method. The joint venture commenced operations on April 1, 2008 to produce semiconductors with the above-mentioned production equipment made available to the joint venture by the purchaser. During the fiscal year ended March 31 2009 and 2010, Sony received rental payments of 2,834 million yen and 1,236 million yen from the joint venture related to the facility where the production equipment was located.

In March 2008, Sony sold the urban entertainment complex The Sony Center am Potsdamer Plats in Berlin, Germany for 81,962 million yen and recorded a gain of 10,008 million yen, of which 66,389 million yen was received in March 2008 and the remaining 15,573 million yen was received in March 2009.

In April 2009, Sony sold a portion of its investment in Game Show Network, LLC, a U.S. cable network, which is included in the Pictures segment. The sale resulted in cash proceeds of 8,831 million yen and a gain of 8,322 million yen for the fiscal year ended March 31, 2010.

In March 2010, Sony sold a portion of its investment and certain ancillary rights, which is included in the Pictures segment, in its HBO Latin America joint venture, which owns and operates certain premium pay television businesses in Latin America, to the venture's majority shareholder (Majority Shareholder). Sony accounted for this sale in accordance with the accounting guidance for transfers and servicing. Prior to this transaction, Sony owned approximately 29% of this joint venture, which was accounted for under the equity method, and, as a result of this transaction, Sony owns approximately 8% of this joint venture (the Retained Interest), which is accounted for under the cost method.

As consideration for the transaction, Sony received cash proceeds of 19,424 million yen and received a put option valued at 1,371 million yen. Under the put option, Sony can require the Majority Shareholder to purchase the Retained Interest at anytime for a period of 10 years starting March 2010. The exercise price of the put option is 5,798 million yen and escalates 5% per year during the first five years. Thereafter, the exercise price of the put option is based on the fair value of the Retained Interest. The sale resulted in a gain of 18,035 million yen for the fiscal year ended March 31, 2010. After the closing of the sale, the parties submitted a nonsuspensory filing to the Brazilian competition authority. In the event the Brazilian competition authority does not approve the sale, the sale of the Brazil portion of the investment could be subject to rescission, in which case approximately 40% of the purchase price, and the corresponding gain, could be subject to rescission. As of May 31, 2010, the Brazilian competition authority has not approved the filing.

In January 2010, in a separate transaction, Sony sold its entire investment, which was included in the Pictures segment, in its HBO Central Europe joint venture, which owns and operates a premium pay television business in Central Europe, to an affiliate of the Majority Shareholder. The sale resulted in cash proceeds of 7,660 million yen and a gain of 3,957 million yen for the fiscal year ended March 31, 2010.

The above mentioned transactions were recorded in (gain) loss on sale, disposal or impairment of assets, net due to either the nature of the transaction or in consideration of factors including the relationship to Sony's core operations.

**Table of Contents****SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES****21. Income taxes**

Domestic and foreign components of income (loss) before income taxes and the provision for current and deferred income taxes attributable to such income are summarized as follows:

|  | <b>Yen in millions</b>            |             |             |
|--|-----------------------------------|-------------|-------------|
|  | <b>Fiscal Year Ended March 31</b> |             |             |
|  | <b>2008</b>                       | <b>2009</b> | <b>2010</b> |
| Income (loss) before income taxes:         |                                   |             |             |
| Sony Corporation and subsidiaries in Japan | 455,171                           | (4,453)     | 45,290      |
| Foreign subsidiaries                       | 111,963                           | (170,502)   | (18,378)    |
|  | 567,134                           | (174,955)   | 26,912      |
| Income taxes Current:                      |                                   |             |             |
| Sony Corporation and subsidiaries in Japan | 76,127                            | 34,631      | 42,723      |
| Foreign subsidiaries                       | 107,311                           | 45,890      | 5,975       |
|  | 183,438                           | 80,521      | 48,698      |
| Income taxes Deferred:                     |                                   |             |             |
| Sony Corporation and subsidiaries in Japan | 53,124                            | (105,211)   | (25,589)    |
| Foreign subsidiaries                       | (33,084)                          | (48,051)    | (9,151)     |
|  | 20,040                            | (153,262)   | (34,740)    |
| Total income tax expense (benefit)         | 203,478                           | (72,741)    | 13,958      |

A reconciliation of the differences between the Japanese statutory tax rate and the effective tax rate is as follows:

|   | <b>Fiscal Year Ended</b> |             |             |
|---|--------------------------|-------------|-------------|
|   | <b>March 31</b>          |             |             |
|   | <b>2008</b>              | <b>2009</b> | <b>2010</b> |
| Statutory tax rate  | 41.0%                    | (41.0)%     | 41.0%       |
| Non-deductible expenses   | 0.7                      | 1.9         | 10.3        |
| Income tax credits  | (5.1)                    | 11.4        | (18.0)      |
| Change in valuation allowances  | (3.5)                    | 12.9        | 4.7         |
| Change in deferred tax liabilities on undistributed earnings of foreign subsidiaries and corporate joint ventures | 2.4                      | (31.8)      | 5.8         |
| Lower tax rate applied to life and non-life insurance business in Japan   | (0.2)                    | 0.8         | (30.3)      |
| Foreign income tax differential   | (2.1)                    | 0.5         | (17.6)      |
| Adjustments to tax accruals and reserves  | 0.2                      | (7.3)       | 16.2        |

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|  |       |         |       |
|--|-------|---------|-------|
| Effect of equity in net income (loss) of affiliated companies        | (7.3) | 5.9     | 46.0  |
| Capital gains on the sale of shares of Sony Financial Holdings, Inc. | 6.7   |         |       |
| Other  | 3.1   | 5.1     | (6.2) |
| Effective income tax rate  | 35.9% | (41.6)% | 51.9% |

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The significant components of deferred tax assets and liabilities are as follows:

|   | <b>Yen in millions</b> |             |
|---|------------------------|-------------|
|   | <b>March 31</b>        |             |
|   | <b>2009</b>            | <b>2010</b> |
| Deferred tax assets:  |                        |             |
| Operating loss carryforwards for tax purposes                               | 191,632                | 242,172     |
| Accrued pension and severance costs   | 158,539                | 130,508     |
| Film costs  | 28,787                 | 22,683      |
| Warranty reserves and accrued expenses                                      | 67,225                 | 74,528      |
| Future insurance policy benefits  | 23,387                 | 21,810      |
| Accrued bonus   | 18,759                 | 22,764      |
| Inventory   | 40,741                 | 31,608      |
| Depreciation  | 35,044                 | 37,553      |
| Tax credit carryforwards  | 46,595                 | 70,737      |
| Reserve for doubtful accounts   | 7,696                  | 9,243       |
| Impairment of investments   | 35,451                 | 42,948      |
| Deferred revenue in the Pictures segment                                    | 18,503                 | 17,579      |
| Other   | 157,023                | 136,363     |
| Gross deferred tax assets   | 829,382                | 860,496     |
| Less: Valuation allowance   | (117,204)              | (117,486)   |
| Total deferred tax assets   | 712,178                | 743,010     |
| Deferred tax liabilities:   |                        |             |
| Insurance acquisition costs   | (144,989)              | (151,548)   |
| Unbilled accounts receivable in the Pictures segment                        | (44,385)               | (42,421)    |
| Unrealized gains on securities  | (17,482)               | (38,792)    |
| Intangible assets acquired through stock exchange offerings                 | (32,941)               | (32,456)    |
| Undistributed earnings of foreign subsidiaries and corporate joint ventures | (40,936)               | (44,717)    |
| Other   | (100,672)              | (96,674)    |
| Gross deferred tax liabilities  | (381,405)              | (406,608)   |
| Net deferred tax assets   | 330,773                | 336,402     |

The valuation allowance mainly relates to deferred tax assets of certain consolidated subsidiaries with operating loss carryforwards and tax credit carryforwards for tax purposes that are not more-likely-than-not to be realized. The net changes in the total valuation allowance were a decrease of 57,817 million yen for the fiscal year ended March 31, 2008, an increase of 21,197 million yen for the fiscal year ended March 31, 2009 and an increase of 282 million yen for the fiscal year ended March 31, 2010, respectively. The decrease during the fiscal year ended March 31, 2008 was a result of improved and sustainable profitability at entities in certain tax jurisdictions where the deferred tax assets are now considered more likely than not to be realized. The increase during the fiscal year ended March 31, 2009 and

2010 was a result of additional valuation allowances recorded on deferred tax assets for net operating loss carryforwards and tax credit carryforwards at certain subsidiaries.

As a result of losses incurred in recent years, Sony Computer Entertainment America Inc. ( SCEA ), Sony Computer Entertainment Europe Limited ( SCEE ) and Sony United Kingdom Ltd. ( SUKL ) are each in a three year cumulative pre-tax loss position. On April 1, 2010, as a part of the business restructuring and formation of a new business unit, Sony Computer Entertainment Inc. ( SCEI ) contributed its game business to a new company and the remainder of SCEI, including the network assets, was merged into Sony Corporation. Immediately

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following the Japan restructuring, SCEA was merged into a new entity, a subsidiary of Sony's U.S. holding company, Sony Americas Holding Inc ( SAHI ). As a consequence of these reorganizations, the deferred tax assets of SCEI and SCEA are evaluated in the context of the new structure. A cumulative loss position is considered significant negative evidence in assessing the realizability of a deferred tax asset. Sony has concluded that there is sufficient positive evidence to overcome this negative evidence when considering both the reorganization on April 1, 2010 and the use of tax planning strategies. The tax planning strategies include transactions among certain businesses with historically strong earnings and the loss businesses as well as the sales of certain assets that could realize the excess of appreciated value over the tax basis of those assets. Sony believes that the tax planning strategies coupled with future earnings forecasts of the historically profitable entities would produce sufficient taxable income in the legal entities in the future to fully realize the deferred tax assets at March 31, 2010 (in the U.S., the U.K. and Japan), notwithstanding that some of the expected profitable businesses incurred losses in the fiscal year ended March 31, 2010, as a result of the dramatic changes in worldwide economic conditions, the strengthening of the yen, and restructuring actions undertaken by Sony. Accordingly, no valuation allowance has been recorded for these entities at March 31, 2010.

Net deferred tax assets are included in the consolidated balance sheets as follows:

|   | <b>Yen in millions</b> |             |
|---|------------------------|-------------|
|   | <b>March 31</b>        |             |
|   | <b>2009</b>            | <b>2010</b> |
| Current assets – Deferred income taxes        | 189,703                | 197,598     |
| Other assets – Deferred income taxes          | 359,050                | 403,537     |
| Current liabilities – Other                   | (29,621)               | (28,212)    |
| Long-term liabilities – Deferred income taxes | (188,359)              | (236,521)   |
| Net deferred tax assets                       | 330,773                | 336,402     |

At March 31, 2010, deferred income taxes have not been provided on undistributed earnings of foreign subsidiaries and corporate joint ventures not expected to be remitted in the foreseeable future totaling 1,191,396 million yen, and on the gain of 61,544 million yen on a subsidiary's sale of stock arising from the issuance of common stock of Sony Music Entertainment (Japan) Inc. in a public offering to third parties in November 1991, as Sony does not anticipate any significant tax consequences on possible future disposition of its investment based on its tax planning strategies. The unrecognized deferred tax liabilities as of March 31, 2010 for such temporary differences can not be determined.

At March 31, 2010, Sony has operating loss carryforwards for tax purposes, the tax effect of which totaled 242,172 million yen, which will be available as an offset against future taxable income on tax returns to be filed in various tax jurisdictions. With the exception of 40,367 million yen with no expiration period, substantially all of the total operating loss carryforwards expire at various periods between the fiscal years ended March 31, 2011 and 2017, and the remaining amounts expire in periods up to 20 years depending on the jurisdiction.

Tax credit carryforwards for tax purposes at March 31, 2010 amounted to 70,737 million yen. With the exception of 7,312 million yen with no expiration period, total available tax credit carryforwards expire at various dates primarily up to 10 years.





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A reconciliation of the beginning and ending gross amounts of unrecognized tax benefits is as follows:

|   | <b>Yen in millions</b> |             |             |
|---|------------------------|-------------|-------------|
|   | <b>March 31</b>        |             |             |
|   | <b>2008</b>            | <b>2009</b> | <b>2010</b> |
| Balance at beginning of the fiscal year   | 223,857                | 282,098     | 276,627     |
| Reductions for tax positions of prior years   | (51,669)               | (23,585)    | (38,450)    |
| Additions for tax positions of prior years  | 74,809                 | 11,164      | 4,816       |
| Additions based on tax positions related to the current year  | 73,940                 | 68,848      | 10,873      |
| Settlements   | (9,344)                | (13,267)    | (5,921)     |
| Lapse in statute of limitations   | (1,969)                | (921)       | (1,506)     |
| Foreign currency translation adjustments  | (27,526)               | (47,710)    | (17,211)    |
| <br>Balance at end of the fiscal year   | <br>282,098            | <br>276,627 | <br>229,228 |
| <br>Total net amount of unrecognized tax benefits that, if recognized,<br>would affect the effective tax rate | <br>107,437            | <br>72,008  | <br>76,125  |

The major changes in the total gross amount of unrecognized tax benefit balances relate to the Bilateral Advance Pricing Agreements ( APAs ) filed for certain subsidiaries in the Consumer Products & Devices, Networked Products & Services and B2B & Disc Manufacturing segments with respect to their intercompany cross-border transactions. These APAs include agreements between Sony and two domestic or foreign taxing authorities under the authority of the mutual agreement procedure specified in income tax treaties. Because these are government to government negotiations, it is reasonably possible that the final outcomes of the agreements may differ from Sony's current assessment of the more-likely-than-not outcomes of such agreements.

During the fiscal year ended March 31, 2008, Sony recorded 260 million yen of interest expense and reversed 204 million yen of penalties.

During the fiscal year ended March 31, 2009, Sony reversed 1,956 million yen of interest expense and 389 million yen of penalties. At March 31, 2009, Sony has recorded liabilities of 6,204 million yen and 3,103 million yen for the payments of interest and penalties, respectively.

During the fiscal year ended March 31, 2010, Sony recorded 4,707 million yen of interest expense and 1,565 million yen of penalties. At March 31, 2010, Sony had recorded liabilities of 10,911 million yen and 4,668 million yen for the payments of interest and penalties, respectively.

Sony operates in multiple jurisdictions throughout the world, and its tax returns are periodically audited by both Japanese and foreign taxing authorities. As a result of audit settlements, the conclusion of current examinations, the expiration of the statute of limitations in several jurisdictions and other reevaluations of Sony's tax positions, it is expected that the amount of unrecognized tax benefits will change in the next twelve months; however, Sony does not expect that change to have a significant impact on Sony's financial position or results of operations.

Sony remains subject to examinations by Japanese taxing authorities for tax years from 2003 through 2009, and by the U.S. and other foreign taxing authorities for tax years from 1998 through 2009.



**Table of Contents****SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES****22. Reconciliation of the differences between basic and diluted EPS**

Reconciliation of the differences between basic and diluted EPS for the fiscal years ended March 31, 2008, 2009 and 2010 is as follows:

|   | Yen in millions            |                     |           |
|---|----------------------------|---------------------|-----------|
|   | Fiscal Year Ended March 31 |                     |           |
|   | 2008                       | 2009                | 2010      |
| Net income (loss) attributable to Sony Corporation's stockholders for basic and diluted EPS computation | 369,435                    | (98,938)            | (40,802)  |
|   |                            | Thousands of shares |           |
| Weighted-average shares outstanding   | 1,003,001                  | 1,003,499           | 1,003,520 |
| Effect of dilutive securities:  |                            |                     |           |
| Warrants and stock acquisition rights   | 2,944                      |                     |           |
| Convertible bonds   | 46,267                     |                     |           |
| Weighted-average shares for diluted EPS computation   | 1,052,212                  | 1,003,499           | 1,003,520 |
|   |                            | Yen                 |           |
| Basic EPS   | 368.33                     | (98.59)             | (40.66)   |
| Diluted EPS   | 351.10                     | (98.59)             | (40.66)   |

Potential shares of common stock upon the exercise of warrants and stock acquisition rights, which were excluded from the computation of diluted EPS for the fiscal years ended March 31, 2008, 2009 and 2010 were 9,542 thousand shares, 13,553 thousand shares and 17,600 thousand shares, respectively. The potential shares were excluded as anti-dilutive in the fiscal year ended March 31, 2008 as the exercise price for those shares was in excess of the average market value of Sony's common stock during the fiscal year, and the potential shares were excluded as anti-dilutive for those fiscal years ended March 31, 2009 and 2010 due to Sony incurring a net loss attributable to its stockholders for those fiscal years.

**23. Variable interest entities**

Sony has, from time to time, entered into various arrangements with variable interest entities ( VIEs ). These arrangements include facilities which provide for the leasing of certain property, the financing of film production, the U.S. based music publishing business, several joint ventures in the recorded music business and the outsourcing of manufacturing operations. For the VIEs that are described below, it has been determined that Sony is the primary beneficiary and, accordingly, these VIEs are consolidated by Sony.

Sony leases the headquarters of its U.S. subsidiary from a VIE. In December 2008, Sony renewed its option under the lease agreement and extended the term of the lease until December 2015. At the end of the lease term, Sony has agreed to either renew the lease, purchase the building or remarket it to a third party on behalf of the owner. Under the lease, Sony has provided a minimum guarantee to the VIE that if the sales price is less than 255 million U.S. dollars, Sony is obligated to make up the lesser of the shortfall or 214 million U.S. dollars. As a result of the minimum guarantee, it was determined that Sony absorbs the majority of the expected losses and is therefore the primary beneficiary. Sony has not provided any additional support to the VIE other than its contractually obligated lease payments. Sony has the option to purchase the building at any time during the lease term for 255 million U.S. dollars. The debt held by the VIE is unsecured and there is no recourse to the creditors outside of Sony. The assets of the VIE are not available to settle the obligations of Sony. At March 31, 2010, the VIE had property, plant and equipment of 16,979 million yen and long-term debt of 23,725 million yen which were included in Sony's balance sheet.

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Sony's U.S. based music publishing subsidiary is a joint venture with a third party investor and has been determined to be a VIE. The subsidiary owns and acquires rights to musical compositions, exploits and markets these compositions and receives royalties or fees for their use. Under the terms of the joint venture, Sony has the obligation to fund any working capital deficits as well as any acquisition of music publishing rights made by the joint venture. In addition, the third party investor receives a guaranteed annual dividend of up to 11 million U.S. dollars through September 30, 2011. As a result of its obligation to provide funding to the joint venture, Sony absorbs the majority of the expected losses and is therefore the primary beneficiary of the VIE. The assets of the music publishing subsidiary are not available to settle the obligations of Sony. At March 31, 2010, the assets and liabilities of the VIE that were included in Sony's balance sheet were as follows:

|                                       | <b>Yen in millions</b> |
|---------------------------------------|------------------------|
| Assets:                               |                        |
| Cash and cash equivalents             | 5,166                  |
| Account receivables, net              | 223                    |
| Other current assets                  | 26,643                 |
| Property, plant and equipment, net    | 968                    |
| Intangibles, net                      | 67,292                 |
| Goodwill                              | 14,266                 |
| Other non-current assets              | 9,283                  |
| <b>Total assets</b>                   | <b>123,841</b>         |
| Liabilities:                          |                        |
| Accounts payable and accrued expenses | 40,527                 |
| Other current liabilities             | 6,577                  |
| Other non-current liabilities         | 1,088                  |
| <b>Total liabilities</b>              | <b>48,192</b>          |

In connection with the December 2007 refinancing of the third party investor's debt obligations, Sony has issued a guarantee to a creditor of the third party investor in which Sony will provide a minimum offer of 300 million U.S. dollars to the creditor to purchase certain assets that are being held as collateral by the creditor against the obligation of the third party investor. The assets of the third party investor that are being used as collateral were placed in a separate trust which was established in December 2007. The trust is also a VIE in which Sony has had significant variable interests since establishment, but is not the primary beneficiary. The assets held by the trust consist of the third party investor's 50% ownership interest in the music publishing subsidiary. At March 31, 2010, the fair value of the assets held by the trust exceeded 300 million U.S. dollars.

Sony's U.S. subsidiary that is engaged in the recorded music business has entered into several joint ventures with companies involved in the production and creation of recorded music. Sony has reviewed these joint ventures and determined that they are VIEs. As Sony is responsible for providing funding to these VIEs, and in most cases absorbs all losses until the VIE becomes profitable, it has been determined that Sony is the primary beneficiary of these VIEs. The assets of these VIEs are not available to settle the obligations of Sony. On an aggregate basis, the total assets and liabilities for these entities at March 31, 2010 were 14,507 million yen and 2,482 million yen, respectively.

VIEs in which Sony holds a significant variable interest, but is not the primary beneficiary are described as follows:

A subsidiary in the Pictures segment entered into a joint venture agreement with a VIE to acquire the international distribution rights, as defined, to 12 pictures. The subsidiary is required to distribute the product internationally, for contractually defined fees determined as percentages of gross receipts and is responsible for all distribution and marketing expenses, which are recouped from such distribution fees, each as defined. The VIE was

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capitalized with total financing of 406 million U.S. dollars. Of this amount, 11 million U.S. dollars was contributed by the subsidiary, 95 million U.S. dollars was provided by unrelated third party investors and the remaining funding was provided through a 300 million U.S. dollar bank credit facility. Under the agreement, the subsidiary's 11 million U.S. dollars equity investment is the last equity to be repaid. Based on the factors above, it was previously determined that the subsidiary was the primary beneficiary as it was projected to absorb the majority of the losses or residual returns. As of March 31, 2009, the bank credit facility had been terminated and the third party investors have been repaid their 95 million U.S. dollar investment. On May 11, 2009, the subsidiary repurchased from the VIE the international distribution rights to the 12 pictures and the VIE received a participation interest in these films on identical financial terms to those described above. As a result of repurchasing the international distribution rights from the VIE, Sony determined that the subsidiary is no longer the primary beneficiary as it is not projected to absorb the majority of the losses or residual returns of the VIE. No gain or loss was recognized by the subsidiary on the deconsolidation of the VIE. As of March 31, 2010, the subsidiary's balance sheet includes 316 million yen of film costs related to the international distribution rights acquired from the VIE and 1,647 million yen of participation liabilities due to the VIE.

A subsidiary in the Pictures segment entered into two separate production/co-financing agreements with VIEs to co-finance 19 films that were released over the 31 months ended July 31, 2008. The subsidiary received 568 million U.S. dollars over the term of the agreements to fund the production or acquisition cost of films (including fees and expenses). Additionally, on January 19, 2007, the subsidiary entered into a third production/co-financing agreement with another VIE to co-finance a majority of the films to be submitted through March 2012. The subsidiary has received a commitment from the third VIE that it will fund up to 525 million U.S. dollars on a revolving basis to fund the production or acquisition cost of films (including fees and expenses). As of March 31, 2010, 14 films of the subsidiary have been released and approximately 392 million U.S. dollars have been funded by the third VIE. Under all three agreements, the subsidiary is responsible for the marketing and distribution of the product through its global distribution channels. The VIEs share in the net profits, as defined, of the films after the subsidiary recoups a distribution fee, its marketing and distribution expenses, and third party participation and residual costs, each as defined. As the subsidiary did not make any equity investment in these three VIEs nor issue any guarantees with respect to the VIEs, the subsidiary does not absorb the majority of the losses or residual returns, and therefore does not qualify as the primary beneficiary for any of the VIEs. As of March 31, 2010, there are no amounts recorded on the subsidiary's balance sheet that relate to any of the VIEs other than the investors' earned but unpaid share of the films net profits, as defined.

In January 2010, Sony sold 90% of its interest in a Mexican subsidiary which primarily manufactured LCD televisions, as well as other assets including machinery and equipment of 4,520 million yen and inventory of 5,619 million yen, to a contract manufacturer. The continuing entity, which will perform this manufacturing going forward, was determined to be a VIE as it is thinly capitalized and dependent on funding from the parent entity. Sony was not considered to be the primary beneficiary as it is not expected to absorb the majority of the expected losses of the entity. In connection with the sale of Sony's controlling interest in the subsidiary, Sony received 11,189 million yen and recorded a loss of 1,664 million yen during the fiscal year ended March 31, 2010. Concurrent with the sale, Sony entered into an agreement with the VIE and its parent company in which Sony agreed to purchase a significant share of the LCD televisions that Sony sells in certain markets, including the U.S. market. As of March 31, 2010, the amounts recorded on Sony's balance sheet that relate to the VIE include accounts receivable-non trade of 6,991 million yen and accounts payable, trade of 30,263 million yen. Sony's maximum exposure to losses is considered insignificant.

**24. Acquisitions****(1) SONY BMG Acquisition**



On October 1, 2008, Sony completed the acquisition of Bertelsmann AG's 50% equity interest in SONY BMG, a global entertainment company engaged primarily in the development, production and distribution of recorded music, in all commercial formats and musical genres.

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SONY BMG was a 50/50 joint venture between Sony and Bertelsmann AG originally created in August 2004. Prior to this acquisition, Sony's 50% equity interest was accounted for under the equity method of accounting through September 30, 2008. As a result of Sony's acquisition of Bertelsmann AG's 50% interest, SONY BMG, which has been renamed Sony Music Entertainment, became a wholly owned subsidiary of Sony and the results of SONY BMG were consolidated by Sony beginning October 1, 2008.

This acquisition allows Sony to achieve a deeper and more robust integration between the wide-ranging global assets of the recorded music company and Sony's products, operating companies and affiliates. Ultimately, this acquisition is expected to further Sony's goal of offering a total entertainment experience to consumers.

Bertelsmann AG's 50% interest in SONY BMG was acquired for 97,424 million yen, consisting of cash consideration of 95,410 million yen and transaction costs of 2,014 million yen. The acquisition was funded through a 63,606 million yen cash payment from Sony and a 31,803 million yen cash payment from SONY BMG, which represented Sony's share of SONY BMG's cash balance. Bertelsmann AG received an additional 31,803 million yen in cash from SONY BMG for its share of SONY BMG's cash balance, resulting in total cash receipts to Bertelsmann AG of 127,213 million yen.

As of October 1, 2008, Sony consolidated all of the assets and liabilities of SONY BMG. Sony's 50% share of the assets and liabilities of SONY BMG were recorded at their historical carryover basis while the 50% share of the assets and liabilities acquired from Bertelsmann AG were recorded at fair value.

During the finalization of the purchase price adjustments, certain adjustments were made to the allocation of the purchase price for the acquired assets and liabilities of SONY BMG to reflect the changes in the value of certain assets and liabilities. These changes resulted in a 8,649 million yen decrease in the goodwill recognized from the acquisition of Bertelsmann AG's 50% interest in SONY BMG. These adjustments were primarily reflected as an increase in deferred tax assets as a result of modifications to various pre-merger tax estimates as well as decreases in acquired liabilities as certain restructuring activities that were identified at the time of the acquisition will not be implemented.

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The following table summarizes the preliminary values assigned to the assets and liabilities that were recorded for SONY BMG, including net assets at historical carryover basis, as well as the adjustments described above:

|  | Yen in millions   |  |                               |                |                           |
|--|---|--|-------------------------------|----------------|---------------------------|
|  | Assets and liabilities recorded at the historical carryover basis | Acquired assets and liabilities recorded at fair value | Total (as of October 1, 2008) | Adjustments    | Total (after adjustments) |
| Notes and accounts receivable, net     | 28,835  | 28,835   | 57,670                        |                | 57,670                    |
| Capitalized artist advances short-term | 11,979  | 11,979   | 23,958                        |                | 23,958                    |
| Other current assets                   | 33,711  | 25,443   | 59,154                        | (531)          | 58,623                    |
| Capitalized artist advances long-term  | 8,587   | 8,587  | 17,174                        |                | 17,174                    |
| Intangibles, net                       | 12,827  | 96,258   | 109,085                       |                | 109,085                   |
| Goodwill                               | 30,319  | 72,935   | 103,254                       | (8,649)        | 94,605                    |
| Other noncurrent assets                | 14,418  | 15,159   | 29,577                        | 7,716          | 37,293                    |
| <b>Total assets</b>                    | <b>140,676</b>  | <b>259,196</b>   | <b>399,872</b>                | <b>(1,464)</b> | <b>398,408</b>            |
| Accrued royalties                      | 66,151  | 66,044   | 132,195                       |                | 132,195                   |
| Other current liabilities              | 60,744  | 64,879   | 125,623                       | (1,464)        | 124,159                   |
| Accrued pension and severance costs    | 11,661  | 11,767   | 23,428                        |                | 23,428                    |
| Other noncurrent liabilities           | 8,057   | 19,082   | 27,139                        |                | 27,139                    |
| <b>Total liabilities</b>               | <b>146,613</b>  | <b>161,772</b>   | <b>308,385</b>                | <b>(1,464)</b> | <b>306,921</b>            |
| Net assets recorded for SONY BMG       | (5,937)   | 97,424   | 91,487                        |                | 91,487                    |

No amounts were allocated to in-process research and development in this acquisition. Goodwill represents the excess of the purchase price over the estimated fair value of the net tangible and intangible assets acquired and is not deductible for tax purposes. The goodwill recorded in connection with this acquisition is included in the Music segment. Prior to the acquisition, both Sony and Bertelsmann AG had provided certain services to SONY BMG including manufacturing and distribution services, the leasing of office space and the licensing of the Sony and Bertelsmann AG brands. It was determined that the acquisition of Bertelsmann AG's interest did not result in a settlement gain or loss as a result of these pre-existing relationships.

The intangible assets are comprised of the following:

| Intangibles recorded at the historical | Yen in millions                  |                  | Years |
|--|----------------------------------|------------------|-------|
|  | Acquired intangibles recorded at | Weighted-average |       |

|  | <b>carryover basis</b> | <b>fair value</b> | <b>Total</b> | <b>amortization<br/>period</b> |
|--|------------------------|-------------------|--------------|--------------------------------|
| Intangibles subject to amortization, net |                        |                   |              |                                |
| Music catalogs                           | 10,283                 | 77,706            | 87,989       | 25                             |
| Artist contracts                         | 2,014                  | 15,160            | 17,174       | 10                             |
| Other                                    | 530                    | 3,392             | 3,922        | 5                              |
| Total intangibles                        | 12,827                 | 96,258            | 109,085      | 22                             |

The results of operations for SONY BMG are included in the Music segment beginning October 1, 2008. The following unaudited supplemental pro forma financial information presents the combined results of operations of

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Sony and SONY BMG as though the acquisition had occurred as of the beginning of the years ended March 31, 2008 and 2009:

|   | <b>Yen<br/>in millions,<br/>except per share data<br/>Fiscal Year Ended March 31</b> |             |
|---|--|-------------|
|   | <b>2008</b>  | <b>2009</b> |
|   | <b>(Unaudited)</b>   |             |
| Net sales   | 8,629,416  | 7,266,265   |
| Operating income (loss)   | 489,653  | (234,724)   |
| Net income (loss) attributable to Sony Corporation's stockholders | 372,623  | (104,614)   |
| Basic EPS   | 371.51   | (104.25)    |
| Diluted EPS   | 354.13   | (104.25)    |

The unaudited supplemental pro forma financial information is based on estimates and assumptions, which Sony believes are reasonable and is not intended to represent or be indicative of what Sony's consolidated net income (loss) attributable to Sony Corporation's stockholders would have been had the acquisition been completed at the beginning of each of these periods and should not be taken as indicative of Sony's future consolidated net income (loss) attributable to Sony Corporation's stockholders. The unaudited supplemental pro forma financial information includes incremental intangible asset amortization, interest costs and other charges as a result of the acquisition, net of the related tax effects.

**(2) Other acquisitions**

During the fiscal year ended March 31, 2009, Sony completed certain other acquisitions for total consideration of 95,458 million yen which was paid primarily in cash and included:

Gracenote, a global leader in technology and services for digital media identification, enrichment, and recommendation. Sony acquired Gracenote for 27,521 million yen, consisting of a cash payment of 27,108 million yen and transaction costs of 413 million yen; and

2waytraffic N.V. (2waytraffic), a Dutch entertainment company engaged primarily in creating, producing, licensing and distributing light entertainment content across television, mobile and digital platforms. Sony acquired 2waytraffic for 38,176 million yen, consisting of a cash payment of 24,369 million yen, assumption of 2waytraffic's third-party debt of 12,519 million yen and transaction costs of 1,288 million yen.

As a result of Sony's acquisition of Gracenote, 2waytraffic, and other businesses, Sony recorded 61,614 million yen of goodwill and 32,977 million yen of intangible assets.

During the fiscal year ended March 31, 2010, Sony completed certain acquisitions for total consideration of 17,616 million yen which was paid primarily in cash of which 1,420 million yen was contingent consideration and subject to future change. As a result of the acquisitions, Sony recorded 13,425 million yen of goodwill and 3,708 million yen of intangible assets.

No significant amounts have been allocated to in-process research and development and all of the entities described above have been consolidated into Sony's results of operations since their respective acquisition dates.

Pro forma results of operations have not been presented because the effects of Gracenote, 2waytraffic, and the other acquisitions, individually and in aggregate, were not material, as were the acquisitions in the fiscal years ended March 31, 2008.

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**Table of Contents****SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES****25. Collaborative arrangements**

Sony has entered into collaborative arrangements, through a subsidiary in the Pictures segment, with one or more active participants to jointly finance, produce and/or distribute motion picture or television product under which both the subsidiary and the other active participants share in the risks and rewards of ownership. These arrangements are referred to as co-production and distribution arrangements.

Sony typically records an asset for only the portion of the motion picture or television product it owns and finances. Sony and the other participants typically distribute the product in different media or markets. Revenues earned and expenses incurred for the media or markets in which Sony distributes the product are typically recorded on a gross basis. Sony typically does not record revenues earned and expenses incurred when the other participants distribute the product. Sony and the other participants typically share in the profits from the distribution of the product in all media or markets. For motion picture product, if Sony is a net receiver of (1) Sony's share of the profits from the media or markets distributed by the other participant less (2) the other participants' share of the profits from the media or markets distributed by Sony then the net amount is recorded as net sales. If Sony is a net payer then the net amount is recorded in cost of sales. For television product, Sony records its share of the profits from the media or markets distributed by the other participants as sales, and the other participants' share of the profits from the media or markets distributed by Sony as cost of sales.

For the years ended March 31, 2008, 2009 and 2010, 4,353 million yen, 4,414 million yen and 4,687 million yen, respectively, were recorded as cost of sales for amounts owed to the other participants and 7,510 million yen, 4,600 million yen and 9,936 million yen, respectively, were recorded as net sales for amounts due from the other participants in these collaborative arrangements.

**26. Commitments and contingent liabilities****(1) Commitments:****A. Loan commitments**

Subsidiaries in the Financial Services segment have entered into loan agreements with their customers in accordance with the condition of the contracts. As of March 31, 2010, the total unused portion of the line of credit extended under these contracts was 176,591 million yen. The aggregate amounts of future year-by-year payments for these loan commitments cannot be determined.

**B. Purchase commitments and other**

Purchase commitments and other outstanding at March 31, 2010 amounted to 305,089 million yen. The major components of these commitments are as follows:

In the ordinary course of business, Sony makes commitments for the purchase of property, plant and equipment. As of March 31, 2010, such commitments outstanding were 33,008 million yen.

Certain subsidiaries in the Pictures segment have entered into agreements with creative talent for the development and production of motion pictures and television programming as well as agreements with third parties to acquire completed motion pictures, or certain rights therein, and to acquire the rights to broadcast certain live action sporting events. These agreements cover various periods mainly within 5 years. As of March 31, 2010, these subsidiaries were

committed to make payments under such contracts of 130,021 million yen.

Certain subsidiaries in the Music segment have entered into long-term contracts with recording artists and companies for the production and/or distribution of prerecorded music and videos. These contracts cover various periods mainly within 5 years. As of March 31, 2010, these subsidiaries were committed to make payments of 44,443 million yen under such long-term contracts.

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**Table of Contents****SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**

The schedule of the aggregate amounts of year-by-year payment of purchase commitments during the next five years and thereafter is as follows:

| <b>Fiscal Year Ending March 31</b> | <b>Yen in millions</b> |
|------------------------------------|------------------------|
| 2011                               | 133,681                |
| 2012                               | 50,490                 |
| 2013                               | 34,768                 |
| 2014                               | 29,493                 |
| 2015                               | 23,509                 |
| Later years                        | 33,148                 |
| <b>Total</b>                       | <b>305,089</b>         |

**(2) Contingent liabilities:**

Sony had contingent liabilities including guarantees given in the ordinary course of business, which amounted to 82,376 million yen at March 31, 2010. The major components of the contingent liabilities are as follows:

As discussed in Note 23, Sony has issued a guarantee to a creditor of the third party investor pursuant to which Sony will provide a minimum offer of 300 million U.S. dollars to the creditor to purchase certain assets that are being held as collateral by the third party creditor against the obligation of the third party investor. At March 31, 2010, the fair value of the collateral exceeded 300 million U.S. dollars.

During the fiscal year ended March 31, 2010, Sony agreed to guarantee a portion of Sony Ericsson's debt and its facilities up to a maximum of 250 million euros. At March 31, 2010, Sony has guaranteed 18,738 million yen (150 million euros) for a portion of Sony Ericsson's debt under this arrangement. These guarantees expire by March 2012.

Sony is subject to laws and regulations in various countries that make producers of electrical goods financially responsible for collection, recycling, treatment and disposal of past and future covered products. For example, the Waste Electrical and Electronic Equipment ( WEEE ) directive, issued in February 2003, requires electronics producers to finance the cost for collection, treatment, recovery and safe disposal of waste products. In most member states of the European Union ( EU ), the directive has been transposed into national legislation subject to which Sony recognizes the liability for obligations associated with WEEE. As of the fiscal year ended March 31, 2010, the accrued amounts in respect to the above mentioned WEEE are not significant.

Sony Corporation and certain of its subsidiaries are defendants or otherwise involved in pending legal and regulatory proceedings. However, based upon the information currently available to Sony and its legal counsel, the management of Sony believes that the outcome from such legal and regulatory proceedings would not have a material effect on Sony's consolidated financial statements.

The changes in product warranty liability for the fiscal years ended March 31, 2008, 2009 and 2010 are as follows:

|   | <b>Yen in millions</b>            |             |             |
|---|-----------------------------------|-------------|-------------|
|   | <b>Fiscal Year Ended March 31</b> |             |             |
|   | <b>2008</b>                       | <b>2009</b> | <b>2010</b> |
| Balance at beginning of the fiscal year               | 55,304                            | 59,748      | 57,922      |
| Additional liabilities for warranties                 | 66,723                            | 60,845      | 46,686      |
| Settlements (in cash or in kind)                      | (58,365)                          | (54,498)    | (45,218)    |
| Changes in estimate for pre-existing warranty reserve | (63)                              | (2,042)     | (7,649)     |
| Translation adjustment                                | (3,851)                           | (6,131)     | (885)       |
| Balance at end of the fiscal year                     | 59,748                            | 57,922      | 50,856      |

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**Table of Contents****SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES****27. *Business segment information***

The reportable segments presented below are the segments of Sony for which separate financial information is available and for which operating profit or loss amounts are evaluated regularly by the chief operating decision maker ( CODM ) in deciding how to allocate resources and in assessing performance. Sony 's CODM is its Chairman, Chief Executive Officer and President. The CODM does not evaluate segments using discrete asset information.

Sony realigned its reportable segments effective from the first quarter of the fiscal year ended March 31, 2010 to reflect Sony 's reorganization as of April 1, 2009, primarily repositioning operations previously reported within the Electronics and Game segments and establishing the Consumer Products & Devices, Networked Products & Services and B2B & Disc Manufacturing segments. Additionally, Music is a new segment effective from the first quarter of the fiscal year ended March 31, 2010. In connection with the realignment, all prior period amounts in the segment disclosures have been restated to conform to the current presentation.

The Consumer Products & Devices segment includes products such as televisions, digital imaging, audio and video, semiconductors and components. The equity results of S-LCD are also included within the Consumer Products & Devices segment. The Networked Products & Services segment includes Game as well as PC and Other Networked Businesses. The B2B & Disc Manufacturing segment is comprised of the B2B business, including broadcast and professional-use products, as well as the Blu-ray Disc<sup>™</sup>, DVD and CD disc manufacturing business. The Pictures segment develops, produces and manufactures image-based software, including motion picture, home entertainment and television products mainly in the U.S., and markets, distributes and broadcasts in the worldwide market. The Music segment includes SME, SMEJ and a 50% owned U.S. based joint-venture in the music publishing business, Sony/ATV Music Publishing LLC. For the fiscal years ended March 31, 2008 and 2009, the Music segment 's operating income includes the equity results for SONY BMG through September 30, 2008. The Financial Services segment primarily represents individual life insurance and non-life insurance businesses in the Japanese market, leasing and credit financing businesses and a bank business in Japan. The equity earnings from Sony Ericsson are presented as a separate segment and were previously included in the Electronics segment. All Other consists of various operating activities, including a mobile phone OEM business in Japan and So-net, an Internet-related service business subsidiary operating mainly in Japan. Sony 's products and services are generally unique to a single operating segment.

**Table of Contents****SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**

Sales and operating revenue:

|                               | <b>Yen in millions</b>            |             |             |
|-------------------------------|-----------------------------------|-------------|-------------|
|                               | <b>Fiscal Year Ended March 31</b> |             |             |
|                               | <b>2008</b>                       | <b>2009</b> | <b>2010</b> |
| Sales and operating revenue:  |                                   |             |             |
| Consumer Products & Devices   |                                   |             |             |
| Customers                     | 4,238,547                         | 3,597,233   | 2,921,403   |
| Intersegment                  | 675,406                           | 434,250     | 306,309     |
| Total                         | 4,913,953                         | 4,031,483   | 3,227,712   |
| Networked Products & Services |                                   |             |             |
| Customers                     | 2,042,560                         | 1,684,758   | 1,511,615   |
| Intersegment                  | 78,132                            | 70,885      | 64,232      |
| Total                         | 2,120,692                         | 1,755,643   | 1,575,847   |
| B2B & Disc Manufacturing      |                                   |             |             |
| Customers                     | 536,945                           | 464,321     | 404,114     |
| Intersegment                  | 77,994                            | 95,672      | 100,119     |
| Total                         | 614,939                           | 559,993     | 504,233     |
| Pictures                      |                                   |             |             |
| Customers                     | 855,482                           | 717,513     | 705,237     |
| Intersegment                  | 2,452                             |             |             |
| Total                         | 857,934                           | 717,513     | 705,237     |
| Music                         |                                   |             |             |
| Customers                     | 204,818                           | 363,074     | 511,097     |
| Intersegment                  | 23,849                            | 23,979      | 11,519      |
| Total                         | 228,667                           | 387,053     | 522,616     |
| Financial Services            |                                   |             |             |
| Customers                     | 553,216                           | 523,307     | 838,300     |
| Intersegment                  | 27,905                            | 14,899      | 13,096      |
| Total                         | 581,121                           | 538,206     | 851,396     |
| All Other                     |                                   |             |             |
| Customers                     | 359,468                           | 318,422     | 261,851     |
| Intersegment                  |                                   |             |             |
| Total                         | 359,468                           | 318,422     | 261,851     |
| Corporate and elimination     | (805,360)                         | (578,320)   | (434,894)   |
| Consolidated total            | 8,871,414                         | 7,729,993   | 7,213,998   |

Consumer Products & Devices intersegment amounts primarily consist of transactions with the Networked Products & Services segment.

Networked Products & Services intersegment amounts primarily consist of transactions with the Consumer Products & Devices segment.

B2B & Disc Manufacturing intersegment amounts primarily consist of transactions with the Networked Products & Services, Pictures and Music segments.

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**Table of Contents****SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**

Corporate and elimination includes certain royalty income of brand and patent.

Segment profit or loss:

|  | <b>Yen in millions</b>            |                  |               |
|--|-----------------------------------|------------------|---------------|
|  | <b>Fiscal Year Ended March 31</b> |                  |               |
|  | <b>2008</b>                       | <b>2009</b>      | <b>2010</b>   |
| Operating income (loss):                       |                                   |                  |               |
| Consumer Products & Devices                    | 230,098                           | (115,078)        | (46,475)      |
| Networked Products & Services                  | (77,620)                          | (87,428)         | (83,077)      |
| B2B & Disc Manufacturing                       | 64,540                            | 6,480            | (7,216)       |
| Pictures                                       | 58,524                            | 29,916           | 42,814        |
| Music  | 35,063                            | 27,843           | 36,513        |
| Financial Services                             | 22,633                            | (31,157)         | 162,492       |
| Equity in net income (loss) of Sony Ericsson   | 79,481                            | (30,255)         | (34,514)      |
| All Other                                      | 10,312                            | (4,241)          | (4,807)       |
| <b>Total</b>                                   | <b>423,031</b>                    | <b>(203,920)</b> | <b>65,730</b> |
| Corporate and elimination                      | 52,268                            | (23,863)         | (33,958)      |
| Consolidated operating income (loss)           | 475,299                           | (227,783)        | 31,772        |
| Other income                                   | 149,447                           | 98,825           | 43,834        |
| Other expenses                                 | (57,612)                          | (45,997)         | (48,694)      |
| Consolidated income (loss) before income taxes | 567,134                           | (174,955)        | 26,912        |

Operating income (loss) is Sales and operating revenue less Costs and expenses, and includes Equity in net income (loss) of affiliated companies.

Corporate and elimination includes certain restructuring costs and other corporate expenses, which are attributable principally to headquarters and are not allocated to segments. During the fiscal year ended March 31, 2008, Sony sold portions of the site of its former headquarters and recorded gains of 60,683 million yen in Corporate.

As a result of a modification of internal management reporting during the fiscal year ended March 31, 2010, certain amounts previously included within corporate and elimination have been reclassified into the segment operating income (loss) for all periods presented. The revision had no impact on the consolidated results.

**Table of Contents****SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**

Other significant items:

|  | <b>Yen in millions</b>            |             |             |
|--|-----------------------------------|-------------|-------------|
|  | <b>Fiscal Year Ended March 31</b> |             |             |
|  | <b>2008</b>                       | <b>2009</b> | <b>2010</b> |
| Equity in net income (loss) of affiliated companies:               |                                   |             |             |
| Consumer Products & Devices  | 9,212                             | 6,909       | 390         |
| Networked Products & Services                                      | (41)                              |             |             |
| B2B & Disc Manufacturing   | (2,825)                           | (2,998)     | (883)       |
| Pictures   | 4,513                             | 7,991       | 4,347       |
| Music  | 10,184                            | (6,029)     | (80)        |
| Financial Services   |                                   | (1,796)     | (1,345)     |
| Sony Ericsson  | 79,481                            | (30,255)    | (34,514)    |
| All Other  | 293                               | 1,069       | 1,850       |
| Consolidated total   | 100,817                           | (25,109)    | (30,235)    |
| Depreciation and amortization:                                     |                                   |             |             |
| Consumer Products & Devices  | 260,504                           | 230,177     | 198,354     |
| Networked Products & Services                                      | 20,455                            | 21,651      | 23,662      |
| B2B & Disc Manufacturing   | 34,877                            | 37,555      | 39,250      |
| Pictures   | 8,633                             | 7,904       | 8,427       |
| Music  | 6,841                             | 9,756       | 13,427      |
| Financial Services, including deferred insurance acquisition costs | 65,268                            | 67,714      | 56,531      |
| All Other  | 4,667                             | 3,182       | 3,016       |
| Total  | 401,245                           | 377,939     | 342,667     |
| Corporate  | 26,765                            | 27,504      | 28,337      |
| Consolidated total   | 428,010                           | 405,443     | 371,004     |

The following table includes a breakdown of sales and operating revenue to external customers by product category in the Consumer Products & Devices and Networked Products & Services segments. The Consumer Products & Devices and Networked Products & Services segments are each managed as a single operating segment by Sony's management.

|                             | <b>Yen in millions</b>            |             |             |
|-----------------------------|-----------------------------------|-------------|-------------|
|                             | <b>Fiscal Year Ended March 31</b> |             |             |
|                             | <b>2008</b>                       | <b>2009</b> | <b>2010</b> |
| Sales and operating revenue |                                   |             |             |
| Consumer Products & Devices |                                   |             |             |
| Televisions                 | 1,357,116                         | 1,275,692   | 1,005,773   |
| Digital Imaging             | 1,113,407                         | 863,837     | 679,225     |

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|                 |           |           |           |
|-----------------|-----------|-----------|-----------|
| Audio and Video | 644,475   | 555,706   | 469,606   |
| Semiconductors  | 321,032   | 267,167   | 277,885   |
| Components      | 788,004   | 623,931   | 479,145   |
| Other           | 14,513    | 10,900    | 9,769     |
| Total           | 4,238,547 | 3,597,233 | 2,921,403 |

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**Table of Contents****SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**

|                                   | <b>Yen in millions</b>            |                  |                  |
|-----------------------------------|-----------------------------------|------------------|------------------|
|                                   | <b>Fiscal Year Ended March 31</b> |                  |                  |
|                                   | <b>2008</b>                       | <b>2009</b>      | <b>2010</b>      |
| Networked Products & Services     |                                   |                  |                  |
| Game                              | 1,219,004                         | 984,855          | 840,711          |
| PC and Other Networked Businesses | 823,556                           | 699,903          | 670,904          |
| <b>Total</b>                      | <b>2,042,560</b>                  | <b>1,684,758</b> | <b>1,511,615</b> |
| B2B & Disc Manufacturing          | 536,945                           | 464,321          | 404,114          |
| Pictures                          | 855,482                           | 717,513          | 705,237          |
| Music                             | 204,818                           | 363,074          | 511,097          |
| Financial Services                | 553,216                           | 523,307          | 838,300          |
| All Other                         | 359,468                           | 318,422          | 261,851          |
| Corporate                         | 80,378                            | 61,365           | 60,381           |
| <b>Consolidated total</b>         | <b>8,871,414</b>                  | <b>7,729,993</b> | <b>7,213,998</b> |

## Geographic information:

Sales and operating revenue to external customers which are attributed to countries based on location of customers for the fiscal years ended March 31, 2008, 2009 and 2010 and long-lived assets as of March 31, 2009 and 2010 are as follows:

|                             | <b>Yen in millions</b>            |                  |                  |
|-----------------------------|-----------------------------------|------------------|------------------|
|                             | <b>Fiscal Year Ended March 31</b> |                  |                  |
|                             | <b>2008</b>                       | <b>2009</b>      | <b>2010</b>      |
| Sales and operating revenue |                                   |                  |                  |
| Japan                       | 2,056,374                         | 1,873,219        | 2,099,297        |
| U.S.A.                      | 2,221,862                         | 1,827,812        | 1,595,016        |
| Europe                      | 2,328,233                         | 1,987,692        | 1,644,698        |
| Other                       | 2,264,945                         | 2,041,270        | 1,874,987        |
| <b>Total</b>                | <b>8,871,414</b>                  | <b>7,729,993</b> | <b>7,213,998</b> |

|                    | <b>Yen in millions</b> |             |
|--------------------|------------------------|-------------|
|                    | <b>March 31</b>        |             |
|                    | <b>2009</b>            | <b>2010</b> |
| Long-lived assets: |                        |             |
| Japan              | 1,376,271              | 1,254,663   |

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|        |           |           |
|--------|-----------|-----------|
| U.S.A. | 797,300   | 750,436   |
| Europe | 211,149   | 194,717   |
| Other  | 194,500   | 171,905   |
| Total  | 2,579,220 | 2,371,721 |

There are not any individually material countries with respect to the sales and operating revenue and long-lived assets included in Europe and Other areas.

Transfers between reportable business segments or geographic areas are made at amounts which Sony's management believes approximate arms-length transactions.

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There were no sales and operating revenue with any single major external customer for the fiscal years ended March 31, 2008, 2009 and 2010.

**28. Supplemental geographic information**

The following information shows sales and operating revenue and operating income (loss) by geographic origin for the fiscal years ended March 31, 2008, 2009 and 2010. In addition to the business segment information disclosed in Note 27, Sony discloses this supplemental information in accordance with disclosure requirements of the Financial Instruments and Exchange Act of Japan, to which Sony Corporation, as a Japanese public company, is subject.

As a result of a modification of internal management reporting during the fiscal year ended March 31, 2010, certain amounts previously included within corporate and elimination have been reclassified into the segment operating income (loss) for all periods presented. The revision had no impact on the consolidated results.

|                              | <b>Yen in millions</b>            |             |             |
|------------------------------|-----------------------------------|-------------|-------------|
|                              | <b>Fiscal Year Ended March 31</b> |             |             |
|                              | <b>2008</b>                       | <b>2009</b> | <b>2010</b> |
| Sales and operating revenue: |                                   |             |             |
| Japan                        |                                   |             |             |
| Customers                    | 2,085,138                         | 1,888,986   | 2,074,556   |
| Intersegment                 | 4,692,149                         | 3,867,328   | 2,961,652   |
| Total                        | 6,777,287                         | 5,756,314   | 5,036,208   |
| U.S.A.                       |                                   |             |             |
| Customers                    | 2,528,435                         | 2,127,929   | 1,932,880   |
| Intersegment                 | 381,222                           | 332,784     | 324,005     |
| Total                        | 2,909,657                         | 2,460,713   | 2,256,885   |
| Europe                       |                                   |             |             |
| Customers                    | 2,168,025                         | 1,842,662   | 1,502,293   |
| Intersegment                 | 70,511                            | 67,570      | 94,597      |
| Total                        | 2,238,536                         | 1,910,232   | 1,596,890   |
| Other                        |                                   |             |             |
| Customers                    | 2,009,438                         | 1,809,051   | 1,643,888   |
| Intersegment                 | 1,962,997                         | 1,727,945   | 1,562,695   |
| Total                        | 3,972,435                         | 3,536,996   | 3,206,583   |
| Corporate and elimination    | (7,026,501)                       | (5,934,262) | (4,882,568) |
| Consolidated total           | 8,871,414                         | 7,729,993   | 7,213,998   |
| Operating income (loss):     |                                   |             |             |
| Japan                        | 279,752                           | (57,576)    | 64,908      |
| U.S.A.                       | (40,257)                          | (109,531)   | (39,794)    |

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|                           |         |           |          |
|---------------------------|---------|-----------|----------|
| Europe                    | 57,126  | (88,121)  | (79,482) |
| Other                     | 120,095 | 49,902    | 121,497  |
| Corporate and elimination | 58,583  | (22,457)  | (35,357) |
| Consolidated total        | 475,299 | (227,783) | 31,772   |

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## Schedule Of Valuation And Qualifying Accounts Disclosure

**SCHEDULE II****VALUATION AND QUALIFYING ACCOUNTS****SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**

|   | Yen in millions                      |  |                        |                   |                                |
|---|--------------------------------------|--|------------------------|-------------------|--------------------------------|
|   | Balance<br>at beginning<br>of period | Additions<br>charged to<br>costs and<br>expenses | Deductions<br>(Note 1) | Other<br>(Note 2) | Balance<br>at end<br>of period |
| Fiscal Year Ended March 31, 2008:<br>Allowance for doubtful accounts and<br>sales returns | 120,675                              | 62,954   | (78,755)               | (11,539)          | 93,335                         |
| Fiscal Year Ended March 31, 2009:<br>Allowance for doubtful accounts and<br>sales returns | 93,335                               | 80,064   | (55,291)               | (7,725)           | 110,383                        |
| Fiscal Year Ended March 31, 2010:<br>Allowance for doubtful accounts and<br>sales returns | 110,383                              | 59,987   | (61,577)               | (4,318)           | 104,475                        |

**Notes:**

1. Amounts written off.
2. Translation adjustment.

|   | Balance<br>at beginning<br>of period | Additions | Deductions | Other<br>(Note 1) | Balance<br>at end<br>of period |
|---|--------------------------------------|-----------|------------|-------------------|--------------------------------|
| Fiscal Year Ended March 31, 2008:<br>Valuation allowance - Deferred tax<br>assets | 153,824                              | 14,657    | (69,042)   | (3,432)           | 96,007                         |
| Fiscal Year Ended March 31, 2009:<br>Valuation allowance - Deferred tax<br>assets | 96,007                               | 40,594    | (11,846)   | (7,551)           | 117,204                        |
| Fiscal Year Ended March 31, 2010:   |                                      |           |            |                   |                                |

|   |         |        |          |         |         |
|---|---------|--------|----------|---------|---------|
| Valuation allowance - Deferred tax assets | 117,204 | 42,913 | (40,210) | (2,421) | 117,486 |
|---|---------|--------|----------|---------|---------|

**Note:**

1. Translation adjustment.

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**SONY ERICSSON MOBILE COMMUNICATIONS**

Consolidated Financial Statements of Sony Ericsson Mobile Communications AB

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**SONY ERICSSON MOBILE COMMUNICATIONS**

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**Table of Contents****SONY ERICSSON MOBILE COMMUNICATIONS****Consolidated Income Statement  
January 1 - December 31, TEUR**

|                                     | <b>Notes</b>                     | <b>2009</b>        | <b>2008</b>      | <b>2007</b>      |
|-------------------------------------|----------------------------------|--------------------|------------------|------------------|
| Net sales                           |                                  | 6,788,152          | 11,243,840       | 12,915,573       |
| Cost of sales                       |                                  | (5,781,797)        | (8,749,816)      | (8,957,500)      |
| <b>GROSS PROFIT</b>                 |                                  | <b>1,006,355</b>   | <b>2,494,024</b> | <b>3,958,073</b> |
| Selling expenses                    |                                  | (608,447)          | (894,808)        | (914,257)        |
| General and Administration expenses | C24                              | (355,603)          | (354,139)        | (345,300)        |
| Research and Development expenses   |                                  | (1,107,689)        | (1,379,031)      | (1,172,566)      |
| Other operating revenues            | C3                               | 48,053             | 44,074           | 33,655           |
| Other operating expenses            | C3                               | (523)              | (548)            | (631)            |
| Share in earnings of joint venture  | C7                               |                    | (22,649)         | (15,398)         |
| <b>OPERATING INCOME</b>             | <b>C5,C6,C15,C16,C22,C23,C26</b> | <b>(1,017,854)</b> | <b>(113,077)</b> | <b>1,543,576</b> |
| Interest income                     |                                  | 21,324             | 101,494          | 62,210           |
| Interest expense                    |                                  | (46,146)           | (71,162)         | (31,861)         |
| <b>NET INCOME BEFORE TAXES</b>      |                                  | <b>(1,042,676)</b> | <b>(82,745)</b>  | <b>1,573,925</b> |
| Income taxes for the year           | C4                               | 235,569            | 31,138           | (423,483)        |
| Minority interest                   |                                  | (28,720)           | (21,283)         | (36,250)         |
| <b>NET INCOME</b>                   |                                  | <b>(835,827)</b>   | <b>(72,890)</b>  | <b>1,114,192</b> |

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**Table of Contents****SONY ERICSSON MOBILE COMMUNICATIONS****Consolidated Balance Sheet  
December 31, TEUR**

|  | Notes | 2009      | 2008      |
|--|-------|-----------|-----------|
| <i>ASSETS</i>                              |       |           |           |
| <b>Fixed assets</b>                        |       |           |           |
| Intangible assets                          | C5    | 16,607    | 31,379    |
| Tangible assets                            | C6    | 149,675   | 209,147   |
| <b>Financial assets</b>                    |       |           |           |
| Equity in joint venture                    | C7    |           |           |
| Securities held as fixed assets            | C7    |           |           |
| Other non-current assets                   | C8    | 610,821   | 348,608   |
| Total fixed and financial assets           |       | 777,103   | 589,134   |
| <b>Current assets</b>                      |       |           |           |
| Inventories                                | C9    | 358,141   | 530,664   |
| Accounts receivable                        | C10   | 832,073   | 1,629,435 |
| Other current assets                       | C11   | 379,676   | 584,938   |
| Other short-term cash investments          | C12   | 524,235   | 707,031   |
| Cash and bank                              |       | 388,884   | 417,846   |
| Total current assets                       |       | 2,483,009 | 3,869,914 |
| <b>Total assets</b>                        |       | 3,260,112 | 4,459,048 |
| <i>SHAREHOLDERS EQUITY AND LIABILITIES</i> |       |           |           |
| <b>Shareholders equity</b>                 |       |           |           |
| Restricted equity                          | C13   |           |           |
| Share capital                              |       | 100,000   | 100,000   |
| Restricted reserves                        |       | 442,576   | 445,361   |
| Total restricted equity                    |       | 542,576   | 545,361   |
| <b>Unrestricted equity</b>                 |       |           |           |
| Non-restricted reserves                    |       | 674,291   | 744,477   |
| Net income for the year                    |       | (835,827) | (72,890)  |
| Total unrestricted equity                  |       | (161,536) | 671,587   |
| Total equity                               |       | 381,040   | 1,216,948 |
| Minority interest                          |       | 47,364    | 57,435    |
| Provisions                                 | C14   | 628,113   | 587,601   |
| <i>LIABILITIES</i>                         |       |           |           |
| <b>Long-term liabilities</b>               |       |           |           |
| Post-employment benefits                   | C16   | 24,104    | 25,369    |
| Other long-term liabilities                | C17   | 5,940     | 3,710     |
| Total long-term liabilities                |       | 30,044    | 29,079    |
| <b>Current liabilities</b>                 |       |           |           |
| Liabilities to financial institutions      | C27   | 258,273   | 53,280    |
| Advances from customers                    |       | 2,225     | 2,380     |
| Accounts payable                           |       | 851,913   | 989,517   |
| Income tax liabilities                     |       | 19,103    | 32,270    |
| Other current liabilities                  | C18   | 1,042,037 | 1,490,538 |

|  |     |                  |                  |
|--|-----|------------------|------------------|
| Total current liabilities                        |     | 2,173,551        | 2,567,985        |
| <b>Total shareholders equity and liabilities</b> |     | <b>3,260,112</b> | <b>4,459,048</b> |
| Assets pledged as collateral                     | C19 | 35,264           | 23               |
| Contingent liabilities                           | C20 | 3,229            | 3,711            |

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Table of Contents**SONY ERICSSON MOBILE COMMUNICATIONS****Consolidated Cash Flow  
January 1 - December 31, TEUR**

|  | Notes | 2009             | 2008             | 2007             |
|--|-------|------------------|------------------|------------------|
| <b>OPERATING ACTIVITIES</b>                  |       |                  |                  |                  |
| Net income                                   |       | (835,827)        | (72,890)         | 1,114,192        |
| Depreciation                                 |       | 105,760          | 117,687          | 113,881          |
| Adjustment to reconcile net income to cash   | C21   | (217,828)        | 18,928           | (285,063)        |
|  |       | (947,895)        | 63,725           | 943,010          |
| Change in inventories                        |       | 171,563          | (93,186)         | (15)             |
| Change in accounts receivable                |       | 812,827          | 240,778          | (217,459)        |
| Change in other receivables                  |       | 226,105          | (233,863)        | (54,687)         |
| Change in accounts payable                   |       | (133,490)        | (273,593)        | (13,370)         |
| Change in other liabilities                  |       | (456,846)        | 26,721           | 296,873          |
| <b>Cash flow from operating activities</b>   |       | <b>(327,736)</b> | <b>(269,418)</b> | <b>954,352</b>   |
| <b>INVESTING ACTIVITIES</b>                  |       |                  |                  |                  |
| Investments in intangible assets             |       | (4,247)          | (9,964)          | (20,658)         |
| Sales of intangible assets                   |       | 164              | 2,607            | 982              |
| Investments in tangible assets               |       | (54,379)         | (126,583)        | (144,912)        |
| Sales of tangible assets                     |       | 6,975            | 5,391            | 3,869            |
| Net investments in joint venture             |       |                  | (9,428)          | (28,758)         |
| Sales of other financial assets              |       |                  | 111,532          |                  |
| Change/Amortization in temporary investments |       | (35,000)         |                  |                  |
| <b>Cash flow from investing activities</b>   |       | <b>(86,487)</b>  | <b>(26,445)</b>  | <b>(189,477)</b> |
| <b>FINANCING ACTIVITIES</b>                  |       |                  |                  |                  |
| Borrowing                                    |       | 260,428          | 53,271           |                  |
| Repayment of debt                            |       | (53,919)         |                  |                  |
| Dividend to minority                         |       | (35,603)         | (37,117)         | (14,949)         |
| Dividend paid                                |       |                  | (770,000)        | (848,000)        |
| Cash flow from financing activities          |       | 170,906          | (753,846)        | (862,949)        |
| Net change in cash                           |       | (243,317)        | (1,049,708)      | (98,074)         |
| Cash, beginning of period                    |       | 1,124,877        | 2,155,236        | 2,272,698        |
| Translation difference in Cash               |       | (3,441)          | 19,349           | (19,388)         |
| Cash, end of period                          |       | 878,119          | 1,124,877        | 2,155,236        |

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**SONY ERICSSON MOBILE COMMUNICATIONS**

***C1. Accounting Principles***

The consolidated financial statements of Sony Ericsson Mobile Communications AB are prepared in accordance with accounting principles generally accepted in Sweden, applying the Swedish Annual Accounts Act (ÅRL), the Swedish Accounting Standards Board's recommendations (Bokföringsnämnden, BFN) and the Recommendation of the Swedish Financial Accounting Standards Council, RR 29 Remunerations to employees. The accounting principles are unchanged since last year.

Figures in parentheses in the disclosures refer to 2008.

**Principle of Consolidation**

The consolidated financial statements include the accounts of the Parent Company and all subsidiaries in which the company has a voting majority. The intercompany transactions and internal profit have been eliminated. The consolidated financial statements have been prepared in accordance with the purchase method, whereby consolidated stockholders' equity includes equity earned only after acquisition. Minority interest in net earnings is reported in the consolidated income statement. Minority interest in the equity of subsidiaries is reported as a separate item in the consolidated balance sheet.

**Translation of financial statements in foreign currency**

Sony Ericsson's results are presented in EUR which is the reporting currency and the functional currency of the parent company. The group has sales and cost of sales in a large number of currencies. For all companies, including subsidiary companies, the functional (business) currency is the currency in which the companies primarily generate and expend cash. Their financial statements plus goodwill related to such companies are translated to EUR by translating assets and liabilities at the closing rate on the balance sheet day and income statement items at average exchange rates, during the year, with translation adjustments reported directly in consolidated equity.

**Revenue recognition**

Sales revenue is recorded upon the delivery of products according to contractual terms and represents amounts realized, excluding value-added tax, and is net of goods expected to be returned, trade discounts and allowances. Sales revenue is recognized with reference to all significant contractual terms when the product has been delivered, when the revenue amount is fixed or determinable and when collection is reasonably assured.

Accruals for sales bonuses and similar items such as quarterly and yearly bonuses, quality bonus, co-op advertising and stock protection are shown as deductions from gross sales to arrive at net sales.

For product and equipment sales, revenue recognition generally does not occur until the products or equipment have been shipped, risk of loss has transferred to the customer, and objective evidence exists that customer acceptance provisions, if any, have been met. The Company records revenue when allowances for discounts, price protection, returns and customer incentives can be reliably estimated. Recorded revenues are reduced by these allowances. The Company bases its estimates on historical experience taking into consideration the type of products sold, the type of customer, and the type of transaction specific in each arrangement.

Costs related to shipping and handling are included in cost of sales in the Consolidated Income Statement.

**Research and development costs**

Research and development costs are charged to expenses as incurred. Expenses related to the third party (including joint venture) development of new platforms for mobile phones are capitalized as other non-current asset and are amortized when the platforms are put into commercial use. Such costs are capitalized as intangible assets when technological feasibility has been established and when future economic benefits can be demonstrated.

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**SONY ERICSSON MOBILE COMMUNICATIONS**

**Hedge accounting**

The Group applies hedge accounting, by electing the fair value option in accordance with the Swedish Annual Accounts Act 4:14, for financial instruments intended to hedge foreign currency exposures having a future impact on results.

At the point in time at which the contract is established, the relationship between the hedging instrument and the hedged item is documented, as well as the purpose of this risk management and the strategy for taking various hedging measures. The company also documents its assessment, both when the contract is entered into and on an ongoing basis, as to whether the derivative used in the hedging transaction is effective in counteracting changes in fair value or income statement effects, in terms of the hedged items in question.

The hedging is designed in such a manner as to ensure, to the greatest degree possible, its effectiveness. The changes in fair value for those derivative instruments which do not meet the conditions for hedge accounting are reported directly in the income statement.

Future foreign currency exposures are hedged primarily by forward cover agreements but also via currency options. The effective portion of changes in the fair value of hedging instruments is recognized in equity. Any gain or loss relating to the ineffective portion is recognized in the income statement. Amounts accumulated in equity are recycled in the income statement in the periods in which the hedged item affects profit or loss, for example, when the forecasted sale which is hedged takes place.

**Intangible and tangible fixed assets**

Intangible and tangible fixed assets are stated at cost less accumulated depreciation and impairment losses as well as write-ups. Annual depreciation is reported as plan depreciation, generally using the straight line method with estimated useful lives ranging from 3 years up to 10 years for machinery and equipment. Intangible assets are amortized over a period ranging from 3 years up to 5 years or based on the contract's economic reality. Land improvements are amortized in 20 years. The costs of computer software developed or obtained for internal use are capitalized as intangible assets when technological feasibility has been established and when future economic benefits can be demonstrated.

**Tooling**

Tooling owned by Sony Ericsson but used in its manufacturing partners operations is capitalized and amortized over its useful life.

**Financial assets**

Financial assets that are intended for long-term holding are accounted at acquisition value and impairment is made if a permanent decrease in the value can be stated. These assets include strategic long-term investments in private companies over which Sony Ericsson does not have the ability to exercise significant influence.

**Joint venture**

Investments in joint ventures, where Sony Ericsson has significant influence, are recognized in the consolidated financial statements in accordance with the equity method. Sony Ericsson's share of income before taxes is reported in

item Share in earnings of joint venture included in Operating income. Taxes are included in item Income taxes for the year .

**Impairment test of assets**

Impairment tests are performed whenever there is an indication of possible impairment. An impairment loss is determined based on the amount by which the carrying value exceeds the fair value of those assets.

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**SONY ERICSSON MOBILE COMMUNICATIONS**

**Leases**

Leases on terms in which Sony Ericsson assumes substantially all the risks and rewards of ownership are classified as finance leases, i.e. the leased object is recognized as a non-current asset and the future obligations for lease payments are recognized as current and non-current liabilities in the Balance Sheet. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset, although the depreciation period would not exceed the lease term.

Other leases are operating leases, and the leased assets under such contracts are not recognized in the balance sheet. Costs under operating leases are recognized in the Income Statement on a straight-line base over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Sony Ericsson has not identified any material financial leases for the reported periods.

**Income tax**

Reported income tax includes tax, which is to be paid or received, regarding the current year, adjustments concerning the previous years' current taxes and changes in deferred taxes.

All income tax liabilities and receivables are valued at their nominal amount according to the tax regulations and are measured at the tax rate that is expected to be applied to the temporary differences when they reverse, based on the tax laws that have been enacted or substantively enacted by the reporting date. An adjustment of deferred tax asset/liability balances due to a change in the tax rate is recognized in the income statement unless it relates to a temporary difference earlier recognized directly in equity, in which case the adjustment is also recognized in equity.

In the case of items reported in the income statement, the related tax effects are also reported in the income statement. The tax effects of items that are accounted for directly against equity are also reported directly against equity.

Deferred tax is calculated according to the balance sheet method on all temporary differences arising between the reported value and the tax value of the assets and liabilities.

**Receivables**

Receivables with maturities greater than 12 months after balance sheet date are reported as non-current assets, and other receivables as current assets. Receivables are reported in the amounts at which they are expected to be received, on the basis of individual assessment.

**Accounts Receivable**

Accounts receivable are reported as current assets in the amounts at which they are expected to be received net of individual bad debt assessment.

**Inventories**

Inventories, which include the cost of materials, labor and overhead, are measured at the lower of cost or net realizable value on a first-in, first-out (FIFO) basis. Risk of obsolescence has been measured by estimating market value based

on future customer demand and customer acceptance of new products.

**Borrowings**

Borrowings are reported initially at fair value, net of transaction costs incurred. If the reported amount differs from the amount to be repaid at maturity date, then the difference is allocated as interest expense or interest income

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**SONY ERICSSON MOBILE COMMUNICATIONS**

over the tenure of the loan. In this manner, the initial amount reported agrees, at maturity date, with the amount to be repaid.

Financial liabilities first cease to be reported when they have been settled on the basis of repayment or when repayment has been waived.

All transactions are reported on settlement date.

**Provisions**

Provisions are made when there are legal or constructive obligations as a result of past events and when it is probable that an outflow of resources will be required to settle the obligations and the amounts can be reliably estimated. However, the actual outflow as a result of the obligation may differ from such estimate.

Warranty provisions include provisions for faulty products based on estimated return rates and costs. The best estimate is based on sales, contractual warranty periods and historical failure data of products sold.

**Post-employment benefits**

The Group has both defined benefit and defined contribution plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions. The contributions are recognized as employee benefit expenses when they are due.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee or former employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The Group is responsible for the fulfillment of the pension obligation.

The schemes are both funded and unfunded.

The liability or receivable recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, unrecognized actuarial gains and losses and unrecognized past service cost.

Independent actuaries using the Projected Unit Credit Method calculate the defined benefit obligations and expenses annually. This method indicates that past-service costs are amortized on a straight-line basis over the vesting period. The present value of the defined benefit obligation is determined by discontinuing the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses, arising from experience adjustments and changes in actuarial assumptions, to the extent these exceed 10% of the pension obligations present value or the fair value of plan assets are charged or credited to income over the employees expected average remaining working lives.

The principle used for defined benefit plans is only effective in the consolidated financial statements. Part of the pension plans in Sweden is secured through an insurance solution with the insurance company Alecta. According to a

statement issued by the Swedish Financial Reporting Board (UFR 3), this constitutes a multi-employer plan. It has not been possible, however, for Sony Ericsson to get sufficient information to account for the plan as a defined benefit plan. The plan has therefore been accounted for as a defined contribution plan.

**Contingent liabilities**

The Group record contingent liabilities when there is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent liabilities are also reported when there is a present obligation

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that arises from past events but is not recognized, because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

**Statement of Cash Flow**

Foreign subsidiaries' transactions are translated at the average exchange rate during the period. Subsidiaries purchased and/or sold, net of cash acquired/sold, are reported as cash flow from investment activities and do not affect reported cash flow from operations. Cash and cash equivalents consist of cash and bank and short-term cash investments with a maturity less than three months. Bank deposits with an initial maturity over three months are not included in cash and cash equivalents. The statement of Cash Flow for 2007, 2008 and 2009 complies with International Accounting Standards (IAS) No. 7.

**Related party transactions**

Transactions and balances related to Sony and Ericsson are classified as external items.

**Disposition of earnings**

Each year the Board of Directors assesses the parent company and the group's results and financial position in order to determine the appropriate disposition of earnings. This disposition, including any payment of dividends, is based on a number of factors including: the latest profit and loss account, the parent company's equity, the parent company's and the group's cash flows, the equity ratio and liquidity of the parent company and the group after the proposed dividend in relation to the industry standards in which the parent company and the group conducts its business, and both the parent company's and the group's ability to fulfill both their short and long-term obligations. The Board of Directors resolved that the accumulated deficit, EUR -270,447,195, whereof Net loss for the year EUR -750,534,044 was carried forward.

***C2. Net sales by market area***

|                              | <b>2009</b>      | <b>2008</b>       | <b>2007</b>       |
|------------------------------|------------------|-------------------|-------------------|
| Europe, Middle East & Africa | 3,744,278        | 5,965,838         | 7,293,316         |
| Americas                     | 849,577          | 2,565,969         | 2,072,408         |
| Asia Pacific                 | 2,194,297        | 2,712,033         | 3,549,849         |
| <b>Total</b>                 | <b>6,788,152</b> | <b>11,243,840</b> | <b>12,915,573</b> |

***C3. Other operating revenues and other operating expenses***

|  | <b>2009</b> | <b>2008</b> | <b>2007</b> |
|--|-------------|-------------|-------------|
| <b>Other operating revenues</b>                  |             |             |             |
| Gains on sales of intangible and tangible assets | 146         | 548         | 3,434       |
| Gains on sales of financial assets               |             | 19,621      |             |

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|  |               |               |               |
|--|---------------|---------------|---------------|
| Commissions, license fees and other operating revenues | 47,907        | 23,905        | 30,221        |
| <b>Total other operating revenues</b>                  | <b>48,053</b> | <b>44,074</b> | <b>33,655</b> |
| <b>Other operating expenses</b>                        |               |               |               |
| Losses on sales of intangible and tangible assets      | (523)         | (548)         | (631)         |
| <b>Total other operating expenses</b>                  | <b>(523)</b>  | <b>(548)</b>  | <b>(631)</b>  |

Gains on sales of financial assets refer to sale of shares in Symbian Software Ltd during 2008.

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The following items are included in income taxes for the year:

|   | <b>2009</b>    | <b>2008</b>   | <b>2007</b>      |
|---|----------------|---------------|------------------|
| Current income taxes for the period   | (32,075)       | (82,275)      | (462,064)        |
| Deferred tax income/(-expense) related to temporary differences and tax loss carry forwards | 267,645        | 113,413       | 38,720           |
| Share of taxes in joint venture   |                |               | (139)            |
| <b>Income taxes for the period</b>  | <b>235,569</b> | <b>31,138</b> | <b>(423,483)</b> |

A reconciliation between actual tax income (-expense) for the year and the theoretical tax income (-expense) that would arise when applying statutory tax rate in Sweden, 26.3 percent (28 percent in 2007, 2008) on income before taxes is shown in the table:

|  | <b>2009</b>    | <b>2008</b>   | <b>2007</b>      |
|--|----------------|---------------|------------------|
| Income before taxes  | (1,042,676)    | (82,745)      | 1,573,925        |
| Tax rate in Sweden, 26.3% (28% in 2007, 2008)                  | 273,653        | 23,169        | (440,771)        |
| Effect of foreign tax rates                                    | (8,938)        | 1,993         | 7,884            |
| Current income taxes related to prior years                    | (7,640)        | 9,321         | (4,942)          |
| Tax effect of expenses that are non deductible for tax purpose | (16,942)       | (21,684)      | (6,011)          |
| Tax effect of income that are non-taxable for tax purpose      | 3,619          | 12,319        | 13,667           |
| Tax effect of changes in tax rates                             | (7,923)        | 162           | 3,112            |
| Change in valuation allowance                                  | (260)          | 5,858         | 3,578            |
| <b>Income taxes for the year</b>                               | <b>235,569</b> | <b>31,138</b> | <b>(423,483)</b> |

**Balance sheet**

Tax effect of temporary differences has resulted in deferred tax assets as follows:

|                     | <b>2009</b> | <b>2008</b> |
|---------------------|-------------|-------------|
| Deferred tax assets | 573,251     | 298,101     |

Deferred tax assets relate to temporary differences due to certain provisions such as warranty and scrap liabilities and tax losses carry forwards. Deferred tax assets are amounts recognized in countries where we expect to be able to

generate corresponding taxable income in the future to benefit from tax reductions.

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**Table of Contents****SONY ERICSSON MOBILE COMMUNICATIONS****C5. Intangible assets**

| <b>2009</b>                              | <b>Licenses, software<br/>trademarks and<br/>similar rights</b> | <b>Patents</b> | <b>Total</b>   |
|--|---|----------------|----------------|
| <b>Accumulated acquisition costs</b>     |   |                |                |
| <i>Opening balance January 1, 2009</i>   | 132,133   | 3,978          | 136,111        |
| Acquisitions                             | 4,247   |                | 4,247          |
| Sales/disposals                          | (3,978)   |                | (3,978)        |
| Translation difference for the year      | (1,423)   |                | (1,423)        |
| <b>Closing balance December 31, 2009</b> | <b>130,979</b>  | <b>3,978</b>   | <b>134,957</b> |
| <b>Accumulated depreciation</b>          |   |                |                |
| <i>Opening balance January 1, 2009</i>   | (101,739)   | (2,993)        | (104,732)      |
| Depreciation                             | (17,619)  | (985)          | (18,604)       |
| Sales/disposals                          | 3,814   |                | 3,814          |
| Translation difference for the year      | 1,172   |                | 1,172          |
| <i>Closing balance December 31, 2009</i> | (114,372)   | (3,978)        | (118,350)      |
| <b>Net carrying value</b>                | <b>16,607</b>   |                | <b>16,607</b>  |

| <b>2008</b>                              | <b>Licenses, software<br/>trademarks and<br/>similar rights</b> | <b>Patents</b> | <b>Total</b>   |
|--|---|----------------|----------------|
| <b>Accumulated acquisition costs</b>     |   |                |                |
| <i>Opening balance January 1, 2008</i>   | 117,843   | 3,978          | 121,821        |
| Acquisitions                             | 9,964   |                | 9,964          |
| Sales/disposals                          | (4,507)   |                | (4,507)        |
| Translation difference for the year      | 8,833   |                | 8,833          |
| <b>Closing balance December 31, 2008</b> | <b>132,133</b>  | <b>3,978</b>   | <b>136,111</b> |
| <b>Accumulated depreciation</b>          |   |                |                |
| <i>Opening balance January 1, 2008</i>   | (73,503)  | (1,667)        | (75,170)       |
| Depreciation                             | (23,655)  | (1,326)        | (24,981)       |
| Sales/disposals                          | 1,900   |                | 1,900          |
| Translation difference for the year      | (6,481)   |                | (6,481)        |
| <i>Closing balance December 31, 2008</i> | (101,739)   | (2,993)        | (104,732)      |
| <b>Net carrying value</b>                | <b>30,394</b>   | <b>985</b>     | <b>31,379</b>  |



**Table of Contents****SONY ERICSSON MOBILE COMMUNICATIONS****C6. Tangible assets**

| <b>2009</b>                              | <b>Land and<br/>buildings</b> | <b>Machinery</b> | <b>Other<br/>equipment</b> | <b>Total</b> |
|--|-------------------------------|------------------|----------------------------|--------------|
| <b>Accumulated acquisition costs</b>     |                               |                  |                            |              |
| <i>Opening balance January 1, 2009</i>   | 55,616                        | 145,550          | 384,764                    | 585,930      |
| Acquisitions                             | 2,780                         | 10,910           | 40,689                     | 54,379       |
| Sales/disposals                          | (3,799)                       | (3,550)          | (18,728)                   | (26,077)     |
| Translation difference for the year      | (686)                         | (3,154)          | (7,094)                    | (10,934)     |
| <i>Closing balance December 31, 2009</i> | 53,911                        | 149,756          | 399,631                    | 603,298      |
| <b>Accumulated depreciation</b>          |                               |                  |                            |              |
| <i>Opening balance January 1</i>         | (11,358)                      | (74,740)         | (284,763)                  | (370,861)    |
| Depreciation                             | (5,057)                       | (23,288)         | (58,811)                   | (87,156)     |
| Sales/disposals                          | 1,905                         | 1,507            | 14,574                     | 17,986       |
| Translation difference for the year      | 220                           | 2,126            | 6,171                      | 8,517        |
| <i>Closing balance December 31, 2009</i> | (14,290)                      | (94,395)         | (322,829)                  | (431,514)    |
| <b>Accumulated revaluations</b>          |                               |                  |                            |              |
| <i>Opening balance January 1, 2009</i>   |                               | (5,177)          | (745)                      | (5,922)      |
| Write down                               | (10,434)                      | (4,005)          | (2,937)                    | (17,376)     |
| Sales/disposal                           |                               | 244              | 565                        | 809          |
| Translation difference for the year      | 295                           | 92               | (7)                        | 380          |
| <i>Closing balance December 31</i>       | (10,139)                      | (8,846)          | (3,124)                    | (22,109)     |
| <b>Net carrying value</b>                | 29,482                        | 46,515           | 73,678                     | 149,675      |
| <b>2008</b>                              | <b>Land and<br/>buildings</b> | <b>Machinery</b> | <b>Other<br/>equipment</b> | <b>Total</b> |
| <b>Accumulated acquisition costs</b>     |                               |                  |                            |              |
| <i>Opening balance January 1, 2008</i>   | 32,473                        | 99,988           | 287,616                    | 420,077      |
| Acquisitions                             | 19,596                        | 38,277           | 68,710                     | 126,583      |
| Sales/disposals                          |                               | (5,802)          | (12,537)                   | (18,339)     |
| Translation difference for the year      | 3,547                         | 13,087           | 40,975                     | 57,609       |
| <i>Closing balance December 31, 2008</i> | 55,616                        | 145,550          | 384,764                    | 585,930      |
| <b>Accumulated depreciation</b>          |                               |                  |                            |              |
| <i>Opening balance January 1, 2008</i>   | (7,156)                       | (50,232)         | (192,694)                  | (250,082)    |
| Depreciation                             | (3,511)                       | (21,822)         | (67,373)                   | (92,706)     |

|   |                 |                 |                  |                  |
|---|-----------------|-----------------|------------------|------------------|
| Sales/disposals                                 |                 | 4,235           | 8,713            | 12,948           |
| Translation difference for the year             | (691)           | (6,921)         | (33,409)         | (41,021)         |
| <b><i>Closing balance December 31, 2008</i></b> | <b>(11,358)</b> | <b>(74,740)</b> | <b>(284,763)</b> | <b>(370,861)</b> |
| <b>Accumulated revaluations</b>                 |                 |                 |                  |                  |
| <b><i>Opening balance January 1</i></b>         |                 | (151)           | (8)              | (159)            |
| Write down                                      |                 | (4,802)         | (695)            | (5,497)          |
| Translation difference for the year             |                 | (224)           | (42)             | (266)            |
| <b><i>Closing balance December 31, 2008</i></b> |                 | <b>(5,177)</b>  | <b>(745)</b>     | <b>(5,922)</b>   |
| <b>Net carrying value</b>                       | <b>44,258</b>   | <b>65,633</b>   | <b>99,256</b>    | <b>209,147</b>   |

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**Table of Contents****SONY ERICSSON MOBILE COMMUNICATIONS****C7. Financial assets**

Capital share in joint venture U.I. Holding B.V.

|  | <b>2009</b> | <b>2008</b> |
|--|-------------|-------------|
| <i>Opening balance January 1</i>             |             | 13,221      |
| Capital injection                            |             | 9,428       |
| Write down of capital share in joint venture |             | (22,649)    |
| <i>Closing balance December 31</i>           |             |             |
| Other financial assets                       |             |             |

|                                  | <b>2009</b> | <b>2008</b> |
|----------------------------------|-------------|-------------|
| <i>Opening balance January 1</i> |             | 91,912      |
| Sales                            |             | (91,912)    |

*Closing balance December 31*

The investment is related to Symbian Software Ltd and has been sold during 2008 with a gain of 19,621 TEUR.

**C8. Other non-current assets**

|                          | <b>2009</b>    | <b>2008</b>    |
|--------------------------|----------------|----------------|
| Deferred tax assets      | 573,251        | 298,101        |
| Other non-current assets | 37,570         | 50,507         |
| <b>Total</b>             | <b>610,821</b> | <b>348,608</b> |

419,546 TEUR (137,478 TEUR in 2008) of the deferred tax assets refers to tax loss carry forwards and has been tested against forecasted earning capacity, which is based on the assumption that there will be a turnaround of the business. There is no time limit for utilizing losses amounting to 402,801 TEUR, whereof 377,467 TEUR is related to Sweden. The main part of other non-current assets is prepaid licenses.

**C9. Inventory**

|  | <b>2009</b> | <b>2008</b> |
|--|-------------|-------------|
| Raw material and manufacturing work in process | 225,457     | 304,768     |

|  |                |                |
|--|----------------|----------------|
| Finished products and goods for resale | 132,684        | 225,896        |
| <b>Inventories, net</b>                | <b>358,141</b> | <b>530,664</b> |

Reported amounts are net of obsolescence reserves by TEUR 35,838 (TEUR 35,631 in 2008).

**C10. Accounts receivable**

|                              | <b>2009</b>    | <b>2008</b>      |
|------------------------------|----------------|------------------|
| Commercial receivables       | 865,572        | 1,647,280        |
| Provision for doubtful debts | (33,499)       | (17,845)         |
| <b>Total</b>                 | <b>832,073</b> | <b>1,629,435</b> |

Provisions for doubtful debts have been estimated based on commercial risk evaluations and existing credit insurance agreements have been considered.



**Table of Contents****SONY ERICSSON MOBILE COMMUNICATIONS****C11. Other current assets**

|                    | <b>2009</b>    | <b>2008</b>    |
|--------------------|----------------|----------------|
| Prepaid expenses   | 52,695         | 77,555         |
| Current tax assets | 55,197         | 34,740         |
| Prepaid tooling    | 16,683         | 37,848         |
| Other receivables  | 255,101        | 434,795        |
| <b>Total</b>       | <b>379,676</b> | <b>584,938</b> |

**C12. Short-term cash investments**

|                | <b>2009</b> | <b>2008</b> |
|----------------|-------------|-------------|
| Net book value | 524,235     | 707,031     |
| Market value   | 524,235     | 707,031     |

Short-term cash investments are held in money-market funds and in bank deposits. A bank deposit of 35 MEUR, used as cash-collateral, is not included in cash equivalents.

**C13. Shareholders equity**

|   | <b>Share capital</b> | <b>Restricted reserves</b> | <b>Non-restricted reserves and net profit/loss for the year</b> | <b>Total shareholders equity</b> |
|---|----------------------|----------------------------|---|----------------------------------|
| <b>Shareholders equity December 31, 2007</b>            | 100,000              | 424,163                    | 1,501,794   | 2,025,957                        |
| Changes in cumulative translation adjustments           |                      | 20,844                     | 5,631   | 26,475                           |
| Fair value reserve                                      |                      |                            | 7,406   | 7,406                            |
| Transfer between non-restricted and restricted reserves |                      | 354                        | (354)   |                                  |
| Net income for the year                                 |                      |                            | (72,890)  | (72,890)                         |
| Dividend  |                      |                            | (770,000)   | (770,000)                        |
| <b>Shareholders equity December 31, 2008</b>            | 100,000              | 445,361                    | 671,587   | 1,216,948                        |
| Changes in cumulative translation adjustments           |                      | (2,821)                    | 1,686   | (1,135)                          |
| Fair value reserve                                      |                      |                            | 1,054   | 1,054                            |
|   |                      | 36                         | (36)  |                                  |

|   |         |         |           |           |
|---|---------|---------|-----------|-----------|
| Transfer between non-restricted and restricted reserves |         |         |           |           |
| Net income for the year                                 |         |         | (835,827) | (835,827) |
| Dividend  |         |         |           |           |
| <b>Shareholder s equity December 31, 2009</b>           | 100,000 | 442,576 | (161,536) | 381,040   |

Share capital consists of 100,000,200 shares at a quota value of EUR 1 per share.

Cumulative translation adjustments have been distributed among unrestricted and restricted stockholder s equity. The fair value reserve is related to the effective portion of changes in the fair value of hedging instruments that is recognized in equity. Amounts accumulated in equity are recycled in the income statement in the periods in which the hedged item affects profit or loss, for example, when the forecasted sale which is hedged takes place. The closing balance for fair value reserve after taxes is TEUR 3,966 and is part of non-restricted reserves.

The transfer between non-restricted and restricted reserves is in accordance with the proposals of the respective companies boards of directors. In evaluating the consolidated financial position, it should be noted that earnings in foreign companies may be subject to taxation when transferred to Sweden and, in some instances, such transfer of earnings may be limited by currency restrictions.

**Table of Contents****SONY ERICSSON MOBILE COMMUNICATIONS****C14. Provisions**

|                        | <b>2009</b>    | <b>2008</b>    |
|------------------------|----------------|----------------|
| Warranty commitments   | 390,090        | 432,385        |
| Restructuring expenses | 176,814        | 133,231        |
| Other provisions       | 61,209         | 21,985         |
| <b>Total</b>           | <b>628,113</b> | <b>587,601</b> |

Warranty commitments include provisions for faulty products based on estimated return rates and costs. The best estimate is based on sales, contractual warranty periods and historical failure data of products sold.

**C15. Restructuring costs**

|                                      | <b>2009</b>      | <b>2008</b>      |
|--------------------------------------|------------------|------------------|
| Cost of sales                        | (39,285)         | (74,986)         |
| Selling expenses                     | (16,198)         | (15,951)         |
| Administration expenses              | (24,890)         | (12,582)         |
| Research and development expenses    | (83,903)         | (62,349)         |
| Results from shares in Joint venture |                  | (8,664)          |
| <b>Total</b>                         | <b>(164,276)</b> | <b>(174,532)</b> |
| where of;                            |                  |                  |
| Write down of assets                 | (26,325)         | (23,575)         |
| Redundance expenses                  | (87,947)         | (60,532)         |
| Rental agreements                    | (16,933)         | (15,998)         |
| Other                                | (33,071)         | (74,427)         |
| <b>Total</b>                         | <b>(164,276)</b> | <b>(174,532)</b> |

The restructuring costs are related to cost saving programmes announced and launched during 2008 and 2009.

**C16. Post-employment benefits**

Sony Ericsson participates in local pension plans in countries in which we operate. There are principally two types of pension plans:

Defined contribution plans, where the Company's only obligation is to pay fixed pension premiums into a separate entity (a fund or insurance company) on behalf of the employee. No provision for pensions is recognized in the balance sheet other than accruals for premium pensions earned, but not yet paid.

Defined benefit plans, where the Company's undertaking is to provide pension benefits that the employees will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

In Sony Ericsson most of the companies have defined contribution plans and therefore no pension provisions on the balance sheet. The subsidiaries in Japan, Netherlands, Germany and Mexico have defined benefit plans. In Sweden, the total pension benefits are accounted as defined contribution plans, even though the Financial Accounting Standards Council's interpretations committee defined the ITP pension plan, financed through insurance with Alecta as a defined benefit plan. Sony Ericsson did not have access to information from Alecta that would have made it possible for this plan to be reported as a benefit plan.

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**Table of Contents****SONY ERICSSON MOBILE COMMUNICATIONS**

## Pension costs

| <b>2009</b>                            | <b>Sweden</b> | <b>Netherlands</b> | <b>Japan</b> | <b>Other</b> | <b>Total</b> |
|--|---------------|--------------------|--------------|--------------|--------------|
| Pension cost Defined Benefit Plan      |               | 337                | 6,473        | 564          | 7,374        |
| Pension cost Defined Contribution Plan | 28,562        |                    |              | 9,052        | 37,614       |
| <b>Total</b>                           | 28,562        | 337                | 6,473        | 9,616        | 44,988       |

| <b>2008</b>                            | <b>Sweden</b> | <b>Netherlands</b> | <b>Japan</b> | <b>Other</b> | <b>Total</b> |
|--|---------------|--------------------|--------------|--------------|--------------|
| Pension cost Defined Benefit Plan      |               | 1,049              | 4,921        | 1,000        | 6,970        |
| Pension cost Defined Contribution Plan | 36,810        |                    | 496          | 7,762        | 45,068       |
| <b>Total</b>                           | 36,810        | 1,049              | 5,417        | 8,762        | 52,038       |

## Provisions for post-employment benefits

| <b>2009</b>                          | <b>Sweden</b> | <b>Netherlands</b> | <b>Japan</b> | <b>Other</b> | <b>Total</b> |
|--------------------------------------|---------------|--------------------|--------------|--------------|--------------|
| Provision for post employee benefits |               | 5,243              | 14,639       | 3,359        | 23,241       |
| Other employee benefits              |               |                    |              | 863          | 863          |
| <b>Total</b>                         |               | 5,243              | 14,639       | 4,222        | 24,104       |

| <b>2008</b>                          | <b>Sweden</b> | <b>Netherlands</b> | <b>Japan</b> | <b>Other</b> | <b>Total</b> |
|--------------------------------------|---------------|--------------------|--------------|--------------|--------------|
| Provision for post employee benefits |               | 5,842              | 15,705       | 2,839        | 24,386       |
| Other employee benefits              |               |                    |              | 983          | 983          |
| <b>Total</b>                         |               | 5,842              | 15,705       | 3,822        | 25,369       |

**C17. Long-term liabilities**

Maturity date for the group long-term liabilities, 5,940 TEUR (3,710 TEUR in 2008), are within 1-5 years.

**C18. Other current liabilities**

|                                    | <b>2009</b> | <b>2008</b> |
|------------------------------------|-------------|-------------|
| Accrued personnel related expenses | 114,274     | 118,717     |
| Accrued sales related expenses     | 590,308     | 875,179     |

|                              |                  |                  |
|------------------------------|------------------|------------------|
| Other accrued expenses       | 197,466          | 224,800          |
| Other short-term liabilities | 139,989          | 271,842          |
| <b>Total</b>                 | <b>1,042,037</b> | <b>1,490,538</b> |

Accrued sales related expenses include sales bonuses, such as quarterly and yearly bonuses, quality bonus, co-op and stock protection.

**C19. Assets pledged as collateral**

|  | <b>2009</b>   | <b>2008</b> |
|--|---------------|-------------|
| <b>Liabilities to financial institutions</b> |               |             |
| Bank deposits                                | 35,000        |             |
| Other  | 264           | 23          |
| <b>Total</b>                                 | <b>35,264</b> | <b>23</b>   |

The bank deposit is made in order for a bank guarantee to be issued.

**Table of Contents****SONY ERICSSON MOBILE COMMUNICATIONS****C20. Contingent liabilities**

|                              | <b>2009</b>  | <b>2008</b>  |
|------------------------------|--------------|--------------|
| Guarantee                    |              | 60           |
| Other contingent liabilities | 3,229        | 3,651        |
| <b>Total</b>                 | <b>3,229</b> | <b>3,711</b> |

Other contingent liabilities mainly include guarantees for loans.

**C21. Adjustments to reconcile net income to cash**

|  | <b>2009</b>      | <b>2008</b>   | <b>2007</b>      |
|--|------------------|---------------|------------------|
| Share of taxes in Joint venture                    |                  |               | 139              |
| Deferred tax income                                | (267,645)        | (113,414)     | (38,720)         |
| Minority interest                                  | 28,720           | 21,283        | 36,250           |
| Interest   | 960              | 9             |                  |
| Tax  | (35,737)         | (65,185)      | (330,520)        |
| Change in provisions (note C14 & C16)              | 32,747           | 151,660       | 21,601           |
| Revaluation of share in Joint venture              |                  | 22,649        | 15,398           |
| Write-down on non-current assets                   | 17,376           | 5,497         | 58               |
| Gains and losses on disposal of non-current assets | 376              | (19,621)      | (2,802)          |
| Other  | 5,375            | 16,050        | 13,533           |
| <b>Total</b>                                       | <b>(217,828)</b> | <b>18,928</b> | <b>(285,063)</b> |

**C22. Leasing**

|  | <b>2009</b> | <b>2008</b> | <b>2007</b> |
|--|-------------|-------------|-------------|
| Leasing costs                                  | 72,868      | 63,185      | 43,776      |
| Future payments for operating leases and rents |             |             |             |
| 2010   | 53,153      |             |             |
| 2011   | 46,519      |             |             |
| 2012   | 34,916      |             |             |
| 2013   | 30,981      |             |             |
| 2014   | 28,538      |             |             |
| 2015 and future                                | 44,628      |             |             |

The purpose of leases mainly refers to rents and office equipment.

**C23. Wages, salaries and social security expenses****Wages and salaries**

|                          | <b>2009</b> | <b>2008</b> | <b>2007</b> |
|--------------------------|-------------|-------------|-------------|
| Wages and salaries       | 532,905     | 589,248     | 490,885     |
| Social security expenses | 133,504     | 171,105     | 135,706     |
| Of which pension costs   | 44,988      | 52,038      | 47,418      |
| Of which                 |             |             |             |
| CO compensation          | 1,433       | 908         | 1,364       |
| CO pension costs         | 115         | 46          | 163         |
| bonus & similar to CO    | 42          | 1,020       | 1,755       |

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**Table of Contents****SONY ERICSSON MOBILE COMMUNICATIONS***Severance pay*

For the President and the Corporate Management the following applies:

Severance payments are not payable if an employee resigns voluntarily, or if the employment is terminated as a result of flagrant disregard of responsibilities. An exception to this is if the notice of termination given by the employee is due directly to significant structural changes or other events that affect the content of work or the condition of the position. In such an instance, the notice is treated as if it were given by the Company and severance payments are made to the individual. Upon termination of employment, severance pay amounting to one years' salary is normally paid. The severance payments will be paid out during agreed severance period.

*Pension*

Sony Ericsson's policy regarding pension is to follow the competitive practice in the home country of the executive. There are different supplementary pension plans for the President and the Corporate Management. As major pension arrangements, the total pension base salary consists of the annual base salary and the target pay out according to the short-term incentive plan. The company pays to the capital insurance company on salary portions in excess of 20 base amounts (one base amount = SEK 42,800) a percentage of the executive's total pension based salary, between 25 and 35 percent per year, depending on the age of the executive.

*Long-term incentive*

Sony Ericsson has a long-term incentive program for certain employees. The calculation of the bonuses is based on the performance of the Group and payments for the units allocated are vested in three years. The size of the units is approved by the Remuneration Committee of the Board.

**Wages and salaries by geographical area**

|                                      | <b>2009</b>    | <b>2008</b>    | <b>2007</b>    |
|--------------------------------------|----------------|----------------|----------------|
| Europe * and<br>Middle East & Africa | 307,351        | 365,751        | 302,980        |
| North America                        | 72,922         | 78,582         | 70,194         |
| Latin America                        | 8,319          | 10,060         | 8,027          |
| China                                | 49,632         | 49,362         | 38,232         |
| Japan                                | 76,109         | 66,453         | 58,414         |
| Asia Pacific                         | 18,572         | 19,040         | 13,038         |
| <b>Total</b>                         | <b>532,905</b> | <b>589,248</b> | <b>490,885</b> |
| * Of which Sweden                    | 228,174        | 258,487        | 209,746        |
| * Of which EU excl. Sweden           | 70,571         | 96,166         | 82,996         |

**Table of Contents****SONY ERICSSON MOBILE COMMUNICATIONS***Number of employees*

|                                   | 2009         |              | 2008         |              | 2007         |              |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                   | Men          | Women        | Men          | Women        | Men          | Women        |
| Europe * and Middle East & Africa | 3,067        | 1,234        | 3,319        | 1,395        | 2,914        | 1,148        |
| North America                     | 463          | 130          | 592          | 174          | 581          | 180          |
| Latin America                     | 84           | 50           | 85           | 49           | 61           | 32           |
| China                             | 1,738        | 1,887        | 1,766        | 1,870        | 1,381        | 1,563        |
| Japan                             | 991          | 247          | 997          | 275          | 946          | 253          |
| Asia Pacific                      | 256          | 117          | 256          | 127          | 184          | 86           |
| <b>Total</b>                      | <b>6,599</b> | <b>3,665</b> | <b>7,015</b> | <b>3,890</b> | <b>6,067</b> | <b>3,261</b> |
| * Of which Sweden                 | 2,438        | 930          | 2,573        | 1,030        | 2,256        | 816          |
| * Of which EU excl. Sweden        | 425          | 184          | 654          | 299          | 526          | 225          |

*Distribution of female/male for the Board of Directors and other persons in leading positions*

|  | 2009                  |             | 2008                  |             | 2007                  |             |
|--|-----------------------|-------------|-----------------------|-------------|-----------------------|-------------|
|  | Number on balance day | whereof men | Number on balance day | whereof men | Number on balance day | whereof men |
| Consolidated (including subsidiaries)    |                       |             |                       |             |                       |             |
| Members of the board                     | 95                    | 97.9%       | 94                    | 97.8%       | 97                    | 96.9%       |
| Presidents and Executive Vice presidents | 15                    | 100.0%      | 14                    | 100.0%      | 12                    | 100.0%      |

**C24. Fees to auditors**

|                         | 2009 | 2008         | 2007         |
|-------------------------|------|--------------|--------------|
| PricewaterhouseCoopers  |      |              |              |
| Audit fees              |      | 1,427        | 1,609        |
| Fees for other services |      | 683          | 756          |
| <b>Total</b>            |      | <b>2,111</b> | <b>2,365</b> |
|                         |      |              | <b>2,320</b> |

The amount for audit fees to other than PricewaterhouseCoopers is 117 TEUR (95 TEUR in 2008).

**C25. Financial risks**

*Foreign exchange risk    Transaction exposure*

Sony Ericsson's results are presented in EUR; the company's hedging is based on EUR being the risk free currency. The group has sales and cost of sales in a large number of currencies. The main part of the net exposure is concentrated to the main holding company. The group's currency exposure is hedged up to 8 months. The group's net exposure is to approximately 80% made up of USD, JPY, GBP and SEK. The currency exposure is primarily hedged with forward contracts. The market value of derivatives not being used to revalue balance sheet items by December 31, 2009 was EUR 4.2 millions, all of these derivatives were forward contracts.

*Foreign exchange risk Translation exposure*

All equity in the group's companies is translated in accordance with the current method hence the translation exposure is taken directly to equity in the balance sheet. This type of currency exposure is not hedged.

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**Table of Contents****SONY ERICSSON MOBILE COMMUNICATIONS***Interest rate risk*

Sony Ericsson's interest rate risk is primarily derived from cash and short-term deposits, other balance sheet items are to a very small extent affected by shifts in the interest rate. Cash and short-term deposits amount to EUR 878 million (excluding a bank deposit of EUR 35 million) at year end 2009, with an investment horizon shorter than twelve months. Short-term borrowing amounted to EUR 258 million.

*Credit Risk*

Credit risk is divided into two categories; credit risk in trade receivables and financial credit risk.

*Credit risk in Trade receivables*

The gross value of outstanding trade receivables was at year end EUR 866 million. Provisions for expected losses at year end were EUR 33.5 million. 61% of the trade receivables are towards countries with a country risk in the interval negligible to moderate. Approximately 52% of Sony Ericsson's outstanding AR is insured against non-payment by the customer.

*Financial credit risk*

Financial instruments carry an element of risk in that counterparts may be unable to fulfil their payment obligations. These exposures arise in the investments of cash and cash equivalents and from derivative positions with positive unrealized result against banks and other counterparties. Sony Ericsson mitigates a major part of these risks by investing cash in governmental risk. Part of the liquidity is also deposited with a few chosen banks with the highest possible short-term rating. How much to be invested with each fund and bank is regulated in policy.

*Liquidity risk*

The liquidity risk is that Sony Ericsson is unable to meet its short-term payment obligations due to insufficient or illiquid cash reserves. At year end Sony Ericsson had a net cash position of EUR 620 million invested in liquid funds and short deposits with banks. In addition to cash in the balance sheet, there is an external undrawn committed credit facility of EUR 200 million which expires in 2011 in place as a liquidity reserve.

***C26. Transactions with joint venture***

**Royalty** Sony Ericsson has paid a royalty during 2008 to UIQ Technology AB for the right to use the UIQ Technology AB software in the mobile phones.

**Purchases** Sony Ericsson has bought Support & Maintenance and Professional Service Work during 2008 from UIQ Technology AB.

| <b>Transactions with joint venture</b> | <b>2009</b> | <b>2008</b> |
|--|-------------|-------------|
| Royalty                                |             | 3,172       |
| Purchases                              |             | 1,830       |

**Balances regarding joint venture**

Assets

Liabilities

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***C27. Liabilities to financial institutions***

|                                       | <b>2009</b> | <b>2008</b> |
|---------------------------------------|-------------|-------------|
| Liabilities to financial institutions | 258,273     | 53,280      |

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**Table of Contents****SONY ERICSSON MOBILE COMMUNICATIONS**

In 2009, Sony Ericsson secured external funding of Euro 458 million, of which Euro 258 million is utilised at the balance sheet date. The facilities are including a two-year committed back-up facility of Euro 200 million, which was not utilised as of December 31, 2009. The parent companies guaranteed Euro 350 million of the bank facilities on a 50/50 basis. The utilized facilities had an initial maturity of 12 to 13 months and were drawn in August to October 2009.

As mentioned above, parts of the external funding were raised through support from the parent companies. Raising the funding without support from the parents would not have resulted in conditions that would have had a material impact on the income statement.

During the quarter ended March 31, 2010 external facilities of EUR 100 million and EUR 50 million, with an initial maturity of 24 month and 12 month respectively, were raised and utilized.

**C28. Group companies**

| <b>Company</b>  | <b>Domicile</b> | <b>Percentage of ownership</b> |
|---|-----------------|--------------------------------|
| Sony Ericsson Mobile Communications AB                      | Sweden          |                                |
| Beijing SE Potevio Mobile Communications Company Ltd. (BMC) | China           | 51%                            |
| Beijing Suohong Electronics Co. Ltd., (BSE)                 | China           | 100%                           |
| LLC Sony Ericsson Mobile Communications Rus                 | Russia          | 100%                           |
| Sony Ericsson Hungary Mobile Communications Ltd.            | Hungary         | 100%                           |
| Sony Ericsson Mobile Communications S.A. de C.V.            | Mexico          | 100%                           |
| Sony Ericsson Mobile Communications (China) Co., Ltd.       | China           | 100%                           |
| Sony Ericsson Mobile Communications (India) Private Limited | India           | 100%                           |
| Sony Ericsson Mobile Communications (Thailand) Co., Limited | Thailand        | 100%                           |
| Sony Ericsson Mobile Communications (USA) Inc.              | US              | 100%                           |
| Sony Ericsson Mobile Communications do Brazil Ltd.          | Brasil          | 100%                           |
| Sony Ericsson Mobile Communications Hellas S.A.             | Greece          | 100%                           |
| Sony Ericsson Mobile Communications Iberia, S.L.            | Spain           | 100%                           |
| Sony Ericsson Mobile Communications International AB        | Sweden          | 100%                           |
| Sony Ericsson Mobile Communications Japan Inc.              | Japan           | 100%                           |
| Sony Ericsson Mobile Communications Management Ltd          | UK              | 100%                           |
| Sony Ericsson Mobile Communications Nigeria Limited         | Nigeria         | 100%                           |
| Sony Ericsson Mobile Communications S.p.A., Italy           | Italy           | 100%                           |
| Sony Ericsson Servicios Moviles, S.A. de C.V                | Mexico          | 100%                           |

The subsidiary in France is in the process of dissolution without liquidation and all rights and liabilities of the subsidiary have been transferred to Sony Ericsson Mobile Communications AB at the balance date.

**C29. Reconciliation to accounting principles generally accepted in the United States**

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Sweden for unlisted companies, applying the Swedish Annual Accounts Act (ÅRL), the Swedish Accounting Standards Board's (Bokföringsnämnden, BFN) recommendations and the Recommendation of the Swedish Financial

Accounting Standards Council, (RR29), Remunerations to employees, which differs in certain significant respects from the generally accepted accounting principles in the United States ( US GAAP ). Sony Ericsson Mobile Communications has reconciled its net income / loss and equity under Swedish GAAP to the accounting principles according to generally accepted principles in the United States.

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**SONY ERICSSON MOBILE COMMUNICATIONS**

The principle differences between Swedish GAAP and US GAAP that affect our net income, as well as our stockholders equity relate to the treatment of business combinations (negative goodwill), synthetic option plan and restructuring costs.

*Business combinations Negative Goodwill*

Under both Swedish GAAP and US GAAP, when the fair value of net assets acquired exceeds total purchase price, the Company first assesses whether all acquired assets and assumed liabilities have been properly identified and valued. Under Swedish GAAP, negative goodwill is not subject to amortization and any excess remaining after reassessment is recognized in income statement immediately. During 2004, a negative goodwill amounted to TEUR 3,717 was identified by the Company in connection with the acquisition of Beijing SE Potevio Mobile Communications Co. Ltd (BMC), and it was recognized in income statement by the end of 2004.

Under US GAAP, the Company must first reassess whether all acquired assets and assumed liabilities have been identified and properly valued. If an amount of negative goodwill still results after this reassessment, all acquired assets (including research and development assets) are then subject to pro rata reduction, except for (1) financial assets other than investments accounted for by the equity method, (2) assets to be disposed of by sale, (3) deferred taxes, (4) prepaid assets relating to pension and other postretirement benefit plans, and (5) any other current assets. If all eligible assets are reduced to zero and an amount of negative goodwill still remains, the remaining unallocated negative goodwill must be recognized immediately as an extraordinary gain.

*Provision for social security cost on synthetic option plan*

Under Swedish GAAP, the Company accrues social security costs for the synthetic option plan during the vesting period. Under US GAAP, no social security cost is recorded until the options are exercised or matching of the options takes place, which increases net income by TEUR 228 (TEUR 1,018 in 2008). The synthetic options are all exercised and matched and the remaining difference between Swedish GAAP and US GAAP as of December 31, 2009 is nil.

*Restructuring costs*

Under Swedish GAAP a provision for severance pay is recognized when a constructive obligation to restructure arises which requires that a detailed formal plan has been communicated to those affected by it. The implementation needs to be planned to begin as soon as possible and to be completed in a timeframe that makes significant changes to the plan unlikely. Under US GAAP provisions for severance pay representing a one-time benefit is recognized over the remaining service period when a company has a detailed formal plan which has been communicated to those affected. If an entity under Swedish GAAP has a contract that is onerous, the present obligation under the contract shall be recognized and measured as a provision. Under US GAAP, costs to terminate a contract before the end of its term should be recognized as a liability and measured at fair value when the entity terminates the contract in accordance with the contract terms or when the premises have been vacated. A liability for costs that will continue to be incurred under a contract for its remaining term without economic benefit to the entity should be recognized and measured at its fair value when the entity ceases to use the right conveyed by the contract. Sony Ericsson has identified a difference between US GAAP and Swedish GAAP of TEUR 12,874 (TEUR 15,498 in 2008) related to leasehold property that has not yet been terminated or vacated and thus not qualified as provisions in accordance with US GAAP.

*Post-employment benefits*



To calculate the annual expenses for the defined benefit plans, Sony Ericsson uses the corridor method. The amount recognized in the income statement which is the difference to US GAAP is not material.

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**Table of Contents****SONY ERICSSON MOBILE COMMUNICATIONS***Deferred Income Taxes*

Deferred tax is calculated on US GAAP adjustments and the US GAAP balance sheet reflects the gross recognition of deferred tax assets and liabilities.

*Non-current and current assets*

Swedish GAAP requires deferred tax assets to be classified as non-current assets on the balance sheet. Under US GAAP, deferred tax liabilities and assets are classified as current or non-current based on the classification of the related asset or liability for financial reporting. A deferred tax liability or asset that is not related to an asset or liability for financial reporting, including deferred tax assets related to carry forwards, shall be classified according to the expected reversal date of the temporary difference. The balance sheet shows a difference in non-current and current assets between Swedish GAAP and US GAAP which relates to the classification of deferred tax assets.

*Adjustment of net income, comprehensive income, equity and balance sheet items*

Application of US GAAP as described above would have had the following effects on consolidated net income.

*Adjustment of Net Income*

|  | <b>2009</b>      | <b>2008</b>     | <b>2007</b>      |
|--|------------------|-----------------|------------------|
| Net income per Swedish GAAP                  | (835,827)        | (72,890)        | 1,114,192        |
| <b>US GAAP adjustments before taxes:</b>     |                  |                 |                  |
| Business Combination                         | 763              | 100             | 100              |
| Synthetic Option Plan                        | 228              | 1,018           | (3,623)          |
| Restructuring                                | (2,624)          | 15,498          |                  |
| Tax effect of US GAAP adjustment             | 595              | (4,339)         | 1,002            |
| <b>Net income in accordance with US GAAP</b> | <b>(836,865)</b> | <b>(60,613)</b> | <b>1,111,672</b> |

*Comprehensive income*

|  | <b>2009</b>      | <b>2008</b>     | <b>2007</b>      |
|--|------------------|-----------------|------------------|
| <b>Net income in accordance with US GAAP</b> | <b>(836,865)</b> | <b>(60,613)</b> | <b>1,111,672</b> |
| Other comprehensive income                   |                  |                 |                  |
| Gain/loss on cash flow hedges                | 1,409            | 10,191          | 1,087            |
| Translation adjustment                       | (1,409)          | 30,008          | (21,771)         |
| Deferred tax                                 | (355)            | (2,785)         | (161)            |
| Total other comprehensive income             | (355)            | 37,414          | (20,845)         |

|  |           |          |           |
|--|-----------|----------|-----------|
| <b>Comprehensive income in accordance with US GAAP</b> | (837,220) | (23,199) | 1,090,827 |
|--|-----------|----------|-----------|

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**Table of Contents****SONY ERICSSON MOBILE COMMUNICATIONS***Adjustments of stockholders' equity*

|  | <b>2009</b>    | <b>2008</b>      |
|--|----------------|------------------|
| Equity as reported per Swedish GAAP                    | 381,040        | 1,216,948        |
| <b>US GAAP adjustments before taxes:</b>               |                |                  |
| Business Combination                                   |                | (764)            |
| Synthetic Option Plan                                  |                | (228)            |
| Restructuring  | 12,874         | 15,498           |
| Deferred tax effect of US GAAP adjustment              | (3,292)        | (3,886)          |
| <b>Stockholders' equity in accordance with US GAAP</b> | <b>390,622</b> | <b>1,227,568</b> |
| Minority interest                                      | 47,364         | 57,435           |
| <b>Total equity in accordance with US GAAP</b>         | <b>437,986</b> | <b>1,285,003</b> |

*Balance sheet items according to Swedish GAAP and US GAAP*

|   | <b>Swedish GAAP</b>     |                         | <b>US GAAP</b>          |                         |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
|   | <b>Dec. 31<br/>2009</b> | <b>Dec. 31<br/>2008</b> | <b>Dec. 31<br/>2009</b> | <b>Dec. 31<br/>2008</b> |
| Non-current assets                                | 777,102                 | 589,134                 | 623,398                 | 290,349                 |
| Current assets                                    | 2,483,010               | 3,869,914               | 2,633,422               | 4,164,049               |
| <b>Total Assets</b>                               | <b>3,260,112</b>        | <b>4,459,048</b>        | <b>3,256,820</b>        | <b>4,454,398</b>        |
| Stockholders' equity                              | 381,040                 | 1,216,948               | 390,622                 | 1,227,568               |
| Minority interest                                 | 47,364                  | 57,435                  | 47,364                  | 57,435                  |
| Provisions  | 652,217                 | 612,970                 | 639,343                 | 597,472                 |
| Non-current liabilities                           | 5,940                   | 3,710                   | 5,940                   | 3,710                   |
| Current liabilities                               | 2,173,551               | 2,567,985               | 2,173,551               | 2,568,213               |
| <b>Total stockholders' equity and liabilities</b> | <b>3,260,112</b>        | <b>4,459,048</b>        | <b>3,256,820</b>        | <b>4,454,398</b>        |

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**Report of Independent Auditors**

To the Shareholders of Sony Ericsson Mobile Communications AB

We have audited the accompanying consolidated balance sheets of Sony Ericsson Mobile Communications AB and its subsidiaries as of December 31, 2009 and December 31, 2008 and the related consolidated statements of income and of cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sony Ericsson Mobile Communications AB and its subsidiaries at December 31, 2009 and December 31, 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in Sweden.

Accounting principles generally accepted in Sweden vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note C29 to the consolidated financial statements.

/s/ PricewaterhouseCoopers  
Malmo, Sweden  
June 23, 2010

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