

Management

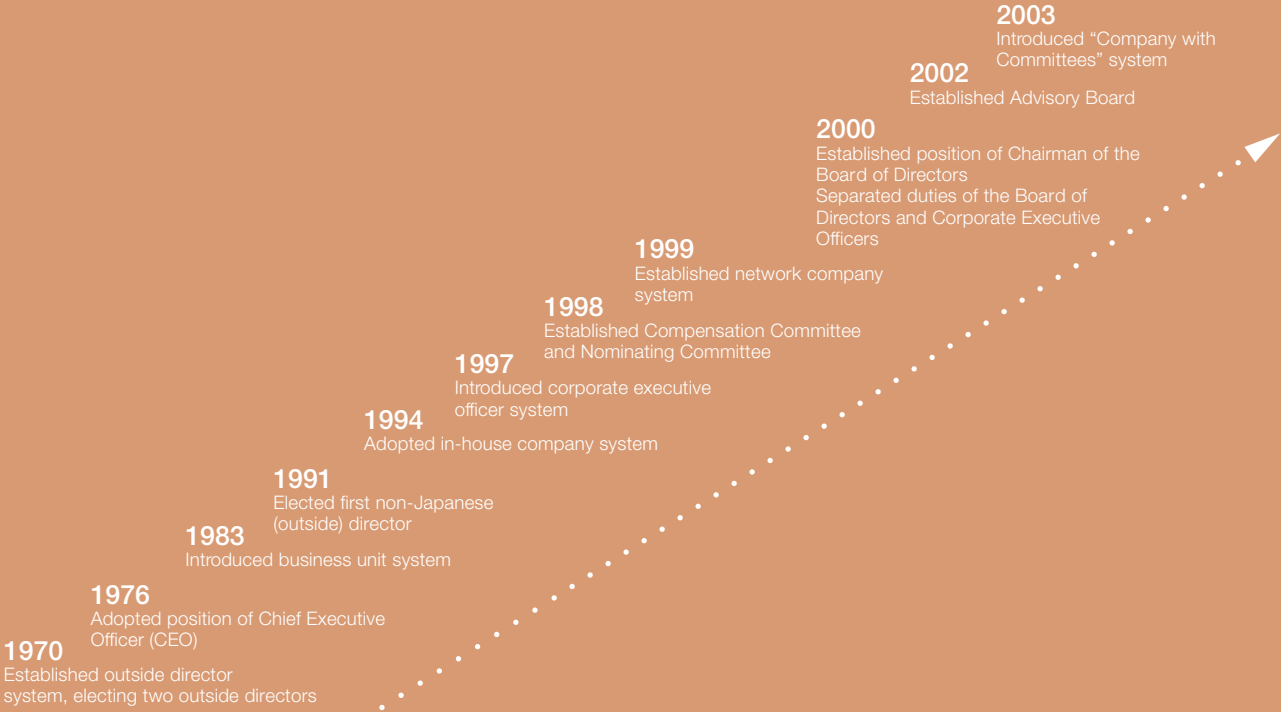
One of Sony’s most important objectives is the establishment of a governance system that allows for sound and transparent management as well as swift and dynamic decision making in a rapidly changing environment.

Sony follows the “Company with Committees” corporate governance system under the Japanese Commercial Code and has implemented measures to strengthen the oversight functions of the Board of Directors, clarify responsibility and delegate authority regarding the execution of business.

Sony has also taken steps to reinforce its commitment to the laws and to solid business ethics. These include establishing a Compliance Office to coordinate global compliance efforts, and formulating and adopting the Sony Group Code of Conduct throughout the company.

Under its new management system, Sony will strive to further enhance corporate governance and compliance in all aspects of Group management.

Sony’s Corporate Governance History



Sony's Commitment to a Culture of Openness, Ethics and Integrity

Nicole Seligman
Corporate Executive Officer,
Executive Vice President and General Counsel



What do you think about the role of corporate governance and Sony's system in particular?

Ideally, corporate governance enables the company to function effectively and efficiently to enhance shareholder value consistent with core business ethics, legal and internal requirements and our responsibility to stakeholders.

Sony adopted the Company with Committees system in fiscal 2003, which separates the management function of the officers from the oversight function of the Board of Directors. I think it is extremely practical and efficient. It enables management to act quickly and effectively within the Board's delegation of authority while keeping the Board informed, and it allows the Board to exercise its oversight function to assure transparency, accountability and appropriate processes.

A good example of the benefit of this system is the recent acquisition of Metro-Goldwyn-Mayer Inc. (MGM) ^(*). In that particular case, since a small group of senior management had the authority to act, the company was able to move very quickly, while the Board was kept advised. If we had not been able to act that way, we would not have been able to close the deal.

How should a company manage in case of an accident or crisis?

First, assure the safety of employees and communities, as health and safety obviously are paramount. Throughout the management of the crisis, openness and honesty are essential. The company cannot lose the confidence of its stakeholders in the way it handles a crisis.

How can a company prevent "corporate scandals" like those we read about?

A commitment to openness, ethics and integrity must be integral to the culture of the company. It has to be in the company's DNA.

If you have a culture of honesty and integrity, then these "scandals" should not be happening. Of course, no senior executive can know everything that is going on in the company. But what they can do is insist that the right processes are in place and that the culture be such that people will feel confident to raise concerns and issues. Sony has long been committed to encouraging a culture that values ethics, integrity and honesty. Our new top management emphasizes that in messages to employees, and it is at the core of the Sony Group Code of Conduct. The processes to achieve this are in place, including the Sony Group Code of Conduct, the internal hotline and other reporting systems, and a crisis management plan. Crisis management plans are important to make sure that the right people are able to address a problem with a commitment to wise and swift action and appropriate and accurate disclosure.

With regard to corporate governance, what do you think about Sony as a company and what issue is currently on your mind?

I joined Sony almost four years ago and have been impressed by the widespread commitment to integrity and to the interests of stakeholders.

I think one thing that we have to continue to work on is making sure that people understand that compliance—along with the policies and processes that accompany a compliance program—must be a part of their day-to-day thinking. It is not just a set of rules that a compliance group tells people to follow—it is a way of thinking that must become part of each of our instincts, the way we do business. And I think people are very receptive to the notion that this is just a basic part of the company culture, and thus part of their responsibility as a company employee, and not something that is imposed on them from the outside.

^{*}1 A consortium including Sony Corporation of America acquired MGM in April 2005. In conjunction with the acquisition, Sony Pictures Entertainment Inc. entered into agreements to co-finance and produce new pictures with MGM and to distribute MGM's existing film and television content.

Corporate Governance

Sony follows the “Company with Committees” corporate governance system under the Japanese Commercial Code, under which the Board of Directors maintains an important oversight role separate from the executive function and delegates broad authority to the Corporate Executive Officers to run the company’s affairs. This separation of functions allows for sound and transparent management as well as swift and dynamic decision making in a rapidly changing environment.

Governance Structure

As statutory decision-making bodies, Sony has established the Board of Directors, three Board committees (the Nominating Committee, Audit Committee and Compensation Committee) and the Corporate Executive Officers. In addition to those statutory bodies, Sony has Corporate Executives who carry out business operations within specific areas. The primary roles of each body are set out below.

Board of Directors

1. Determines the fundamental management policies of the Sony Group
2. Oversees the management of Sony Group’s business operations
3. Determines Directors who comprise the statutory committees
4. Appoints and dismisses Corporate Executive Officers

Statutory Committees

Nominating Committee: Proposes the appointment and dismissal of Directors

Audit Committee: Audits the execution of duties by Directors and Corporate Executive Officers with regard to financial statements, disclosure controls and procedures, internal controls, compliance structure, risk management structure, internal audit structure, whistleblower protections and other matters; proposes appointment/dismissal of, approves the compensation of, oversees and evaluates Sony’s independent auditors.

Compensation Committee: Determines remuneration for individual Directors, Corporate Executive Officers, Corporate Executives and Group Executives.

Corporate Executive Officers

Make decisions regarding the execution of Sony Group business activities within the scope of the authority delegated to them by the Board of Directors.

Corporate Executives

Carry out business operations within specific areas, including business units, research and development and/or head office functions, in accordance with the fundamental policies determined by the Board of Directors and the Corporate Executive Officers.

Sony Initiatives

To strengthen governance beyond Commercial Code requirements, Sony has added several provisions to its Regulations of the Board of Directors to ensure the separation of the Board of Directors from the execution of business activities, and to advance the proper functioning of the statutory committees. The main provisions are as follows:

- Separating the roles of the Board chairman/vice chairman and Representative Corporate Executive Officers
- Limiting the number of terms outside Directors may serve and rotating committee membership
- Appointing chairmen of statutory committees from the ranks of outside Directors
- Instituting qualifications for director candidates aimed at eliminating conflicts of interest and ensuring independence
- Raising the minimum number of Nominating Committee members (five or more), prohibiting the appointment of the CEO or COO of Sony Group (or person at any equivalent position) to the Compensation Committee, and discouraging the concurrent appointment of Audit Committee members to other committees

Meeting Record

During the fiscal year ended March 31, 2005 (fiscal 2004), the Board of Directors convened seven times. The Nominating Committee met seven times, the Audit Committee 15 times and the Compensation Committee seven times.

U.S. Sarbanes–Oxley Act and Governance Related to Disclosure

The United States implemented the Sarbanes–Oxley Act (SOX) in 2002 in response to a string of corporate accounting scandals. SOX applies to Sony because it is an issuer of equity registered with the U.S. Securities and Exchange Commission (SEC).

SOX requires the CEO and the CFO of Sony Group to make certain certifications with respect to the SEC-filed Sony Corporation Form 20-F, relating to the truthfulness of the statements in the report, the fair presentation of the company’s financial condition and results, the company’s maintenance of disclosure controls and procedures to ensure accurate and timely disclosure, and the company’s internal control over financial reporting.

Sony has established a “Disclosure Controls and Procedures” system,

through which material information is reported from important business units and is reviewed and discussed for disclosure in light of its materiality to the Sony Group. An advisory body, the “Disclosure Committee,” which is comprised of officers and senior management of Sony Group who oversee investor relations, accounting, legal, corporate communications, finance, internal auditing and human resources, assists the CEO, the President and the CFO in the establishment and implementation of the system and also in assuring the accuracy of financial reporting.

From the fiscal year ending March 31, 2007, SOX will also require a management report on the company’s internal control over financial reporting to be included in the Form 20-F. Documentation and other preparation is underway throughout the Sony Group to meet this requirement.

New Management Structure

Pursuant to the decision of the Board of Directors convened after the Ordinary General Shareholders Meeting on June 22, 2005, Sir Howard Stringer has been appointed as the Chairman and CEO, Representative Corporate Executive Officer; Dr. Ryoji Chubachi has been appointed as the President and Electronics CEO,

Representative Corporate Executive Officer; and Mr. Katsumi Ihara has been appointed Executive Deputy President and NC President of Home Electronics Network Company, Representative Corporate Executive Officer. The three Representative Corporate Executive Officers lead Sony's new management structure.

Structure of Sony Corporate Governance System		
Supervision		
Board of Directors		
Chairman of the Board: Yotaro Kobayashi* Vice Chairman of the Board: Hirobumi Kawano*		
Sir Howard Stringer	Sony Corporation Chairman and Chief Executive Officer	
Ryoji Chubachi	Sony Corporation President and Electronics CEO	
Katsumi Ihara	Sony Corporation Executive Deputy President and NC President, Home Electronics Network Company	
Akishige Okada*	Chairman of the Board (Representative Director), Sumitomo Mitsui Financial Group, Inc. Chairman of the Board (Representative Director), Sumitomo Mitsui Banking Corporation	
Hirobumi Kawano*	Senior Vice President, JFE Steel Corporation	
Yotaro Kobayashi*	Chairman of the Board, Fuji Xerox Co., Ltd.	
Sakie T. Fukushima*	Representative Director & Regional Managing Director—Japan, Korn/Ferry International Member of the Board, Korn/Ferry International, U.S.A.	
Yoshihiko Miyauchi*	Director, Representative Executive Officer, Chairman and Chief Executive Officer, ORIX Corporation	
Yoshiaki Yamauchi*	Director, Sumitomo Mitsui Financial Group, Inc.	
Sir Peter Bonfield*	Member of the Board, Telefonaktiebolaget LM Ericsson	
Fueo Sumita*	Chief of Sumita Accounting Office	
Göran Lindahl	Sony Corporation	
Nominating Committee	Audit Committee	Compensation Committee
Yotaro Kobayashi* (Chairman) Hirobumi Kawano* Akishige Okada* Sir Howard Stringer Ryoji Chubachi	Yoshiaki Yamauchi* (Chairman) Sakie T. Fukushima* Fueo Sumita*	Akishige Okada* (Chairman) Yoshihiko Miyauchi* Göran Lindahl

*An outside director appointed in accordance with Paragraph 2, Subsection 7, Section 2, Article 188 of the Commercial Code.

Execution	
Corporate Executive Officers	
Representative Corporate Executive Officers:	
Sir Howard Stringer**	Chairman and Chief Executive Officer
Ryoji Chubachi**	President and Electronics CEO
Katsumi Ihara**	Executive Deputy President and NC President, Home Electronics Network Company
Corporate Executive Officers:	
Nobuyuki Oneda	Executive Vice President and Chief Financial Officer
Keiji Kimura	Executive Vice President and Officer in Charge of Technology Strategies NC President, Information Technology & Communications Network Company
Nicole Seligman	Executive Vice President and General Counsel
Yutaka Nakagawa	Executive Vice President and NC President, Personal Audio Visual Network Company

**Concurrently serving as Director.

New Directors and Corporate Executive Officers as of June 22, 2005

Compliance

Ethical business conduct and compliance with applicable laws and regulations are fundamental for a company to fulfill its social responsibilities. To this end, Sony has established a Compliance Office at Headquarters and regional offices around the world, adopted and implemented the Sony Group Code of Conduct, and set up Compliance Hotline systems through its global compliance network, in order to strengthen the Company's worldwide commitment to integrity and help assure available reporting processes.

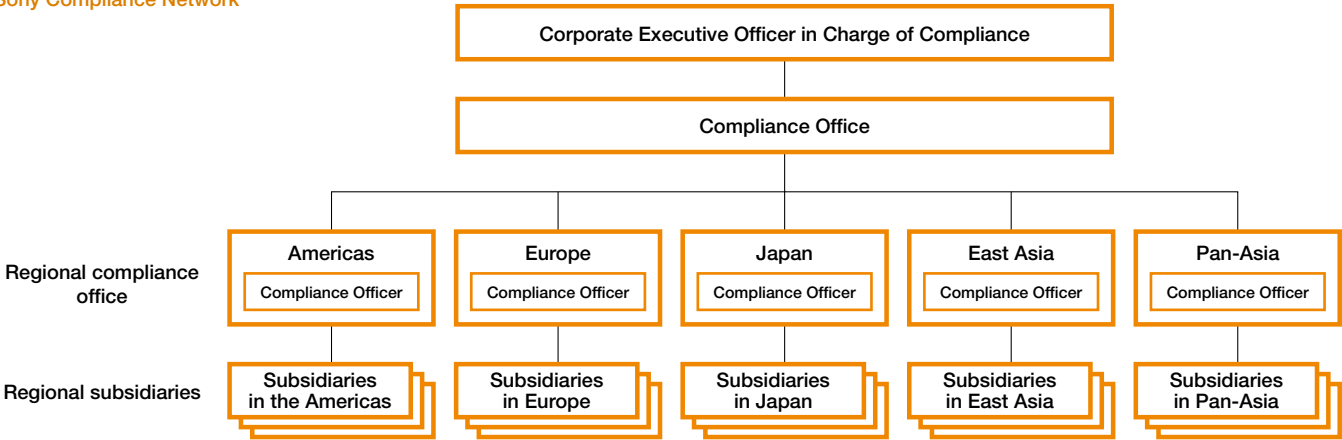
Strengthening the Compliance System

In July 2001, Sony Corporation established the Compliance Office, charged with exercising overall control over compliance activities across the Sony Group, to emphasize the importance of business ethics and compliance with applicable laws, regulations and internal policies. The Compliance Office establishes compliance policies and structures for the Sony Group and performs crisis management functions. In March 2003, a group was established within the Compliance Office responsible for CSR, to formulate policies concerning the social responsibilities of the company, implement them throughout the Sony Group and communicate with stakeholders by sharing information.

Compliance Network

In July 2003, Sony established regional compliance offices in the Americas, Europe, Japan^{*1}, East Asia^{*2}, and Pan-Asia^{*3}, charged with assisting the Compliance Office at Sony Corporation and exercising regional control over compliance activities to strengthen the compliance system throughout the Sony Group. Officers responsible for compliance in each region have the authority to issue instructions concerning compliance to Sony Group companies in their respective regions, and by cooperating with each other, are working to establish and maintain their regions' compliance structure.

Sony Compliance Network



*1 Coverage area of Japan compliance office: Japan, South Korea and Taiwan
 *2 Coverage area of East Asia compliance office: Mainland China and Hong Kong
 *3 Coverage area of Pan-Asia compliance office: Southeast Asia, Middle East, Africa and Oceania

Sony Group Code of Conduct

In May 2003, Sony adopted the Sony Group Code of Conduct, which sets the basic internal standards to be observed by all directors, officers and employees of the Sony Group in order to emphasize and further strengthen corporate governance, business ethics and compliance systems throughout the entire Sony Group.

This Code of Conduct sets out, in addition to legal and compliance standards, Sony Group's basic policies concerning ethical business practices and activities, including respect for human rights, safety of products and services, environmental conservation and information disclosure. It has been adopted and implemented by each Sony Group company as its own internal code of conduct.

Sony additionally takes into consideration international standards and guidelines in its activities. In line with this, the Sony Group Code of Conduct refers to the Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises, the United Nations Global Compact and the United Nations Universal Declaration of Human Rights.

Following the implementation of the Sony Group Code of Conduct, Sony has centralized development and management of group-wide internal rules to ensure group-wide compliance with the elements of the Sony Group Code of Conduct.

Training in the Sony Group Code of Conduct

Sony has made all Sony Group employees aware of the Sony Group Code of Conduct and provides education and training about it. The Sony Group Code of Conduct is accessible to employees on the intranet websites of the individual Sony Group companies. In addition, each company is informing its employees about the Code through dissemination of booklets and cards, group training sessions, e-learning, or feature articles in internal newsletters.

Sony will continue to reinforce the importance of the policies and values in the Code through ongoing efforts to familiarize employees with the Code.



Booklets, cards and posters used to raise awareness of the Sony Group Code of Conduct

Sony Group Code of Conduct

Established May 2003

[Scope of application: Companies]

Standards applicable to Sony Corporation, as well as any company more than 50% of whose outstanding stocks or interests with voting rights is owned directly or indirectly by Sony Corporation, and such other companies as determined by the Board of Directors of Sony Corporation.

[Scope of Application: Personnel]

Standards applicable to all Sony Group directors, officers and employees

[Headings]

1. General Standards

- 1-1 Compliance with Laws as well as Internal Rules and Policies; Honest and Ethical Business Conduct
- 1-2 Relationship with Stakeholders
- 1-3 Appreciating Diversity
- 1-4 Avoiding Structural Conflicts of Interest
- 1-5 Communication of Concerns and Alleged Violations

2. Respect for Human Rights

- 2-1 Equal Employment Opportunity
- 2-2 No Forced Labor/Child Labor
- 2-3 Sound Labor and Employment Practices
- 2-4 Work Environment

3. Conducting Business with Integrity and Fairness

- 3-1 Product and Service Safety
- 3-2 Environmental Conservation
- 3-3 Fair Competition
- 3-4 Advertising
- 3-5 Public Disclosure
- 3-6 Personal Information
- 3-7 Intellectual Property
- 3-8 Confidential and Proprietary Information
- 3-9 Fair Procurement
- 3-10 Gifts and Entertainment
- 3-11 Recording and Reporting of Information

4. Ethical Personal Conduct

- 4-1 Insider Trading
- 4-2 Personal Conflicts of Interest
- 4-3 Corporate Assets
- 4-4 Media Relations and Public Statements

URL

OECD Guidelines for Multinational Enterprises: <http://www.oecd.org/>

United Nations Global Compact: <http://www.unglobalcompact.org/>

United Nations Universal Declaration of Human Rights: <http://www.un.org/Overview/rights.html/>

Sony Group Code of Conduct: <http://www.sony.net/code/>

Internal Hotline System

With the adoption of the Sony Group Code of Conduct in May 2003, Sony also established the Sony Group Compliance Hotline, as a resource for employees to report concerns or seek guidance about possible violations of laws or internal policies, and to allow the Sony Group to respond speedily to potential risks of such possible violations. The Sony Group Compliance Hotline is directly linked to the officer in charge of compliance and is operated independently from the ordinary line of command. In addition to periodic reports to the Audit Committee summarizing the Hotline calls, important Hotline calls also may be reported individually to the Audit Committee.

The Sony Group Compliance Hotline is available in the Americas, Europe, Japan, East Asia and Pan-Asia, and is ready to receive the concerns of any Sony Group employee in any part of the world.

Concerns are received through telephone calls, letters and e-mail. Calls received are handled in line with established procedures, and callers who report issues in good faith will be protected from any possibility of retaliation.

During fiscal 2004, the Sony Group received approximately 240 hotline contacts covering issues relating to employment, labor, work environment, information management, environmental protection and accounting. In certain cases, these calls have prompted investigations that have resulted in the review of internal organization and procedures and the strengthening of enforcement of internal rules.

Crisis Management System

In 2001, Sony established a group crisis management system and formulated procedures to enable a flexible, group-wide response to diverse risks or crises through emergency measures led by top management.

Under this system, crises are classified in 3 levels to ensure dynamic responses. Level 1 is defined as a crisis with the possibility of significant impact on Sony Group, and will be responded to under the direction of the CEO. Level 2 is defined as a crisis with the possibility of widespread impact within Sony Group although it is not determined as Level 1, and will be addressed by a cross-functional committee composed of a specialist management team. A Level 3 crisis has little impact outside the business unit involved and will be handled by the affected business unit or Sony Group company.

In October 2001, when the Dutch government issued administrative guidance on cadmium contamination in PS One peripheral equipment, Sony issued a Level 1 alert to mount a full Sony Group response. In 2003, during the extensive outbreak of severe acute respiratory syndrome (SARS), Sony issued a Level 2 alert and took countermeasures that were implemented across the Sony Group.

Personal Information Management

In the course of selling its products or offering its services, like many companies, Sony collects personal information from its customers and business partners. In recent years, it has become increasingly easy to collect, use and manage personal information in electronic form in large volumes through such means as the Internet. Strengthening management of such information to prevent accidental disclosure has become correspondingly more and more important. Measures to protect personal information, including enactment of related laws, are becoming prevalent worldwide.

In July 2000, Sony formulated "Sony's Global Basic Principles on Personal Information" and also established an organization within Sony Corporation to coordinate the personal information management efforts of the relevant staff in each Sony Group company. By striving to ensure that Sony Group employees handle personal information appropriately, Sony aims to prevent accidental leaks, unauthorized access and unintentional use of personal information that could inconvenience or harm the individual who had provided Sony his/her personal information and undermine the trust Sony has built with its customers and business partners.

Law on the Protection of Personal Information

In Japan, the Law on the Protection of Personal Information went into effect in April 2005. It requires companies that handle personal information of a certain amount to disclose policies on handling personal information, set up channels of contact, reinforce security and perform employee training. Japanese Sony Group companies had already taken and were strengthening all necessary steps before this law's implementation, regardless of whether the legislation would cover their operations, and in April 2005, announced the Sony Group Privacy Policy to ensure public understanding of Sony's principles regarding personal information management.

Both in and out of Japan, Sony takes the necessary steps to comply with local laws and ordinances relating to the management of personal information.

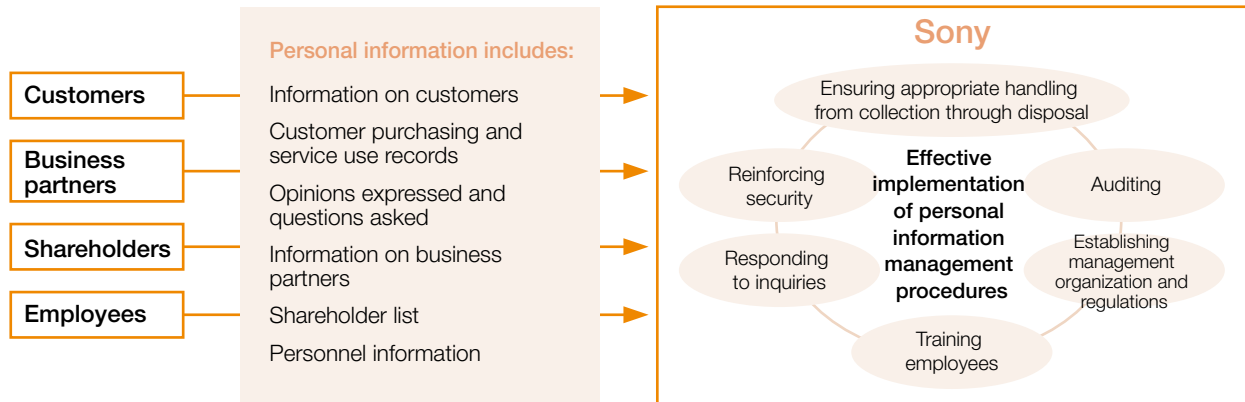
Excerpt from Sony Group Privacy Policy*¹

The primary objective of each Sony Group company (hereafter "Sony") is to provide great products and services focusing on customers' needs, through innovative ideas as well as sound business practices. Sony is committed to meeting the high expectations of its customers and to being the "most trustworthy partner for customers" in the broadband era of the 21st century.

Sony understands that customers entrust Sony with their personal information with the expectation that it will be used only for specific purposes. Sony respects the customers' expectations and places a high priority on properly protecting such personal information and limiting its use to such purposes.

*¹ This policy applies to Sony Corporation and its subsidiaries in Japan.

Sony's Personal Information Management System



Measures to Protect Personal Information

Sony recognizes that the following issues regarding personal information are of special importance and is taking steps as follows:

- When Sony seeks personal information from customers and other parties, it endeavors to obtain their consent by clearly explaining the purpose for its collection and the ways to make inquiries regarding the information. Sony tries to ask minors to obtain consent from their guardians before providing their personal information. It is Sony's policy to use the information only within the scope of the purpose explained to the provider.
- To ensure that personal information is maintained with adequate security, Sony is introducing measures to strengthen security for the entire Sony Group, taking into account organizational, technological, facility and human resource factors.
- Sony Corporation conducts annual training programs for its employees to increase their understanding of the issues and improve the overall level of personal information management. Divisions actually handling personal information receive more specialized training. These training activities are being implemented in each of the Sony Group companies.
- Sony requests that external contractors handling personal information on its behalf understand and implement Sony's policies on personal information management. In addition to including contractual provisions in agreements to ensure that these contractors manage such information properly, Sony endeavors to strengthen proper management by, for example, establishing standards for screening contractors, confirming as necessary that the contractor fulfills those standards, and training when necessary.

Incidents and Responses Relating to Personal Information

Sony is making strenuous efforts to safeguard personal information, but there nonetheless were a small number of losses and leaks of personal information at Sony Group companies in fiscal 2004. Sony apologized and explained the circumstances to the people affected and publicly disclosed the incidents where appropriate. Incidents included loss of documents and theft of personal computers containing personal information. More recently, in May 2005, at a Japanese Sony Group company, duplicates of registration forms for changing models of mobile phones were leaked. In June 2005, data relating to registration of Internet connection services was leaked. There has been no report of actual damage from these incidents up to now, but Sony recognizes the serious nature of these incidents, and is working to examine their causes in order to prevent recurrence. Sony is also reassessing the rules governing the use of personal information and the work processes that allowed these incidents, and for each of the causes of the incidents, enhancing information security systems and thoroughly training and raising awareness among employees handling personal information.

Quality Control Management

Quality control is an important management challenge that has a direct impact on Sony's brand strength. Sony is engaged in a group-wide effort to improve not only the quality of its products and services, but also the quality of its activities that create these products and services.

Specific Actions for Quality Improvement

Sony aims to improve product quality and reliability in order to increase overall product strength through an integrated system extending from planning and design to service and repair. Further improvements will be achieved by addressing quality problems with fact-finding studies, dealing with problems, and disclosing information to customers promptly in an appropriate manner, based on judgments and response from the customer's viewpoint. Specifically, Sony:

- has established a mechanism whereby all Sony Group employees can present problems directly to the officer in charge of quality control, and a system that allows the officer to guide and oversee concerned departments in the task of resolving these problems.
- has taken steps to communicate customer complaints and reports of defects to Sony's product planning and design functions to help enhance usability and product quality.
- has reviewed evaluation standards to minimize the severity of product defects discovered after shipping and to prevent them from occurring, and has instituted quality study meetings chaired by the officer in charge of quality control to examine problems and ways of solving them.
- has increased the number of samples and implemented pre-shipment quality assessment standards incorporating multifaceted assessment methods that consider the environments in which customers use the products.
- will reduce the number of components in Sony's products and endeavor to improve their quality through standardization. The 840,000 parts used in fiscal 2003 will be reduced to 100,000 by the end of fiscal 2005. Sony is also introducing source management to suppliers for thorough quality control.
- will become stricter in its selection of suppliers, taking into account their cooperation in terms of component standardization and quality improvement. The 4,700 electronic parts suppliers that Sony purchased from in fiscal 2003 will be decreased to 1,000 by the end of fiscal 2005.
- is reforming product design processes.
- is stepping up efforts to improve quality and increase customer satisfaction. Sony has therefore appointed approximately 40 customer satisfaction officers globally to be responsible for customer satisfaction for particular businesses and product categories.

Product Quality Information Channels

It is important to detect product quality control problems as soon as possible through an early warning system. With that goal, in August 2003 Sony established a reporting channel to gather product quality problems, information and opinions from Sony Group employees.

Sony Group employees can send messages to the officer in charge of quality control via the Product Quality Information Channel website. This can be done when, during the course of their daily work, they discover a problem related to product quality that they cannot solve or deal with or which they believe has been overlooked, or when a quality-related problem occurs while using a Sony product, or when they wish to propose an effective way to improve product quality.

The office in charge of this reporting channel cooperates with the relevant departments to conduct fact-finding studies concerning all information that it receives and works to solve each problem. It also takes steps to prevent product quality problems, and offers proposals and provides guidance to prevent their recurrence. The officer in charge of quality control reviews all the information submitted through the reporting channel, the responses, and progress in dealing with any problems.

Since the establishment of the reporting channel up until March 31, 2005, Sony received 540 reports. These diverse suggestions included requests to make products and manuals more user-friendly. These reports have led to more than 250 improvements. The introduction of this reporting channel ensures that reports from Sony Group employees are dealt with fairly and seriously and that they will be reflected in product quality improvements. Equally important, it will lead to the establishment of a quality assurance system in which product quality problems can be prevented.

Concerning Quality Control Issues

Sony takes seriously its duty to notify customers of quality control issues and tries to make notifications that are in the interest of the customer.

For example, Sony issued a notice in October 2004 of problems with some cords on the battery cases of seven CD Walkman models that were manufactured and sold between October 2002 and June 2004. Sony discovered defective cords could on rare occasions cause battery cases to overheat or change shape. Sony announced that it would inspect and repair the relevant models for free.

Sony recognizes quality control problems are matters it must resolve so that its products fully satisfy customers. Sony will continue to take steps to improve product quality.

Supply Chain Management

Sony bases its selection of suppliers and OEM suppliers*1 on objective standards. Sony expects these parties to comply with applicable laws, respect human rights, protect the environment and adhere to the Sony Group's basic policies on the safety of products and services.

Fair Business Practices, Transparency and Equal Opportunity in Procurement

Sony is committed to fair business practices, transparency and equal opportunity in its procurement operations. In Sony's procurement operations, fair business practices mean purchasing according to established policies and procedures, transparency means not acting arbitrarily, and equal opportunity means providing all suppliers with a level playing field. Sony believes it is essential to develop bonds of mutual trust.

Sony procurement agents—Sony employees engaged in procurement—represent Sony's interests when negotiating with suppliers. To protect the integrity of the process, the procurement agents are not permitted to form personal ties or relationships based on potential personal gain with any supplier. Among other things, this rule prohibits the acceptance of personal gifts or participation in a supplier's business while employed at Sony.

To raise awareness, Sony has distributed a handbook, titled "Working Principles for Procurement Personnel," to employees in the procurement sections of Sony's Japanese electronics businesses. These employees must also use Sony's e-learning systems to study procurement ethics.

Information Channel for Suppliers

In 2004, Sony Corporation established the Sony Partner Line, an information channel for suppliers. It allows suppliers to raise concerns about the conduct of Sony Group officers and employees so Sony can act quickly to address the situation. The Sony Partner Line is currently operational for companies supplying materials and components to the Electronics segment in Japan.

Basic Requirements and Assessment Standards in Supplier Selection

Supplier cooperation is crucial for Sony to create excellent products. Sony has the following basic requirements and assessment standards for selecting a supplier.

Basic Requirements

- Stable management base
- Management compliance with laws and regulations (including prohibitions on child labor and forced labor)
- Environmental management systems
- Advanced technologies that can contribute to Sony products

*1 Other companies that manufacture Sony products are called OEM suppliers.

Assessment Standards

- e-commerce ability
- Ability to continuously supply items that consistently meet quality standards
- Ability to supply cost-competitive items
- Ability to deliver items on time and in the required quantities
- Ability to meet expectations for the provision of a broad range of services
- Ability to undertake initiatives that reduce the environmental impact of items supplied

Sony Supplier Code of Conduct

The Sony Group expects its suppliers to adhere to its basic policies on compliance with applicable laws and regulations respecting human rights and safeguarding the environment. In June 2005, Sony established the Sony Supplier Code of Conduct to ensure suppliers understand and meet Sony's expectations. The Sony Supplier Code of Conduct is based on the Electronic Industry Code of Conduct (EICC) established by U.S. electronics manufacturers in 2004. Sony believes that the EICC serves as an important framework for its suppliers to conduct their businesses in a socially responsible manner. Sony continues to cooperate with the industry and implement activities based on the Sony Supplier Code of Conduct.

Sony Supplier Code of Conduct (Contents)

- Compliance
- Labor (prohibition of child labor and forced labor)
- Health and safety
- Environmental
- Management system
- Ethics

Green Procurement

Environmental protection is essential, and Sony manages not only its own products and manufacturing facilities but also its suppliers through the Green Partner Environmental Quality Approval Program. (See page 51 for details.)



Sony procurement activities: <http://www.sony.net/SonyInfo/procurementinfo/index.html>
Sony Supplier Code of Conduct: <http://www.sony.net/csr/>