SONY

Annual Report 2003

Year Ended March 31, 2003

Financial Highlights

Sony Corporation and Consolidated Subsidiaries
Year ended March 31

	Yen in millions except per share amounts and number of employees		Percent change	Dollars in millions* except per share amounts
	2002	**2003**	2003/2002	**2003**
FOR THE YEAR				
Sales and operating revenue	¥7,578,258	**¥7,473,633**	–1.4%	**$62,280**
Operating income	134,631	**185,440**	+37.7	**1,545**
Income before income taxes	92,775	**247,621**	+166.9	**2,064**
Income before cumulative effect of accounting changes	9,332	**115,519**	+1,137.9	**963**
Net income	15,310	**115,519**	+654.5	**963**
Per share data:				
Income before cumulative effect of accounting changes				
—Basic	¥ 10.21	**¥ 125.74**	+1,131.5%	**$ 1.05**
—Diluted	10.18	**118.21**	+1,061.2	**0.99**
Net income				
—Basic	16.72	**125.74**	+652.0	**1.05**
—Diluted	16.67	**118.21**	+609.1	**0.99**
Cash dividends	25.00	**25.00**		**0.21**
AT YEAR-END				
Stockholders' equity	¥2,370,410	**¥2,280,895**	–3.8%	**$19,007**
Total assets	8,185,795	**8,370,545**	+2.3	**69,755**
Number of employees	168,000	**161,100**		

** U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2003.*

Please refer to pages 61 and 62 for detailed footnotes to the table above.

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Cautionary Statement

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

To Our Shareholders

Operating Results for the Fiscal Year Ended March 2003

The business environment during the fiscal year ended March 31, 2003 was extremely difficult, with continued weakness in consumer spending caused by the unstable international situation and other factors, and a worldwide intensification of pricing pressure.

Consolidated sales decreased 1.4% year on year to 7,473.6 billion yen, primarily due to lower sales in the core segment of Electronics, while sales in the Pictures segment increased significantly, reaching a record high. Consolidated operating income increased 50.8 billion yen year on year to 185.4 billion yen, with the Electronics, Game and Pictures segments the primary contributors.

In the Electronics segment, operating income improved significantly, due primarily to the strong performance of products such as digital still cameras and charge-coupled devices (CCDs), as well as the benefit of restructuring. Nevertheless, this segment suffered a significant operating loss in the fourth quarter (January to March) that was greater than that in the same quarter of the prior year because of a reduction in inventories, an increase in patent related expenses, lower sales and other factors.

Nobuyuki Idei
Chairman and Group Chief Executive Officer

In the Game segment, operating income increased due to higher software unit sales and the benefit of continued reductions in hardware manufacturing costs.

The Pictures segment also reported higher operating income, due primarily to the strength of releases such as *Spider-Man*, *Men in Black II*, *xXx* and *Mr. Deeds*.

The Music segment, on the other hand, recorded an operating loss as restructuring expenses increased and music product sales decreased.

As for restructuring, which we have been undertaking since the fiscal year ended March 31, 2000, on a consolidated basis, Sony recorded approximately 100 billion yen in charges during the fiscal year ended March 31, 2003, the brunt of which were incurred in the Electronics and Music segments. As a part of this restructuring in the Electronics segment, Aiwa Co., Ltd. was merged with Sony in December 2002, headcount was reduced, and businesses, primarily in the component category, were downsized or eliminated. In the Music segment, Sony Music Entertainment Inc., which conducts business in every area of the globe except Japan, reduced its headcount by more than 10% in order to cut costs and improve operational efficiency.

Kunitake Ando
President and Group Chief Operating Officer

Looking Towards the Future

Sony plans to continue inspiring our customers with dreams and impressions in the broadband era through the convergence of electronics and entertainment. However, with the environment in which Sony operates changing at a pace beyond our expectations, we believe it is necessary to transform Sony into an organization in step with the 21st Century through a series of new reforms that build on those undertaken so far, but are not merely linear extensions of them.

In order to do so, as a second phase of restructuring building on the first phase begun in the fiscal year ended March 31, 2000, over the three years starting in the fiscal year ending March 31, 2004, we will reduce fixed costs by further concentrating managerial resources into strategic businesses, reorganizing our global production structure and improving the productivity of back office support functions. Furthermore, to accelerate growth in our Electronics and Game segments, we are planning to invest in semiconductors, which hold the key to differentiation of our products, introduce products that integrate Electronics and Game technologies and invest in mid- to long-term technology development so as to strengthen the attractiveness of our products.

In addition, as a part of the reorganization of our group operating structure, after voluntarily adding additional rules to assure good governance – such as the separation of the Chairman of the Board and head of business execution and the addition of certain qualifications for Board membership – we chose to adopt the "Company with Committees" structure, a management system made possible by revisions to Japan's Commercial Code that became effective on April 1, 2003 (for more information see page 74).

Through the implementation of such initiatives, we aim to transform Sony into a 21st Century enterprise, build a highly profitable business structure, and continue to pursue the goal of making Sony the strongest consumer brand.

April 24, 2003

Nobuyuki Idei
Chairman and Group CEO

Kunitake Ando
President and Group COO

Management Discusses Key Issues






Solidifying Sony as the Strongest Consumer Brand through the Convergence of Electronics and Content

As the broadband era unfolds, Sony will continue to assist customers in realizing their dreams and experiencing everlasting emotions through a variety of hardware, content and services. Sony will also continue to pursue our vision – that of being the strongest consumer brand – as we promote the convergence of Electronics and Game, Music and Pictures.

Working to Transform Sony into a 21st Century Enterprise

While our goals and vision remain the same, Sony's operating environment is undergoing a dramatic change. Breathtaking advances in semiconductor and communications network technology are sparking far-reaching structural change, not only in the electronics industry, but also in industries as diverse as communications and financial services. Across the electronics industry, companies from countries with lower manufacturing costs have emerged as prominent market players, and this trend is rapidly causing many products to become mere commodities. To succeed in this environment, Sony must reexamine the very essence of the business structure that underpinned our accomplishments in the past century. We must go beyond the restructuring we have enacted so far to transform Sony into an organization in step with the 21st Century.

At our Corporate Strategy Meeting in May 2003, we set a target for 2006, the year in which we will celebrate our 60th anniversary. By that year, we aim for Sony to have a highly profitable business structure similar to the world's leading multinationals. That means that, for the fiscal year ending March 31, 2007, we aim to build a structure which can achieve an operating income margin of 10% for Sony Group consolidated, excluding the Financial Services segment. In order to reach this target, significant restructuring is essential, as is the reinforcement of our products and the consistent execution of a strategy to spur growth. Accompanying these moves will be more rigorous control of our balance sheet and aggressive asset management.

2nd Phase of Restructuring

Since 1999, Sony has been working to withdraw from certain businesses while concentrating resources in other businesses. At the same time, we have streamlined our manufacturing facilities. Through the establishment of Sony EMCS Corporation, an engineering and manufacturing platform with horizontal oversight over numerous manufacturing facilities, we have built a more flexible and efficient supply chain management system (that extends from raw material procurement to end-customer sale). This is just one of the ways in which we have made our manufacturing facilities more competitive. Through the steady implementation of these initiatives, the number of manufacturing facilities at the end of March 2003 decreased to 52 from the 70 we had at the end of March 1999. Better supply chain management has yielded significant inventory reductions. And withdrawing from unprofitable businesses, merging with Aiwa Co., Ltd. and other initiatives have led to considerable success in fixed cost reduction. Actions such as these contributed to our ability to report increased profit in the fiscal year ended March 31, 2003.

Nevertheless, we are concerned that the pace of change in our markets is overtaking the speed of our reforms. Thus, we have decided to accelerate the pace of reform by positioning the fiscal year ending March 31, 2004 as the beginning of a three-year, second phase of restructuring that builds on the success of the first phase of restructuring undertaken from April 1999 to March 2003.

There are several elements to this restructuring plan. One is the concentration of resources in those businesses that have strategic importance. Another is the optimization, from a global perspective, of our manufacturing infrastructure. Yet another is the reduction of fixed costs primarily through an increase in productivity of administrative functions, mainly in Japan. These and other initiatives are expected to result in consolidated costs of approximately 300 billion yen during the three-year period ending March 31, 2006.

Of these expenses, approximately 280 billion yen is earmarked for the Electronics segment. This second stage of restructuring is not merely an extension of the restructuring undertaken to date. It is an entirely new initiative. We are committed to its implementation because it will provide Sony with the basis for further growth.

Strategies to Bolster Our Products and Spur Growth

In the Electronics segment, we are targeting further growth by creating new, exceptional products and by building a profit model that can consistently generate earnings in each of four core categories. The first is audio and visual (AV) products, where we plan to solidify our number one position. Second is the creation of an entirely new category through the combination of Electronics and Game. Third is information technology (IT) and communications, where we expect to heighten our stature. And fourth is semiconductors, another field where we plan to grow even stronger. Semiconductors are the key to creating truly distinctive hardware. That is why we plan to invest approximately 500 billion yen in these devices during the three years starting in the fiscal year ending March 31, 2004. Other plans include an investment of approximately 500 billion yen in mid- to long-term technology development over the same three years for, among other things, key devices that are essential to making our products appealing.

Core Initiatives

Initiative 1: Solidify Sony's number one position in AV products

In our effort to reach our goals for the fiscal year ending March 31, 2007, we will enhance even further the profitability of AV products, products which are at the center of the Sony Group's core Electronics segment. This is to be accomplished through three measures. One is making careful choices as to which businesses to focus on. Another is cutting fixed costs through the second phase of restructuring. The third is creating a more attractive product line-up in growing market sectors.

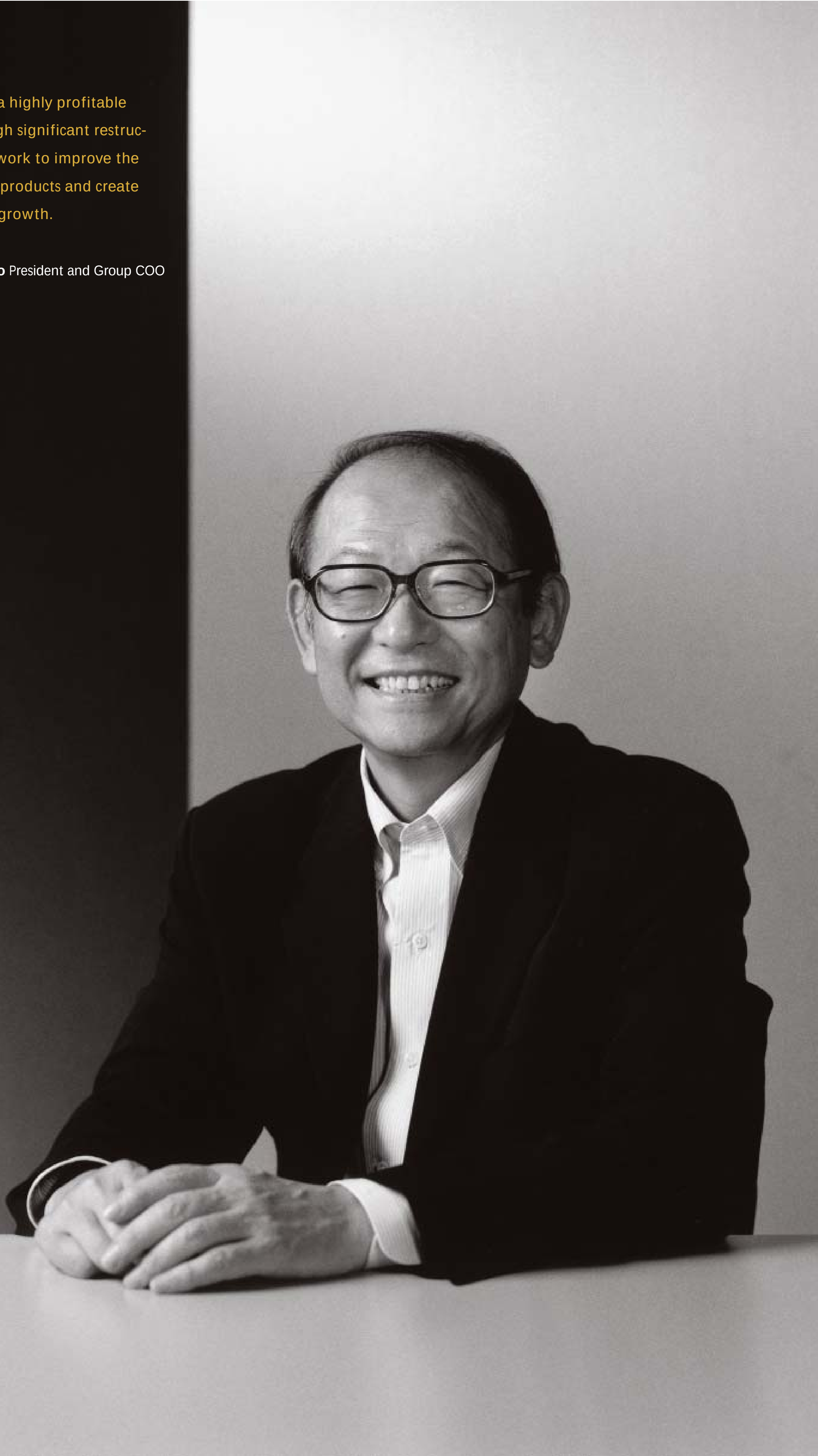
Regarding the third measure, we aim to solidify our number one position in the AV market through the introduction of captivating products in high-growth markets. Examples of such high-growth markets include plasma display panel (PDP), liquid crystal display (LCD) and other flat-panel televisions, optical disc and hard disk drive recorders, and digital imaging products such as video cameras and digital still cameras. Another theme will be expanding our line of high definition products such as Blu-ray Disc recorders, high definition Wega televisions and high definition camcorders.

Our vision for Sony remains the same – that of being the strongest consumer brand – as we promote the convergence of Electronics and Game, Music and Pictures.

Nobuyuki Idei Chairman and Group CEO

While building a highly profitable structure through significant restructuring, we will work to improve the strength of our products and create new sources of growth.

Kunitake Ando President and Group COO



We will be upgrading the key devices that are critical to making these products attractive. One area we plan to augment is digital imaging components such as those used in video cameras and digital still cameras, two product lines where Sony is highly competitive. Here, we have used leading-edge Sony technology and devices such as CCDs, camera modules and low-temperature polysilicon LCDs to build a vertically integrated business model capable of adding considerable value and producing highly distinctive products. Best illustrating our strengths is the CCD, where Sony leads the industry in technological innovation and market share. We plan to fabricate a greater share of key devices internally, giving our products an even greater edge over our rivals.

Until now, for strategic reasons, Sony has purchased LCDs, PDPs and other flat panel displays for televisions from external suppliers. In recent years, however, we have seen rapid growth in demand for flat panel televisions, mostly those using LCDs, and have concluded that the time has come to complement external sourcing of LCDs with proactive investment on our own, or through alliances with other companies. We are currently examining possibilities. As before, we are continuing our own research into organic electroluminescence and field-emission displays, two candidates for next-generation displays.

Initiative 2: Create an entirely new category through the combination of Electronics and Game

In May 2003, Sony announced plans to sell PSX, the first commercial product in which Electronics and Game converge. Combining DVD and hard disk drive recorders, PSX will spawn a completely new product category. PSX will be based on the operating system and semiconductors used in PlayStation 2 (PS2), will have a television and broadcast satellite tuner inside, and will be compatible with PlayStation and PS2 games. Recording and playback of television programs is just one of its many functions. Users can also view still and moving images from digital still and video cameras as well as enjoy music CDs. The unit accepts a variety of home-use disc-based media as well as the Memory Stick, and it can be linked to an Ethernet network. PSX is slated to go on sale in Japan late in 2003 and in the U.S. and Europe in 2004.

Inside PSX is technology from the Game and Electronics segments. PS2 technology includes the EmotionEngine and Graphics Synthesizer semiconductors as well as PS2's operating system. Our Electronics segment is the source of the semiconductor laser, recordable DVD drive, codec (coding and decoding) technology and many other sophisticated technologies at the heart of PSX.

PSX is a fresh idea for an entirely new type of platform where Electronics and Game technologies coalesce. The incorporation of a DVD-Video playback capability in PS2 has made the DVD format even more widely used worldwide, sparking explosive growth in the DVD software market. We expect that the DVD recorder inside PSX will trigger similar growth in demand in the recordable DVD market.

At the E3 (Electronic Entertainment Exposition), the world's largest game exhibition, held in Los Angeles in May 2003, we announced our plan to sell PSP, a portable entertainment system that is, in effect, a 21st Century Walkman. PSP will be launched at a similar time in Japan, the U.S. and Europe in late 2004. Sony Group's leading-edge semiconductor technology will, of course, be instrumental to the development of PSP. This product will also feature three dimensional computer graphics, three dimensional audio, codec and other sophisticated technologies and will be compatible with the Memory Stick and other Sony products. Data will be stored on a Universal Media Disc (UMD), a new technology developed by Sony. Each 60mm-diameter disc has a capacity of 1.8GB. Over the years, our development of optical disc technology has played a major role in expanding markets for discs such as the CD, MD and DVD. The UMD is our latest disc media, and we fully intend to develop the market for it as well. Compatible with MPEG-4 and other codec technology, the UMD can hold about two hours of programming with DVD-Video grade picture quality. Sophisticated copyright protection technology is also incorporated. As a result, a variety of content, not only game software, but also motion picture and music content, can be used. PSP and UMD have naturally sparked strong interest within the game industry, but the same has also been the case in the motion picture and music industries.

With PSX and PSP, we have the means to build an immense, multidimensional platform supported by advanced devices from Electronics and leading-edge semiconductors developed for Game. We plan to create a completely new market on this platform, one that extends to the latest available content in the game, video and music arenas.

Initiative 3: Heighten Sony's stature in IT and communications

The global IT and communications market is massive; annual revenues for calendar 2002 reached approximately 90 trillion yen. We plan to achieve significant growth through the strengthening of our VAIO PC business and our mobile phone business, which is conducted by Sony Ericsson Mobile Communications AB (SEMC).

Since its launch, the VAIO has capitalized on its unique AV/IT applications and attractive styling to create an entirely new concept in the home PC market. In the fiscal year ended March 31, 2003, Sony's VAIO business endured extremely difficult conditions as the PC market was battered by intense price-based competition. In the fiscal year ending March 31, 2004, we will once again stress the defining elements of the VAIO: its excellent craftsmanship and unique applications. Networking functions, such as home network and wireless LAN technology, as well as recordable DVD drives and other features will be installed in VAIOs in an effort to take the convergence of AV and IT to an even higher plane. New styles will continue to be introduced, too, as we reignite the spirit of innovation that accompanied the VAIO at its launch.

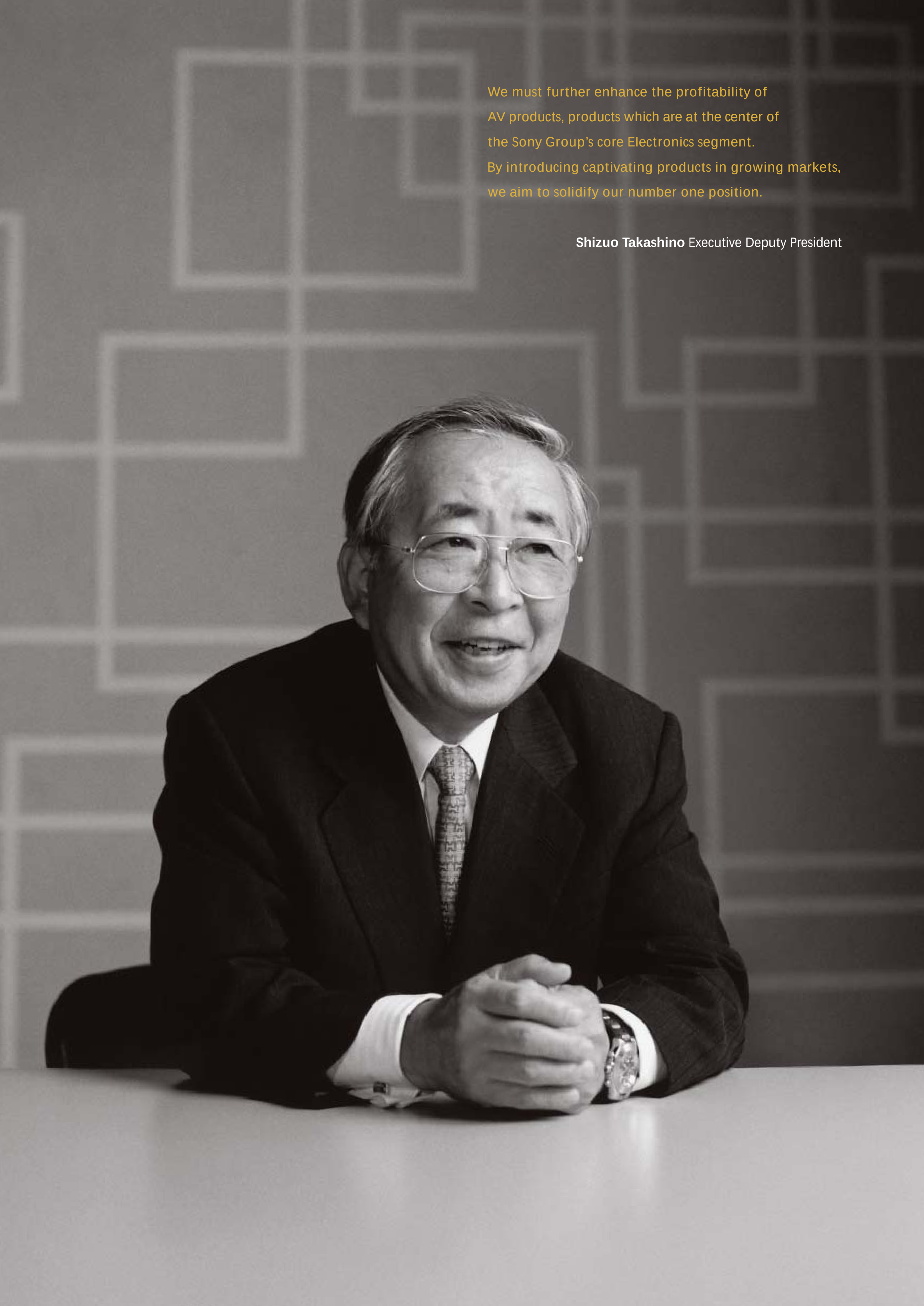
On the operations side, we will improve design, manufacturing and sales efficiency while expanding the Internet sales channel, all in an effort to improve profitability. We foresee significant growth in two regions. One is Europe, where we will begin promoting the VAIO in earnest. The other is China, where we will, among other things, increase local production.

Our plans include extending the VAIO brand to new concept products that utilize PC technology and to other PC related products. This will transform VAIO from a brand representing a product to one that represents an entire business, contributing to the growth of all VAIO-related activities.

In October 2001, Sony and Sweden's Ericsson jointly established SEMC. Since its inception, this company has worked to develop unique products that utilize the inherent strengths of both parent companies – AV technology and communications technology. From the fiscal year ending March 31, 2004, SEMC will introduce, in earnest, products that capitalize on these strengths. In the GSM/UMTS market, which is a mobile phone network standard dominant in Europe and Asia and spreading around the world, SEMC has already gained attention for its high value added products that feature imaging, game, music distribution and other functions and services. In the Japanese market, SEMC will introduce products that can be differentiated from competitors' products based on design and ease of use. On the operations side of the business, SEMC is more closely linking design, manufacturing and sales functions on a global basis so that new products can be launched faster and the company as a whole can become more cost competitive. At a time when mobile phone industry players are working to add information and entertainment service functionality to the telephony capability of

We must further enhance the profitability of AV products, products which are at the center of the Sony Group's core Electronics segment. By introducing captivating products in growing markets, we aim to solidify our number one position.

Shizuo Takashino Executive Deputy President



Convergence of Electronics and Game has finally begun with PSX. Convergence will yield a new line of high-grade digital home appliances that have dramatically accelerated processing capability thanks to Game's advanced semiconductor process technology and real time operating system.

Ken Kutaragi Executive Deputy President

their phones, SEMC is confident that it can secure a strong market position through the introduction of attractive products and applications.

Mobile products harbor considerable potential in terms of both their market size and growth rates, and Sony is extremely skilled when it comes to them. We will continue to create captivating mobile products that are distinct to Sony. We will leverage our advantage as a producer of the key devices that are critical to the competitiveness of mobile products in order to vertically integrate devices and end-use products. This will enable us to make our products even more appealing and add still more value.

Initiative 4: Become even stronger in the semiconductor field

In the semiconductor business, the Sony Group has been making investments and bolstering production capacity to support the Electronics and Game segments. As mentioned earlier, we plan to make capital expenditures in semiconductors totaling approximately 500 billion yen during the three-year period beginning with the fiscal year ending March 31, 2004.

To meet the growing demand for imaging sensors in digital still cameras and camera-equipped mobile phones, we are planning to begin production of imaging sensors at the semiconductor fabrication facilities owned by Sony Computer Entertainment (SCE). SCE currently produces chips for the PS2 at these facilities using 180 to 150 nanometer process technology. By the summer of 2003, our monthly output of CCDs will exceed 7 million units, helping us to obtain the top share in the market for imaging devices.

At the production facilities owned by SCE where we have begun introduction of 90 nanometer process technology, we plan not only to produce semiconductors that combine the EmotionEngine and Graphics Synthesizer into one chip and other semiconductors for PSX, but also semiconductor devices for electronics products. To prepare for the production of the next-generation microprocessor called Cell and other next-generation microprocessors, we are currently installing 65 nanometer process technology for use on 300mm wafers. Through these activities, the advanced semiconductor process technology used to produce high-performance chips for the PS2 is beginning to be used by the Electronics segment as well.

Through these four initiatives we will gather together the collective strength of the Sony Group to create new markets in the broadband era and bring to life a powerful force for growth known as the Ubiquitous "Value" Network.

Sony's Entertainment Companies: Focusing on Profitability and Emerging Opportunities

Sony's efforts to become a 21st Century enterprise extend beyond Electronics and Game to encompass our content businesses as well. Sony's entertainment companies are focused both on the profitability of their core businesses and on pursuing emerging opportunities, particularly in new avenues of content distribution. To bolster profitability, we have implemented Project USA, an ongoing restructuring of our entertainment and U.S. electronics businesses, gaining substantial savings and efficiencies through implementation of overhead reductions, shared services and consolidated buying opportunities. Shared services also strengthen collaboration across our divisions. This enables Sony to leverage its unique position and expertise in both devices and content to create new digital consumer offerings.

Our entertainment companies are utilizing their content libraries in fresh and exciting ways to develop new business opportunities. New revenue sources at Sony Pictures Entertainment (SPE) include selling downloads of television soap operas through our SoapCity on-demand broadband service; publishing online games such as *Charlie's Angels: Angel X*, based on our motion picture; and delivering fee-based secure digital downloads of films via the Internet through Movielink, a video-on-demand service developed by Sony Pictures Digital along with four other motion picture studios. Similarly, Sony Music Entertainment Inc. (SMEI) is licensing its publishing copyrights and songs to the burgeoning cell phone ringtones market. SMEI also provides cell phone subscribers with news, pictures, tour dates, album releases and more, all displayed with one of the richest graphic interfaces available on wireless phones today.

We also look forward to generating additional revenue opportunities by converting our content libraries to new entertainment formats. These include the Blu-ray Disc, which will hold more than two hours of high definition video on a single disc, and SCE's PSP entertainment system, which will use the UMD format, and provide portable enjoyment of games, movies and music.

SMEI

Under the direction of its new Chairman and CEO Andrew Lack, SMEI has a clear and comprehensive strategy for dealing with the challenges and opportunities of the current global music marketplace.

SMEI has intensified its focus on discovering and developing artists. As part of this effort, SMEI has recently formed the Sony Urban Music division, which is dedicated to developing the best urban talent. SMEI is also redoubling its successful strategy of identifying and cultivating local talent throughout the world, and building their international appeal in the U.S. and other major markets. This effort has already met with great success with artists such as Celine Dion, Ricky Martin, Shakira and Las Ketchup.

The company will also create additional revenue streams through expanded digital distribution and the licensing of content to a growing number of digital music services; enhanced personalized offerings such as custommixcd.com, which allows users to create their own compilation CDs; and new commercial relationships with a variety of corporate partners such as Pepsi and Chrysler, which also provide SMEI artists more opportunities to extend the reach of their brands and imagery.

SPE

SPE in the coming years will continue to build and expand its motion picture catalog, helping to enhance the value of its vast library of films and television programs; capitalize on the explosive growth of the DVD market; and develop additional content distribution platforms.

SPE's motion picture strategy, which resulted in a record performance in the fiscal year ended March 31, 2003, is to distribute a diversified portfolio of motion pictures, blending event, star-driven and targeted films. Notable films in 2003 include Will Smith in *Bad Boys II*; *S.W.A.T.*; *Something's Gotta Give* starring Jack Nicholson; and Tim Burton's *Big Fish*. Next year, *Spider-Man 2*, based on our 2002 record-breaking blockbuster, will be a key 2004 theatrical release. Additionally, we are developing computer-generated animated films from the newly formed Sony Pictures Animation division.

In television production, we remain dedicated to an economic approach relying on stable, profitable game shows and daytime franchises, cable series, and selective network primetime production including the upcoming Stephen King miniseries *Kingdom Hospital*. We will also concentrate on international production and on the expansion of our international cable channels. We already have formed or invested in 30 television channels around the world that create significant asset value for Sony.

In addition, building on our pioneering success with the massively multiplayer paid subscription game *EverQuest*, we recently launched *Planetside* and plan to introduce *EverQuest II* and Lucas Arts' *Star Wars Galaxies*, creating exciting new vistas in online gameplay.

Our entertainment companies are utilizing their content libraries in fresh and exciting ways to develop new business opportunities.

Howard Stringer Vice Chairman

Building a strong financial position is essential to transforming Sony into a 21st Century enterprise. This requires precise management of our balance sheet, not just a focus on profit performance.

Teruhisa Tokunaka Executive Deputy President and Group CSO (Chief Strategy Officer)

New Operational Organization

A sound operating organization is essential to enacting the reforms we have planned.

On April 1, 2003, we formed a new framework that includes eight business units. Within the framework are four network companies: Home Network Company, IT and Mobile Solutions Network Company, Broadband Network Company and Micro Systems Network Company. Also included are the Game Business Group, Entertainment Business Group and Personal Solutions Business Group. The eighth unit is SEMC. Each of these business units has been given even more autonomy to operate in a self-reliant manner to achieve mid- to long-term goals. This autonomy, along with aggressive and effective investment by each business unit, is expected to contribute to profitability.

In conjunction with this delegation of authority, we named chief financial officers for each of the network companies, while retaining a chief financial officer for the entire group. This will better enable the comprehensive oversight of the operations of each network company. As they conduct largely autonomous and self-reliant operations, the network companies will work even more closely with the Global Hub, our group headquarters. At the same time, we have established an organization in which the group's senior management can quickly monitor the current status of operations.

To strengthen regional strategies for East Asia, the Americas and Europe, a representative has been named for each of these regions. In addition, in June 2003, we plan to adopt the "Company with Committees" system, a new option under the Japanese Commercial Code, for the purpose of reforming the group's management structure in order to enhance corporate governance (for more information see page 74).

Balance Sheet Management

Finally, we believe that building a strong financial position is also essential to transforming Sony into a 21st Century enterprise. This requires precise management of our balance sheet, not just a focus on profit performance. The Sony Group has always managed and invested its assets in an efficient and appropriate manner, but our consolidated assets have been climbing, with much of this growth coming from our Financial Services segment.

When the Financial Services segment is excluded from the balance sheet, the remaining figures show that assets have decreased, and that the decline is mainly attributable to a steady reduction in inventories in the Electronics segment. On the other hand, due to the asset-oriented nature of the Financial Services segment, growth in assets tends to correspond to success. This is fundamentally different from the nature of the Electronics segment. Consequently, Sony will increase measures to manage its balance sheet by creating separate balance sheets for the Financial Services segment and for all other segments, thus making apparent the value of these two types of businesses. In the Financial Services segment, the public service nature of operations is high and we must fulfill our obligations to the customers whose assets we hold. The Sony Group will seek the best course of action to take concerning these businesses from the vantage point of the entire Group, including possible alliances with other companies or public offerings of equity.

Through these strategies and measures, Sony plans to further enhance its overall competitive position as we approach our 60th anniversary in 2006. Our aim is to build a framework capable of achieving a consolidated operating income margin of 10% in the fiscal year ending March 31, 2007 (excluding the Financial Services segment), firmly positioning Sony as a global media and technology company with the world's strongest consumer brand.

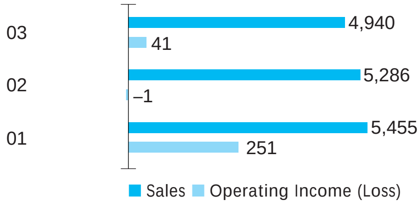
(May 2003)

At a Glance

	BUSINESS AREAS	SALES AND OPERATING REVENUE, OPERATING INCOME (LOSS) *(Billion ¥)* (Year ended March 31)

ELECTRONICS

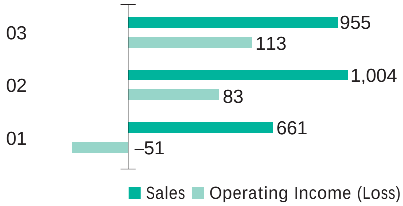
Electronics segment consists of Audio, Video, Televisions, Information and Communications, Semiconductors, Components and Other.



http://www.sony.co.jp/en/

GAME

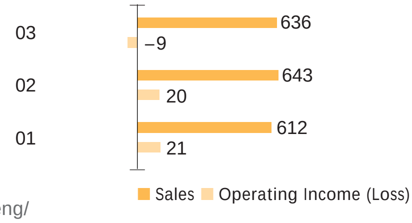
Game console and software business is conducted by Sony Computer Entertainment Inc.



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

MUSIC

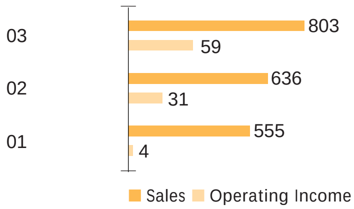
Music business is conducted by Sony Music Entertainment Inc. (SMEI) and Sony Music Entertainment (Japan) Inc. (SMEJ).



http://usa.sonymusic.com/international.html http://www.sonymusic.co.jp/eng/

PICTURES

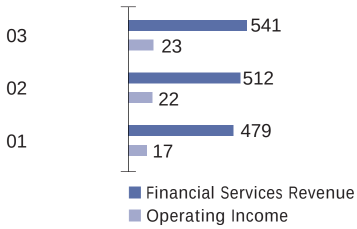
Motion picture, television and other businesses are conducted by Sony Pictures Entertainment Inc. (SPE).



http://www.sonypictures.com/start.html

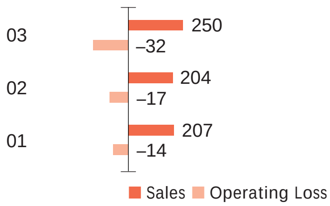
FINANCIAL SERVICES

The Financial Services segment includes Sony Life Insurance Co., Ltd., Sony Assurance Inc., Sony Finance International, Inc. and Sony Bank Inc.



OTHER

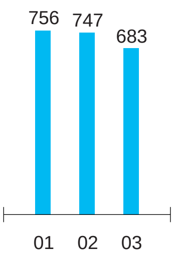
The Other segment includes an Internet-related business (So-net) conducted by Sony Communication Network Corporation, an in-house oriented information system service business, an IC card business and other businesses.

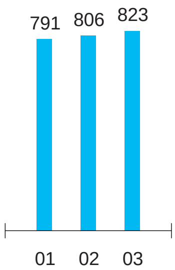


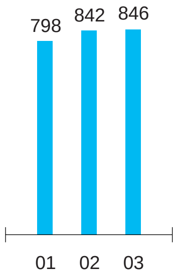
REVIEW OF FISCAL YEAR ENDED MARCH 2003	DIRECTIONS AND PLANS FOR NEXT FISCAL YEAR
■ Although certain products such as Cybershot digital still cameras enjoyed increased sales, a decrease in sales of Aiwa products, VAIO PCs and other products caused sales to decrease 7%. ■ Operating income was recorded, compared with an operating loss in the previous fiscal year, due to the benefit of restructuring initiatives, primarily in the Components category, and the contribution to profitability of digital still cameras, CCDs and other products. ■ End of fiscal year inventory decreased 79.6 billion yen. ■ Sony absorbed Aiwa by merger in December 2002.	■ Introduce a host of attractive new products augmented by Sony's unique technological assets and key devices. Examples include flat panel televisions, DVD recorders, video cameras, digital still cameras, PCs and mobile phones. ■ Enhance restructuring in advance of 2006. ■ Introduce the PSX, a product fusing Electronics and Game.
■ Unit sales of hardware and software increased mainly in the U.S. and Europe. ■ Sales decreased 5% due, in part, to strategic price reductions of hardware in all major regions. ■ Operating income increased 36% because of strong software unit sales and continued reductions in hardware manufacturing costs. ■ PS2 hardware production shipments: 22.52 million units. ■ PS2 software production shipments: 189.90 million units.	■ Through increased penetration of PS2 hardware, enhance the positive cycle in which captivating software titles are continuously sold by game developers and publishers in all the regions of the world. Expand the platform even more through these efforts. ■ Continue efforts to develop PS2 network connectivity and provide a new form of entertainment starting with online games.
■ Despite an increase in manufacturing sales of DVD software, sales decreased 1% due to a decrease in worldwide album sales caused by the contraction of the global music market. ■ An operating loss was recorded, compared with operating income in the previous year, due to an increase in restructuring charges, the decrease in sales and other factors. ■ Restructuring included the closure of a CD manufacturing facility in the U.S., the consolidation of several distribution facilities outside the U.S. and the further consolidation of support functions.	■ Continue to identify and implement restructuring initiatives to maximize efficiencies and improve profitability. ■ Develop and nurture the next generation of global superstar artists. ■ Expand revenue base through new consumer friendly music offerings and maximize the utilization of legitimate digital music services.
■ Highest ever sales were recorded (an increase of 26%) due to the strong theatrical and home entertainment performance of releases including *Spider-Man*, *Men in Black II*, *xXx* and *Mr. Deeds*. ■ Operating income, which increased 89%, also reached a record high due to the reasons above and higher operating income in the television business, which recorded restructuring expenses in the prior fiscal year.	■ Further enhance position in motion pictures by continuing to pursue a franchise strategy. ■ Become the pre-eminent independent television supplier by strengthening core programs, leveraging library assets and pursuing targeted new opportunities. ■ Create broadband networks to enable distribution of SPE content directly to consumers.
■ Revenue increased 6% primarily because insurance-in-force from individual life insurance products at Sony Life Insurance Co., Ltd. and insurance-in-force at Sony Assurance Inc. increased. ■ Operating income increased 5% primarily due to an increase in operating income at Sony Life. Sony Life benefited from an increase in insurance revenue and an improvement in valuation gains and losses from investments in the general account.	■ Continue contributing to the creation of enterprise value at Sony by utilizing the direct-to-customer uniqueness of this segment to offer new "out of the box" products and services.
■ Sales increased 23% due to increased sales at NACS-related businesses* and increased sales at an advertising agency business subsidiary in Japan. ■ Operating loss increased primarily due to an increase in expenses incurred in connection with the creation of a platform business (including expenses for the development of network technology). * NACS (Network Application and Content Service Sector) was established in April 2002 to enhance network-related businesses.	■ NACS will guide the Sony Group to early realization of a business model that integrates hardware and content, and will build a network service which offers customers new value in the broadband era.

Electronics at a Glance

Sales to Customers
(Billion ¥)
(Year ended March 31)

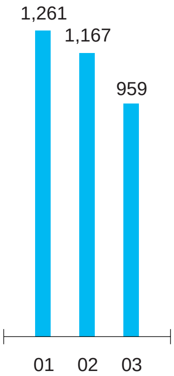






	Audio	Video	Televisions
Major Products	Home audio, portable audio, car audio and car navigation systems.	Video cameras, digital still cameras, video decks and DVD players/recorders.	CRT televisions, projection televisions, plasma televisions, set-top boxes and PC projectors.
Review of FY2002	Sales decreased 9% because, although sales of home theater systems and MD Walkman increased, overall sales of home audio and portable audio decreased.	Sales increased 2% because, although sales of analog video cameras and DVD players decreased, sales of digital still cameras increased worldwide and sales of digital video cameras increased in Asia and Europe.	Sales were almost flat. Sales of large-screen projection televisions increased particularly in the U.S., and sales of plasma televisions increased in the U.S., Europe and Japan, but sales of CRT televisions in the U.S. and Japan decreased significantly due to market contraction.

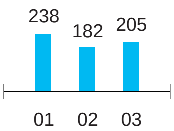
Information and Communications



PCs, computer displays, printers, personal digital assistants, LCD televisions, broadcast and professional use audio/video/monitors and other professional use equipment (mobile phones until September 2001).

Sales decreased 18% because sales of PCs, CRT computer displays and broadcast and professional use products decreased although sales of personal digital assistants increased. PC sales decreased due to pricing pressure and CRT computer display sales decreased due to the market shift to flat panel.

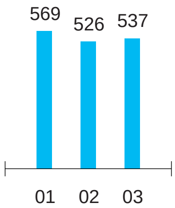
Semiconductors



LCDs, CCDs and other semiconductors.

Sales increased 12% because, although sales of high-temperature polysilicon LCDs decreased, sales of CCDs increased reflecting higher demand for digital still cameras, and sales of bipolar ICs for CD-R/RW and DVD drives increased.

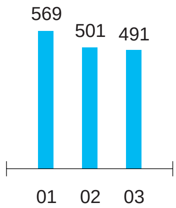
Components



Optical pickups, batteries, CRTs, audio/video/data recording media and data recording systems.

Sales increased 2%. While sales of DVD drives, Memory Stick and batteries increased, sales of CD-R/RW drives decreased due to severe price competition, and sales of CRTs decreased reflecting the decline in the market for CRT televisions and CRT displays.

Other



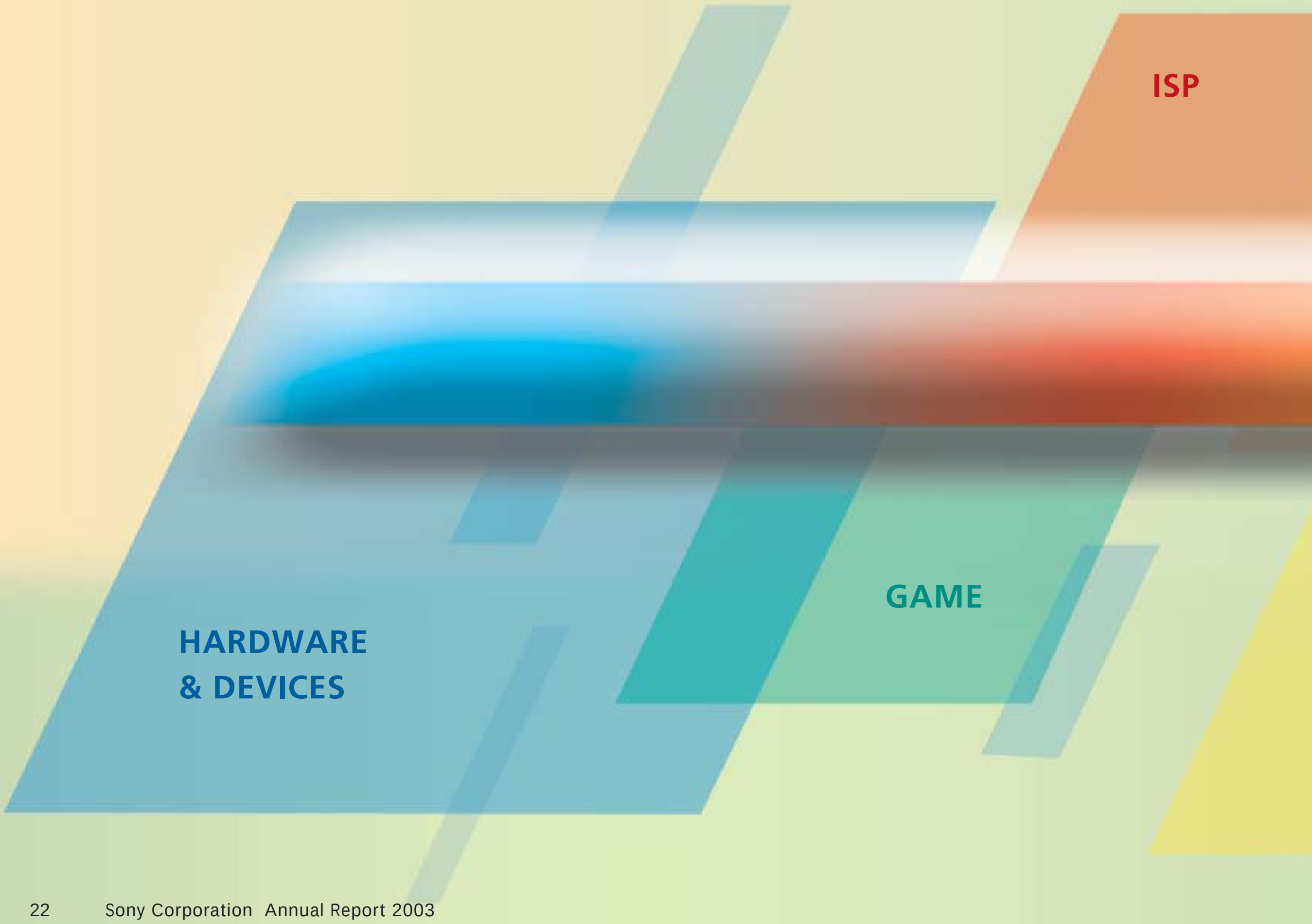
Aiwa products, entertainment robots and products and services not included in other categories.

Sales decreased 2% because sales of Aiwa products decreased worldwide.

Sony World

Evidenced by recent improvements in network infrastructure, the broadband environment has begun to expand at a rapid pace. In preparation for the arrival of the full-scale broadband era, Sony is pursuing its vision of creating a Ubiquitous “Value” Network (UVN).

UVN will bring to life a world in which, anytime and anywhere, simply by connecting digital products to the broadband network, customers, who are at the center of UVN, can enjoy content and share the content they create with a multitude of people.



Sony has always helped people create and attain their dreams, and has worked to make people's lives more enjoyable. Through the provision of broadband-ready home-use and mobile-use hardware as well as the content and applications customers actually enjoy, Sony aims to provide all customers with new value in the broadband era.

SERVICES / APPLICATIONS

CONTENT

Home Networks

With ADSL and fiber-optic access growing in availability, broadband networks are rapidly gaining acceptance in households. Digitization of AV products and penetration of PCs into the home are also advancing at a rapid pace. This section showcases a variety of home network products that enable users to enjoy themselves in new ways, through the connection of digital AV products and PCs over networks and via various kinds of media.

Plasma Wega

LCD Wega

Grand Wega

Televisions

Televisions are a vital part of the home network, essential to people's enjoyment due to their connection to recording devices such as channel servers, DVD recorders and Handycam video cameras, and to other products like PlayStation.

Sony has a long history of leadership in the television market, including the 1996 introduction of a television with a flat-surface CRT. Sony also has an extensive and expanding line of other televisions in such growing market sectors as plasma, LCD and projection televisions.

The Plasma Wega pictured here features the Wega Engine, a device that represents the pinnacle of Sony's digital display technology. This engine ensures that video input signals from a variety of sources are reproduced with outstanding sharpness and realism.

The LCD Wega pictured here employs a newly developed panel driver to dramatically reduce residual imaging during scenes containing rapid movements. Drawing on Wega Engine technology, this driver keeps the picture sharp and clear even during fast-paced sporting events.

The Grand Wega pictured here is a projection television built around digital high definition LCD panels in its optics unit.

Even in the network era, Sony will continue to uphold the highest standards for picture quality in its televisions, the centerpiece of AV products in the home.

CoCoon

The CoCoon series is an entirely new line of home entertainment products. CoCoon products are designed to evolve and to alter their users' lifestyles. The channel server is the first product in the CoCoon series. Users need only register key words to automatically record their favorite TV programs on the server's hard disc drive. The unit analyzes past recording settings to automatically record programs that match each user's preferences. Broadband connectivity is another attribute. When users access Sony's Come On! MyCaster service online, recording settings can easily be entered while away from home via a PC or mobile phone.

A hard disk drive-equipped DVD digital recorder and a 5.1-channel DVD home theater system with its own hard disk drive are two other CoCoon products on sale. These two units are designed for an always-on broadband connection and are compatible with the Come On! MyCaster service.

Sony believes CoCoon will evolve into a home AV system that connects households to the broadband network.

CoCoon Channel Server

CoCoon Digital Recorder

CoCoon Home Theater System

Wega Engine

The Wega Engine is an integrated digital high-quality system that encapsulates a wealth of sophisticated Sony image processing expertise. Every image input into Wega Engine-equipped televisions is digitized across the image processing circuit so as to prevent signal noise and degradation. The device succeeds in optimizing Sony's renowned picture enhancing capability. Sony has initiated introduction of the Wega Engine from its high-end plasma, LCD, projection and CRT televisions, and these products, with their extremely sharp and realistic images, that even have a sense of depth, have been well received by consumers.

DVD Recorder

The superior audiovisual quality of DVDs has made pre-recorded DVD-Videos of movies, concerts and other types of content commonplace. Now it appears that recordable DVDs are also on the verge of developing into a large market.

To enable playback compatibility with DVD players already sold, Sony has begun selling a DVD recorder that can accommodate +RW, -RW and -R formats. The DVD recorder pictured here has a DV input jack which enables users to record and edit onto DVDs material filmed on Digital Handycam video cameras and other products.

Moreover, for PCs, Sony has introduced a rewritable drive that is compatible with +RW, +R, -RW and -R formats. Market response has been favorable.

By using discs as a recording medium, customers are able to transfer, with ease, high-resolution video content from one device to another. Now that the superior picture and sound quality of DVDs, as well as their outstanding versatility, are easily accessible, hopes are high that digital discs will take hold as the mainstream of video recording in households. Indications also point to growing use of DVDs as a high-capacity PC storage medium.

DVD Recorder

DVD/CD Rewritable Drive

Blu-ray Disc

As digital broadcasting gains momentum, high resolution television programs have become accessible to a growing number of households. This is fueling demand for a means of recording these high definition broadcasts without losing any of their original quality. To meet this demand, nine electronics manufacturers* in Japan, South Korea and Europe established the Blu-ray Disc format.

Sony began selling the world's first Blu-ray Disc recorder in Japan in April 2003. Each disc holds up to 23GB of data, equivalent to about five DVDs. A Blu-ray Disc can store, at the same level of definition, about two hours of the digital high definition broadcasting satellite programming that is available in Japan and about 12 hours of that same programming at regular VHS level quality. The recorder also records the 5.1-channel audio that accompanies the digital high definition broadcasting satellite programming and users can enjoy that sound quality at play time simply by using an amplifier that has an internally-equipped MPEG-2 AAC 5.1-channel decoder. Moreover, the recorder comes with sophisticated copyright protection technology that prevents unlawful duplication of contents.

* The nine companies are: Sony Corporation; Hitachi, Ltd.; LG Electronics Inc.; Matsushita Electric Industrial Co., Ltd.; Pioneer Corporation; Royal Philips Electronics; Samsung Electronics Co., Ltd.; Sharp Corporation; and Thomson.

VAIO and Home Networks

The VAIO PC is another center of the home network Sony is building. Simply by using the RoomLink network media receiver, users can enjoy television programs, music, photos and other digital content stored on their VAIO's hard disk drive from remote locations, such as on their televisions or stereos in their living room. With the included VAIO Media software, AV content on one VAIO can also be accessed from another VAIO located in a different room.

Clicking to DVD software enables users to effortlessly record to DVD video taken on a Handycam video camera, which then allows them to enjoy those videos on their television through DVD players or recorders.

The VAIO W pictured here is now equipped with a Net MD drive. That means this PC can download music from online music distribution sites and other sources to its hard disk drive for subsequent, easy recording on an MD, all in a copyright-secure environment. Music can then be enjoyed on an MD player-equipped home audio system in the living room, or while outdoors on an MD Walkman.

http://www.vaio.net/

RoomLink

VAIO W

Mobile Networks

To achieve its vision of a Ubiquitous "Value" Network, Sony is working pro-actively to introduce not only home networking products, but also mobile networking products such as mobile phones, personal digital assistants, notebook PCs, digital still cameras and video cameras. This section showcases Sony products that are employed primarily in mobile environments and reveals how these products are being linked to networks.

CLIÉ

The CLIÉ personal digital assistant has evolved rapidly since its debut in 2000, when these units were used chiefly for schedule management and e-mail. The model pictured here has a 2 mega pixel, high resolution CCD camera. Users can take still photos as well as record moving images with sound. The unit can also play music or video from data stored on a Memory Stick.

The new CLIÉ boasts a variety of other interfaces. Among them are a Memory Stick slot, Bluetooth™ compatibility for direct links with wireless networks and a reader for FeliCa contactless IC cards. Simply by inserting a wireless LAN card into its card slot, users can also access broadband connections in wireless LAN environments such as at the office, cafes, airports and many other locations on the go.

Network Handycam

Since launching the world's first 8mm video camera in 1985, Sony has maintained a strong position in the global video camera market. During the year under review, Sony introduced the Network Handycam pictured here featuring a 2.11 mega pixel CCD and improved picture quality. This camera has networking capabilities as well; with an adapter, users can send images via a mobile phone or Ethernet network.

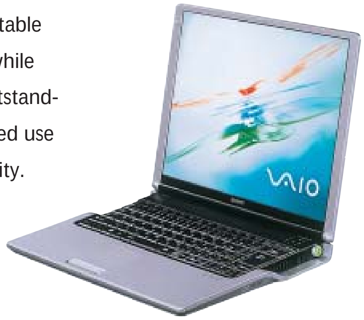
VAIO Notebook PC

The VAIO U pictured here, with its mobile-grip design, is a new kind of PC that is both small and light, allowing it to be carried and used anywhere and anytime. Despite its small body, the VAIO U is filled with sophisticated functions optimal for use in the mobile environment. Sony's exclusive 4-way multi-controller makes operating the notebook easy even when holding it. And a newly developed slender lithium-ion polymer battery extends operating time while preserving the model's slim profile. Equipped with a wireless LAN capability, this VAIO offers broadband connectivity without the use of cables.

Combining beauty with high functionality, the VAIO Z pictured here is truly a portable desktop replacement. Its comprehensive functionality matches that of desktop PCs while pursuing the ultimate elements of a mobile PC. A high quality LCD panel ensures outstanding resolution. And the processor consumes very little power, facilitating uninterrupted use for long periods of time. Like the VAIO U, it also has an internal wireless LAN capability.

http://www.vaio.net/

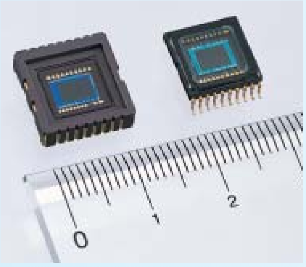
VAIO U



VAIO Z

Digital Still Camera

Sony continues to lead the industry in the rapidly expanding global digital still camera market. Pictured here is a 5.1 effective mega pixel member of the popular Cybershot P series. In addition to taking still photos, this model has a MPEG Movie VX mode for recording video clips with sound that are ideal for viewing on a full size television screen. Sony is also offering an online service called ImageStation. ImageStation enables individuals to send photos from PCs to mobile phones along with messages. It also provides, over the Internet, a high-resolution photo printing service.



CCD

Commonly known as "electronic eyes," CCDs (charge-coupled devices) are semiconductors used for photoelectric transfers. They are used not only in digital still cameras and video cameras, but also, and more recently, in mobile phones, personal digital assistants and a variety of other products. Sony has the top share of the CCD market, where growth is expected to continue, and has a technological edge over its competitors.

Walkman

Net MD Walkman

Walkman have been evolving continuously since 1979, when Sony first made music portable with the introduction of the audio cassette tape Walkman. An MD Walkman joined the lineup in 1992 and a Net MD Walkman followed in 2001. When linked to a PC via a USB interface, the Net MD Walkman can record, directly onto an MD, music that has been downloaded to the PC's hard disk drive from a CD or an electronic music distribution service, all while protecting copyrighted material. Since its introduction, the Net MD Walkman has been well received in Japan, the U.S. and Europe.

Sony has also introduced a Network Walkman that enables users to enjoy music, transferred from their PC, to internal flash memory and IC recording media. The model pictured here, which went on sale in February 2003, can hold the equivalent of about 11 CDs (60 minutes per CD, recorded using the ATRAC3plus / 48kbps mode) in its 256MB embedded memory. When used with the Memory Stick Duo IC memory card, recording time is much longer, allowing users to enjoy an even greater variety of music while on the go.

Network Walkman

http://www.sony.net/Products/networkaudio/
http://www.sony.net/Products/walkman/

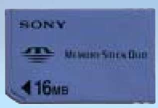
Memory Stick

Memory Stick has succeeded in becoming an offline network media since its introduction in the fall of 1998. By the end of March 2003, 39 million Memory Sticks and 40 million compatible products had been shipped. The Memory Stick is used in a wide variety of products including not only digital still cameras, but also PCs, personal digital assistants, mobile phones, audio components, automobile devices, televisions, printers and automated terminals. Applications that can be enjoyed using a Memory Stick have expanded beyond still images to include music and other applications.

During the year under review, three new versions were added to the Memory Stick family. Memory Stick Duo is only about one-third the size of a standard Memory Stick and has only about half the weight. Sony expects it to be used in mobile products such as mobile phones and portable audio players.

Memory Stick with Memory Select Function has two 128MB flash memory chips for a capacity of 256MB. Its convenient functionality allows users to easily divide their data for greater organization simply by flipping the switch on the back.

Memory Stick PRO is an IC recording media for the broadband age. With a higher capacity and read/write speed, this next-generation Memory Stick can be used for real time recording and playback of high resolution moving images. During the year under review, Sony launched three versions of Memory Stick PRO: 1GB, 512MB and 256MB. Going forward, Sony is promoting the further use of Memory Stick as a network media ideal for connecting a multitude of products, content and services.



Memory Stick Duo

Memory Stick with Memory Select

Memory Stick PRO

http://www.sony.net/Products/MS/

Mobile Phone


P800

Sony Ericsson Mobile Communications AB (SEMC), established on October 1, 2001, is an equally owned joint venture between Sony and LM Ericsson in Sweden. The joint venture's objective is to become a world leader in the mobile phone industry through the combination of Sony and Ericsson's complementary strengths.

During the year under review, SEMC launched several attractive products in a variety of markets. In the GSM market, the P800 gained attention as a handset integrating telephony with personal digital assistant, digital camera, music and video player and gaming capabilities. The T300 targeted the mass market with its color screen and Multimedia Messaging capability. And the T100, with its attractive design, ranked among the best-selling models in several markets in the Asia Pacific region. In the Japanese market, SEMC sold the A1101S and SO212i handsets, among others, for the CDMA and PDC networks, respectively.


SO212i


A1101S

For the emerging W-CDMA ("third generation") network primarily in Europe, SEMC has announced the Z1010, which provides video telephony and streaming video in a single, attractive clamshell package. The Z1010 is scheduled to be introduced in the latter half of calendar 2003.

http://www.sonyericsson.com/


Z1010

Optical Disc Systems for Professional Use

Sony has long played a pioneering role in the development of audio and video equipment for the professional market. In the spring of 2003, Sony unveiled the world's first professional-use optical disc system that uses a blue-violet laser. Each 12cm-diameter optical disc holds 23GB of data, equivalent to 90 minutes of recording time in the DV compression (25Mbps) mode, and 45 minutes in the MPEG IMX compression (50Mbps) mode, both of which are used in most professional systems.

The system features all the convenience of the optical disc format, the ability to record metadata (such as time, location, information about subjects and low resolution visuals), as well as network technology. These features lay the groundwork for a whole new operating environment for broadcasters by dramatically cutting the time required to prepare material for broadcasting. Several major broadcast networks, leasing companies and other customers in a number of countries have adopted this system or expressed an interest in doing so.

Sony is making significant contributions to the field of broadcast and professional content creation.


Optical Disc Camcorder


Mobile Deck

Game

Expansion of the PlayStation Business Worldwide

As of May 2003, Sony Computer Entertainment (SCE) had brought its PlayStation (PS) and PlayStation 2 (PS2) businesses to more than 100 countries and regions around the world. Since its launch in March 2000, PS2 hardware has spread around the world at a rapid pace. Total production shipments of PS2 were 22.52 million units during the year under review, lifting cumulative production shipments to more than 51 million units as of March 2003. The PS one game console, which debuted in 2000 and is a compact version of the original PlayStation, also continues to be successful, mainly outside of Japan. During the year under review, 6.78 million units were produced and shipped, raising cumulative production shipments of PS/PS one game consoles to more than 96 million units as of March 2003.

PS2 and PS software titles also posted solid sales in Japan and other countries with continuous release of a wide range of attractive new software titles by numerous game software developers and publishers around the world. The result was an increase in cumulative global production shipments of PS2 and PS game software to 1,267 million units as of March 31, 2003.

Spurred by this increased penetration throughout the world, captivating software titles continue to be introduced to the market by game software developers around the world. The number of hit titles is also increasing, and this has created a positive cycle in which the attractiveness of software titles prompts further penetration of hardware.

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

PlayStation 2 BB Pack went on sale in Japan in June 2003

Continued Robust Growth in Software Unit Sales

Many PS2 and PS software became hits during the year under review. In Japan, hits included *Final Fantasy X-2* from former Square Co., Ltd. (Square Enix Co., Ltd.); *WORLD SOCCER WINNING ELEVEN 6* by KONAMI CORPORATION; and *Dynasty Warriors 4* by KOEI Co., Ltd. A number of mega hits emerged in both North America and Europe: *Grand Theft Auto: Vice City* by Take-Two Interactive Software Inc.; *Medal of Honor: Frontline, Madden NFL 2003* and *The Lord of the Rings, The Two Towers* by Electronic Arts Inc.; and *Kingdom Hearts* by former Square Electronic Arts L.L.C. (Square Enix U.S.A. Inc.). Among SCE's own titles, *Gran Turismo 3 A-spec*, which was released in 2001, shipped more than three million units during the year under review alone with cumulative shipments topping 11 million units worldwide. *The Getaway*, another SCE hit, saw its shipments surpass two million units.

PS2's Foray into Broadband

SCE is building a world in which users can enjoy online games and other network services by connecting PS2 to a broadband network.

In Japan, SCE started the PlayStation BB service in May 2002, enabling users to play online games and access other services on televisions by connecting PS2 to a broadband network. In June 2003, to make this service even more popular, SCE began selling, through a wider range of channels, the accessories necessary for connecting PS2 to networks. About 40 online game titles are planned for release during the fiscal year ending March 31, 2004.

In North America, in August 2002, SCE launched Network Adaptor, a device designed specifically to connect PS2 to networks. By the end of March 2003, more than one million units had been shipped, contributing to a surge in the number of online gamers. In Europe and South Korea, a trial online game service using Network Adaptor started in April 2003. Full-scale sales of Network Adaptor are expected soon.

Working together with game developers and publishers and other companies, SCE will continue to offer new forms of entertainment through networks.

Minna no GOLF online

In-House Production of Advanced LSIs

Advanced LSIs, such as the EmotionEngine (EE) and Graphics Synthesizer (GS), used in the PS2 as its CPU and graphics rendering processor, are produced by SCE at in-house semiconductor fabrication facilities.

Since 1999, SCE has invested approximately 300 billion yen, starting with an investment in 180 nanometer process fabrication capacity and moving to the introduction of a 90 nanometer process fabrication line. Through the use of this cutting edge technology, SCE will begin production during the fiscal year ending March 31, 2004 of a super LSI that combines EE and GS on a single chip.

Furthermore, in order to manufacture a new microprocessor and other system LSIs designed for the broadband era and for use in the next generation computer entertainment system, the Sony Group, including SCE, decided in April 2003 to make, over the 3-year period ending in March 2006, approximately 200 billion yen in capital expenditures. This 200 billion yen expenditure will give the Sony Group a new semiconductor fabrication line for building chips with 65 nanometer process on 300mm wafers.

SCE semiconductor fabrication facilities

A New Portable Entertainment Platform: PSP

In May 2003, SCE announced PSP, a new handheld entertainment system. Its launch is targeted at the 2004 year-end selling season.

As a recording medium, PSP will utilize Universal Media Disc (UMD), a 60mm optical disc newly developed by the Sony Group. Compared with mask ROM cartridges used in existing portable game units, this disc achieves larger capacity at a lower cost, and with a shorter production lead time. PSP will feature a wide (16:9) screen, high resolution TFT LCD monitor so as to accommodate a broad range of entertainment applications. Rich, three dimensional graphics rendering is made possible by an ultra-high-performance chipset produced using the most advanced semiconductor process technology. Cutting edge codec (coding and decoding) technologies, including MPEG-4, are also utilized, enabling delivery of picture quality equivalent to that of DVD-Video.

The most advanced technologies are employed in this new portable entertainment platform, PSP. SCE positions PSP as a platform for the enjoyment of a broad range of computer entertainment, anywhere, anytime, and will continue to offer a wide range of entertainment content and services.

Internet Service Provider

So-net

Since launching its service in January 1996, Sony Communication Network Corporation (SCN), the provider of the So-net Internet service, has delivered a variety of services including high quality connectivity and the distribution of unique and attractive content.

In the year under review, although the trend toward always-on broadband service continued to evolve, thereby expanding the opportunity to do business, pricing and service competition among service providers intensified.

In response, SCN enlarged the menu of services available through So-net to include ADSL, FTTH (Fiber-to-the-Home) and mobile (wireless connection) network access. In the content domain, SCN started a number of services such as the provision of broadband content including *EverQuest*, a popular online game, and So-net TV, a 24-hour streaming video channel. Tie-ups with other Sony Group companies were also initiated. One was the sale to So-net subscribers of a broadband AV router, integral to making the home network a reality. Another was the provision of discounts to subscribers holding the My Sony Card. Thanks to these activities, the number of registered So-net users reached 2.3 million at the end of March 2003, with the number of broadband service subscribers among those reaching 420,000.

Going forward, SCN will strengthen partnerships within the Sony Group (with the Electronics, Game, Music, Pictures and Financial Services segments) to heighten Sony’s profile as a premier provider of broadband services, all in an attempt to link the Sony name with user enjoyment of broadband networks.

ソニーの楽しいブロードバンド。

Music

Dixie Chicks

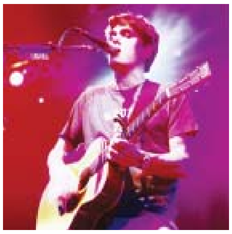
Celine Dion

Shakira

Jennifer Lopez

Las Ketchup

Bruce Springsteen



John Mayer

Audioslave

Sony Music Entertainment Overview

During the year under review, Sony Music Entertainment Inc. (SMEI) continued worldwide restructuring efforts designed to reduce costs and streamline the organization. At the direction of its newly appointed Chairman and CEO, Andrew Lack, these efforts were dramatically accelerated. SMEI has created a new shared services model for its various labels and business units by consolidating functions such as sales, international marketing services, licensing activities and financial and administrative services.

With a global market share of 16.5%, SMEI remained the world's second largest producer, manufacturer and marketer of recorded music and video. SMEI sold more than 330 million units worldwide, led by multimillion sales of recordings by the Dixie Chicks, Celine Dion, Jennifer Lopez, Bruce Springsteen and John Mayer. Fifty other albums, 20% by debut artists, sold between 500,000 and two million units.

http://usa.sonymusic.com/international.html

Sony Music's Measures to Counteract Piracy

Worldwide sales of recorded music fell 7% in value (to 32 billion U.S. dollars) and 8% in units during calendar 2002 due to piracy, unauthorized file sharing and CD burning, the third consecutive year of declining sales for the industry.

The music industry responded with a variety of education campaigns, alerting the corporate and university communities to the use of their networks for illegal online file trading, and utilizing Instant Messaging (IM) capabilities on unauthorized file trading networks to notify individuals of the potential legal consequences of illegally downloading music files. The industry also expanded ongoing enforcement and litigation efforts.

SMEI supported the growth and development of legitimate alternatives to online piracy by making its music available to many legitimate online music services in the U.S. SMEI is also actively working to implement proprietary copy protection solutions that enable copyright owners to control the digital distribution of content while at the same time meeting consumer expectations.

SMEI's Network Related Business Model

SMEI signed agreements with a variety of digital distribution services, including MusicNet and FullAudio, to provide consumers with digital music offerings ranging from monthly subscriptions for streaming and downloading music to the sale of individual tracks. SMEI also authorized Muze, an entertainment product information service, to stream SMEI recordings as promotional sound samples to more than 14,000 retail locations and 250 online shopping sites.

Sony Ericsson Mobile Communications AB (SEMC) and SMEI developed an alliance under which many SEMC handsets shipped in the Americas will carry embedded Sony Music ringtones. In 2002, SMEI acquired RunTones, a wireless entertainment company, and formed the Mobile Products Group, responsible for the ongoing expansion of SMEI's global wireless efforts. Sony Music Mobile debuted on the AT&T Wireless mMode$_{sm}$ service in the U.S., enabling fans to access ringtones, graphics and news about SMEI artists from wireless phones.

SMEI also launched custommixcd.com, a website where fans in the U.S. can create a customized CD featuring twelve songs from an artist's catalog (initially Bob Dylan and Train), including rarities and previously unreleased material. Consumers determine the content and album art, and SMEI creates the album and delivers it to the consumer.

Other SMEI Initiatives

Sony/ATV Music Publishing acquired the legendary Acuff-Rose publishing catalog, consisting of 55,000 compositions including the songs of Hank Williams, Roy Orbison, The Everly Brothers and Felice & Boudleux Bryant, among many others.

SMEI increased the value of the CD format by expanding the use of its ConnecteD and CD EXTRA technologies, which enable consumers to access exclusive free content when the CD is placed in a computer's CD-ROM drive. Other added-value marketing strategies were implemented including issuing limited edition versions of key titles with bonus DVD/CD discs.

Sony Music Entertainment (Japan) (SMEJ)

Even as Japan's recorded music market continued to shrink, SMEJ kept its number-one position. Highlighting the year's accomplishments were dramatic successes in the development of new artists. CHEMISTRY's *Second to None* was Japan's best-selling album of the year, while Mika Nakashima's first album, *TRUE*, hit the million mark shortly following its release. Furthermore, Chitose Hajime, said to have a voice that only comes along once in a century, has been generating strong sales for a long time with her debut album, *Wadatsumi no Ki*.

SMEJ also retained an aggressive stance regarding new business development. In 1999, SMEJ was first in its industry to launch an Internet music download site, using the brand name "bitmusic," that protects copyrighted material. Sales through "bitmusic" have been rising in step with the growth of broadband services in Japan. Building upon this network-based music distribution service, in January 2003, SMEJ began selling Labelgate CDs designed specifically for the demands of a network-based society. Breaking new ground again, SMEJ in December 2002 launched *Chaku-Uta*, the world's first service dedicated to selling music created by artists specifically for the ringtones of mobile phones. Downloads of SMEJ songs from this site cumulative to March 31, 2003 surpassed 1.5 million. The success of this service has attracted attention not only from other members of the music industry but from the IT industry as well.

http://www.sonymusic.co.jp/eng/

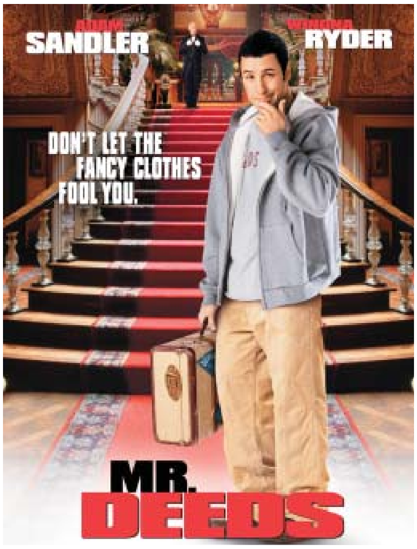
CHEMISTRY

Chitose Hajime

Mika Nakashima

Pictures

Spider-Man



Mr. Deeds

Motion Pictures and Home Entertainment Business Overview

In the year under review, Sony Pictures Entertainment's (SPE) motion picture group recorded its highest ever sales. While the studio had six films in calendar year 2002 earn more than 150 million U.S. dollars in worldwide box office, including *Men in Black II*, *xXx*, *Stuart Little 2*, *Mr. Deeds* and *Panic Room*, it was truly the year of *Spider-Man*. This long-awaited film grossed a company record of more than 800 million U.S. dollars worldwide by the end of March 2003, and a sequel is in production for a scheduled calendar 2004 release. By motion picture studio, SPE achieved a 17% U.S. box office market share and a company record for worldwide box office with 2.88 billion U.S. dollars recorded in calendar 2002.

Home entertainment capitalized on the success of the theatrical slate as well as the growth of the worldwide DVD market to achieve its highest annual revenues ever of 2.77 billion U.S. dollars. *Spider-Man* led the way with over 40 million initial units shipped worldwide, a company record.

SPE is well positioned for the future with a strong film slate for the fiscal year ending March 31, 2004 with releases including *Anger Management*, *Daddy Day Care*, *Charlie's Angels: Full Throttle*, *Bad Boys II* and *S.W.A.T.* Various film suppliers, including Columbia Pictures, Screen Gems, Sony Pictures Classics, Revolution Studios as well as local language productions, create a diverse film slate that limits reliance on any one film source.

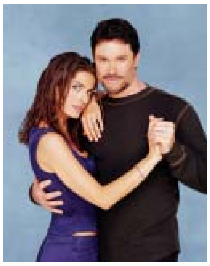
http://www.sonypictures.com/

Panic Room

Men in Black II

Television Business Overview

The television group continued to perform well as a result of launches of new series and exploitation of its library. In the U.S., Sony Pictures Television altered its business structure to become more efficient, with innovative and targeted programming, like the award-winning cable show, *The Shield*. Shows including *The King of Queens* and *The Guardian* continued to perform well on network primetime. *Wheel of Fortune*, celebrating its 20th year, and *Jeopardy!* maintained their spots as the number-one and number-two U.S. syndicated game shows while *Pyramid* debuted as our latest syndicated game show. *The Young & The Restless*, celebrating 30 years on the air, and *Days of Our Lives* stayed on top as the number-one and number-two U.S. network daytime serials. Around the world, Sony Pictures Television International (SPTI) continued to expand its distribution capabilities and now holds interests in 30 channels reaching more than 230 million viewers worldwide. In addition, SPTI sought new opportunities to develop local language productions and sell SPE owned content in approximately 25 countries around the world.



Days of Our Lives

The Shield

Pyramid

Overview of Sony Pictures Digital

Sony Pictures Digital achieved significant results as a leading producer and distributor of digital entertainment. Visual effects giant Imageworks celebrated its 10th anniversary by winning its first Academy Award® for its animated short film *The ChubbChubbs* and delivered key sequences for the Academy Award®-winning *The Lord of the Rings: The Two Towers*. Sony Pictures Animation was formed to produce CG movies blending cutting edge visuals with original stories to create films that are entertaining to moviegoers of all ages.

The ChubbChubbs

Network Related Businesses

Networked services are the basis of Sony Pictures Digital Networks, which develops and provides new forms of online content, games, interactive programming, open-access Video-on-Demand and wireless entertainment to consumers worldwide on any enabled device. Movielink, the online movie download service jointly owned by SPE and four other studios, launched and now offers feature films on a pay-per-view basis in the U.S.

Market leader Sony Online Entertainment continues its success with *EverQuest* and *EverQuest Online Adventures*, bringing massively multiplayer networked gameplay to the PS2. *Planetside* was launched in May 2003 and *Star Wars Galaxies* will be introduced in June 2003. The *EverQuest* property continues to grow, with more than two million units in the market and over 425,000 current subscribers. It has also attracted over 100,000 players at one time.

EverQuest

Outlook

The motion picture industry remains a bright spot in the global economic environment. Worldwide box office continues to grow as does the home entertainment market. SPE, with its strategy of distributing a diversified portfolio of movies, its existing and developing digital distribution capabilities and its library of motion pictures (over 3,500 feature films) and television programs (over 82,000 hours of programming), is well positioned to continue to thrive in the marketplace.

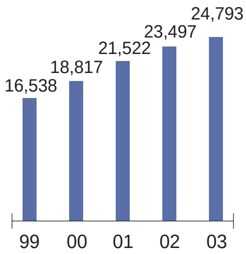
Financial Services

Sony Life

What is "quality" life insurance? Sony Life Insurance Co., Ltd. believes that it is the provision of customized policies that accurately target the requirements of each customer. A line of ready-made insurance coverage cannot accommodate the unique needs of every customer. That is why it is essential to design insurance plans only after analyzing and thoroughly comprehending each customer's current status and future goals, and only after considering, in depth and from every angle, issues involving taxes, legal matters, finances and a variety of other factors. Sony Life is committed to this definition of quality, and it has a team of Lifeplanners, life insurance professionals armed with a broad array of specialized knowledge and superior consulting skills, and independent agencies that design and supply tailor-made insurance plans that address the unique needs of each customer.

During the year under review, Sony Life was the first Japanese insurer to begin selling a revolutionary policy rider called the "Nursing needs benefit rider." Policyholders pay nothing extra and benefits are paid, based on the primary policy's death benefit amount, when an individual is recognized as having reached a certain status under Japan's government-backed nursing care insurance scheme. Sony Life also developed an online support tool that allows customers to simulate how the portfolio portion of their variable life insurance and variable annuity policies will look in the future.

Individual Life Insurance-in-Force (includes individual annuities)
(Billion ¥)



*As of March 31

Sony Assurance

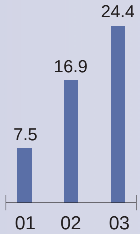
Since beginning operations in the fall of 1999, Sony Assurance Inc. has been engaged primarily in the sale of automobile insurance directly to customers by telephone and over the Internet. Policies are structured to target specific categories of risk. In June 2002, the company began direct sales of a product in the health insurance field called "Sure" that includes generous coverage for cancer treatments.

To offer reasonable rates, automobile insurance rates are structured to reflect the distance a car is driven. Speedy, in-depth service is extended in the event of an accident or breakdown. As of the end of March 2003, three and a half years since Sony Assurance began selling auto insurance, there were approximately 390,000 policies in force, a steady growth from the approximately 270,000 policies in force at the end of March 2002. This growth is testimony to the solid reputation the company has earned among customers for the quality of its policies and services.

The "Sure" health insurance policy provides a broad range of coverage for events including disease, injury and cancer. Coverage is particularly generous for cancer treatment, which often entails long periods of hospitalization and considerable expense. Two types of policies are available: whole life and ten-year renewable term insurance. In addition, Sony Assurance offers unique riders that give policyholders the option of reducing future premiums or increasing benefits.

Sony Assurance will continue to concentrate on enhancing its services to be certain that each and every policyholder is pleased to have chosen Sony Assurance.

Net Premiums Received
(Billion ¥)



*Year ended March 31

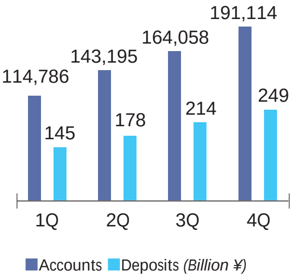
Sony Bank

Sony Bank Inc. provides highly convenient financial products and services over the Internet, employing MONEYKit, its investment and asset management tool.

One of the products that capitalizes on Sony Bank's online uniqueness is its U.S. dollar and euro foreign currency deposit option, which narrows the gap between individuals and financial markets. In principle, exchange rates are revised each time market rates move by approximately 0.1 yen and foreign exchange commissions are set at the low level of only 0.25 yen for each one-way transaction. Furthermore, as a general rule, customers can perform transactions over the Internet 24 hours a day 365 days a year. In July 2002, Sony Bank rolled out its foreign exchange chart service to give customers even more assistance in managing their foreign currency deposits.

Sony Bank's housing loan, which has gained attention as Japan's first housing loan requiring no visit to a bank branch, employs the Internet to maximize convenience. Customers can go online to apply for loans, borrow money, make early payments, alter interest rate plans and conduct other tasks.

Accounts and Deposits of Sony Bank
(Fiscal year ended March 31, 2003)



*As of the end of each quarter

Sony Finance International's Internet Payment Processing Initiatives

Payment processing is a vital component of any infrastructure that enables services, such as content download, to be provided over a network. Sony Finance International, Inc., the Sony Group's credit arm, is a very active player in this realm of business.

Sony Finance developed the eLIO payment processing service to facilitate safe and simple purchasing of goods and services over the Internet with a credit card. To protect credit card information from theft, the service requires no manual input of a credit card number to complete a transaction. In April 2002, the company began issuing a My Sony Card that has all three of the following payment processing capabilities: VISA, eLIO and the Edy prepaid electronic money service of bitWallet, Inc., a company owned by Sony Corporation, Sony Finance and other investors.

The eLIO brand is being co-branded with a growing variety of other cards. An airline mileage card and a campus pass that doubles as a student ID card are just some of the cards that have been issued. Sony Finance will continue to look beyond conventional credit card functions to lead the way in creating a "community card" that meets the shared interests and needs of consumers in the networked society.

Internet Applications

Internet Applications

Sony is providing both hardware and Internet-based applications to cater to a broad range of consumer needs in the broadband age.

Illustrating this posture is ImageStation, an online imaging service. This service enables users to upload to the Internet photos taken on digital still cameras, order prints over the Internet, and create a photo album online so that friends and family can view it. When using a network-enabled CLIÉ personal digital assistant or Handycam video camera, photos can be sent to the ImageStation site over mobile phones and other devices from the place where they are taken.

During the year under review, Sony and three other Japanese audio product manufacturers agreed to jointly establish Any Music Planning, Inc., laying the groundwork for the Any Music service that, from the fiscal year ending March 31, 2004, will send music over the Internet directly to audio components and similar devices. Any Music will allow individuals to sample, purchase and enjoy with ease high quality music from any compatible home audio component. And it will enable them to transfer downloaded music to portable devices such as a Net MD device or any product that has a Memory Stick slot.

As for the identification numbers that consumers need to use certain Sony products and services, Sony has begun to move away from the system in which every entity in the Sony Group has its own ID to a common, My Sony ID, across the Group. Unification of this customer authentication system maximizes convenience while protecting customers' personal information. It also forms the foundation for development of a business model that links all the products and services across the Sony Group.

For more information, see the My Sony home page at https://www.my.sony.com/

Research and Development

In a world in which products are becoming increasingly digitized, Sony is building an R&D framework designed to concentrate high functionality and added-value into devices.

One of the technologies that Sony is strategically developing in preparation for the future is the next generation microprocessor called Cell. In order to deploy, on a wide scale, such devices as a next generation computer entertainment system and consumer electronics, Sony Corporation and Sony Computer Entertainment Inc. have worked with IBM Corporation and Toshiba Corporation since the spring of 2001 to jointly develop Cell, which will form the foundation of the broadband network era. These four companies are also working together to develop semiconductor manufacturing process technology that uses design rules as minute as 50 nanometer on 300mm wafers. Such technological advances will be necessary to produce leading edge LSIs such as future Cell chips.

Another core, next generation technology is functional device technology that combines the functions of several products. Such technology includes technologies that correspond to the five senses, like the CCD, which resembles the sense of sight, interface technology such as display devices, and wireless technology that performs information transfer functions. These technologies are at the core of AV technologies and have played a central role in making possible such sophisticated Sony robots as the entertainment robot AIBO and the biped robot.

Biped robot

In addition to this R&D focused on the next generation, over the mid- to long-term, Sony will exert more energy on the development of material and process technology key to new hardware that goes beyond the static assumptions of the past. Process technology is on the verge of a new era in which precision is measured in nanometers (one millionth of a millimeter) rather than microns (one thousandth of a millimeter). To achieve this level of precision, Sony is shifting from classical physics to quantum physics. At the same time, Sony is undertaking R&D that takes into account the movement away from the 20th Century era, centered on silicon, to an era centered on carbon. Carbon nanotubes, fullerenes and various organic materials symbolize this new age. Sony's R&D activities are also part of the shift from inorganic materials and mechanical engineering to biological response and biomolecular emulation technologies such as biotechnology and other life sciences.

Another R&D focus is batteries, an essential element in the growth of mobile devices. Sony is studying ways to use new materials to produce lightweight, high-performance batteries, with a particular focus on fuel cells.

In today's world, R&D activities must be undertaken with greater concern for environmental emissions and impact on human sensibilities. In such an environment, in March 2003, Sony established an Institute for Environmental Research, directly overseen by headquarters, to centralize and promote research activities involving recycling, environmental impact reduction and other technologies.

Moreover, Sony is striving to develop products that appeal directly to customers' hearts and minds, inspire emotions and attain a level of quality that cannot be measured numerically.

Through inclusion in our products of fundamental technologies born from these R&D activities, Sony will continue to propose new styles of living which exemplify the best in quality.

R&D Expenditures

During the year under review, R&D expenditures increased 9.9 billion yen, or 2.3%, to 443.1 billion yen and the ratio of R&D expenditures to sales (excluding Financial Services revenue) rose from 6.1% to 6.4%. Major elements of the expenditures were 380.3 billion yen in the Electronics segment (a 0.8% decrease year on year) and 61.5 billion yen in the Game segment (a 27.4% increase year on year). Of the R&D expenditures in the Electronics segment, approximately 66% were for product prototype development while the remaining 34% were for new, mid- to long-term technologies in the semiconductor, communications and display fields. R&D expenditures in the Game segment increased primarily in the semiconductor and hardware fields.

During the three-year period ending March 31, 2006, Sony plans to spend approximately 500 billion yen for R&D (excluding R&D for product prototypes) in fields such as key devices so as to enhance the competitiveness of products.

R&D Organization

Individual business units are responsible for projects requiring rapid commercialization while strategic themes are the responsibility of laboratories under headquarters' control. From the fiscal year ending March 31, 2004, Sony has added to this structure by establishing a Platform Technology Center and formulating a new system for comprehensive control of activities extending from architecture to operating systems and middleware to chipsets.

Sony has twelve research centers, each responsible for a specific application, as well as the Institute for Environmental Research, all of which are under headquarters' control. Sony Computer Science Laboratories, Inc. and Sony-Kihara Research Center, Inc. operate as independent legal entities.

Headquarters Research Laboratories

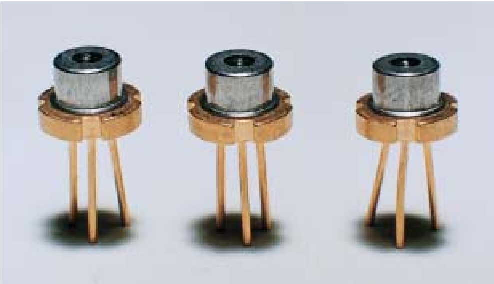
- Content & Applications Laboratory (content related application technology)
- Broadband Applications Laboratories (networking related application technology)
- Networked CE Development Laboratories (consumer application technology)
- Ubiquitous Technology Laboratories (communications and security technology)
- Storage Technology Laboratories (storage technology)
- Display Technology Laboratories (display technology)
- Materials Laboratory (material and device technology)
- Sony Corporate Laboratories Europe (various fields)
- A^3 Research Center (signal processing technology)
- Intelligent Dynamics Laboratory (robotics)
- Fusion Domain Laboratory (advanced convergence technology)
- Material Science Laboratory (fundamental material and device technology)
- Institute for Environmental Research

Independent Research Laboratories

- Sony Computer Science Laboratories, Inc.
- Sony-Kihara Research Center, Inc.

Recent R&D Highlights

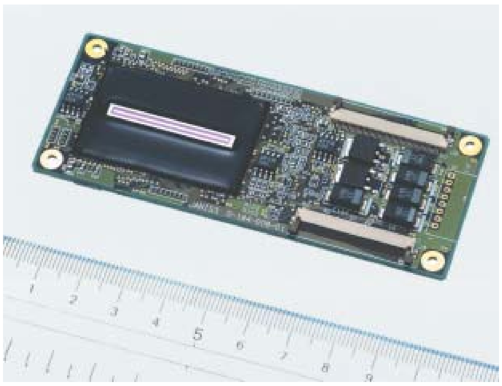
Sony has succeeded in developing a gallium nitride blue-violet laser diode, a large-capacity optical recording and playback device ideal for the broadband era. Demand for it is expected to expand in the future.



Blue-violet laser diodes

In the field of laser technology, in May 2003, Sony announced development of the world's first high-output, dual-wavelength laser on a single chip, compatible with both recordable DVDs and CDs. Sony is undertaking pioneering research in the field of optical technology including media technology.

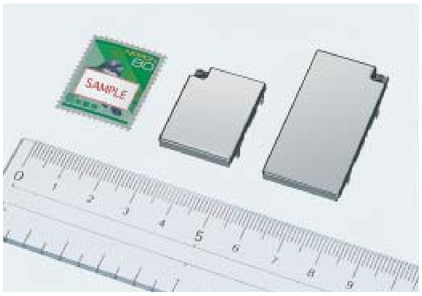
In the imaging field, Sony integrated its own know-how in high-output lasers with the sophisticated MEMS (Micro Electro-Mechanical Systems) technology and is developing a high-contrast, broad-spectrum Grating Light Valve laser projector.



Grating Light Valve

In the realm of mobile networking technology, used in mobile phones and personal digital assistants, demand for smaller size, better performing and lower power consuming terminals has grown. In response, during the fiscal year ended March 31, 2003, Sony developed a System-on-Glass 3.8 inch, low-temperature polysilicon TFT LCD that integrates into the LCD circuit board all the peripheral circuits necessary for the production of images. Sony also developed a television tuner module with a volume of only 1.5ml.

3.8 inch, low-temperature polysilicon TFT LCD



Television tuner modules

A third advance was the Virtual Mobile Engine, dynamic reconfigurable circuit technology that can alter a circuit's configuration using software alone. Going one step further, Sony led the world in incorporating this technology in a consumer electronics product, the NW-MS70D Network Walkman.

Corporate Social Responsibility

Sony believes that addressing issues of concern to stakeholders, a group that includes not only shareholders, but also customers, business partners, local communities and employees, regarding the social impact of its business activities leads to increased corporate value.

Establishment of a Global Code of Conduct

In June 2003, Sony established the Sony Global Code of Conduct to ensure that every member of the Sony Group worldwide is fully aware of the company's stance on the above. The code not only requires strict compliance with laws and regulations, but also includes basic policies of the Sony Group governing human rights, the disclosure of information, the protection of intellectual property and environmental conservation.

Improving "Eco-Efficiency"

Sony positions environmental conservation as a vital management issue. By the fiscal year ending March 31, 2011, Sony plans to double its eco-efficiency (sales divided by environmental impact of the company), compared with the fiscal year ended March 31, 2001. During the year under review, Sony introduced environmentally sensitive products and reduced the environmental impact of manufacturing and other operating activities. Compared with the fiscal year ended March 31, 2001, emission efficiency of greenhouse gases, which may contribute to global warming, improved 1.05 times, resource input efficiency improved 1.18 times and resource output efficiency improved 1.18 times. Sony worked particularly hard to manage the chemicals used in its products and enlisted the aid of its business partners in this effort through Sony's Green Partner program.

Environmentally Sensitive Products and Recycling Initiatives

The Walkman product frames pictured here went on sale in Japan in November 2002. Of the plastics used to make them, more than 90% by weight are made from a vegetable-based plastic. The use of vegetables that can be grown every year as raw materials reduces Sony's consumption of petroleum resources.

In addition to its commitment to environmentally sensitive products, Sony collects and recycles end-of-life Sony products. During the year under review, approximately 460,000 Sony televisions, including Aiwa-brand televisions, were recycled in Japan. In Europe, Sony is teaming up with Braun GmbH (Germany), the Electrolux Group (Sweden) and the Hewlett-Packard Company (U.S.) to launch the pan-European Recycling Platform to collect and recycle used products.

Walkman product frames made using a vegetable-based plastic.

Community Relations

Since its inception, Sony has conducted various programs to assist in the growth and development of the coming generation, primarily by supporting educational activities. Today, as relationships between companies and society become increasingly important, Sony is striving to engage in activities that meet the needs of the local communities in which it operates and to build strong relationships with those communities as a responsible corporate citizen.

Sony Group employees volunteer to make New York's Central Park more beautiful.

Sony provides more information about its social and environmental activities to stakeholders through its website and other publications: http://www.sony.net/eco/

Management (Fiscal Year Ended March 31, 2003)

Directors

Norio Ohga
Honorary Chairman (Retired as Chairman of the Board and Director on January 29, 2003)

Nobuyuki Idei
Chairman and Group CEO, Representative Director

Kunitake Ando
President and Group COO, Representative Director

Teruhisa Tokunaka
Executive Deputy President and Group CSO (Chief Strategy Officer), Representative Director

Minoru Morio
Vice Chairman, Sony Group East Asia Representative, Group CPO (Chief Production Officer), Director

Teruo Masaki
Corporate Senior Executive Vice President, Group General Counsel, Director

Howard Stringer
Vice Chairman, Sony Group Americas Representative, Director

Ken Kutaragi
Executive Deputy President, Director

Iwao Nakatani
Director (Director of Research, UFJ Institute Ltd.)

Göran Lindahl
Sony Group Europe Representative, Director

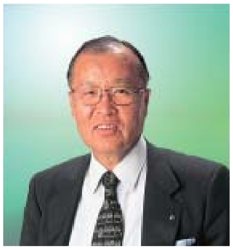
Akishige Okada
Director (Chairman of the Board (Representative Director), Sumitomo Mitsui Financial Group, Inc.)

Statutory Auditors

Akihisa Ohnishi
Standing Statutory Auditor

Takafumi Abe
Standing Statutory Auditor

Tadasu Kawai
Standing Statutory Auditor



Masasuke Ohmori
Statutory Auditor (Former Director-General of Cabinet Legislation Bureau, current Visiting Professor at Waseda University School of Law)

Corporate Executive Officers

Nobuyuki Idei
Chairman and Group CEO

Kunitake Ando
President and Group COO

Teruhisa Tokunaka
Executive Deputy President and Group CSO

Minoru Morio
Vice Chairman, Sony Group East Asia Representative, Group CPO

Howard Stringer
Vice Chairman, Sony Group Americas Representative

Shizuo Takashino
Executive Deputy President

Ken Kutaragi
Executive Deputy President

Teruo Masaki
Corporate Senior Executive Vice President and Group General Counsel

Akira Kondoh
Corporate Senior Executive Vice President and Group CIO

Katsuaki Tsurushima
Corporate Senior Executive Vice President

Teruaki Aoki
Corporate Executive Vice President

Mario Tokoro
Corporate Executive Vice President

Toshitada Doi
Corporate Executive Vice President

Seiichi Watanabe
Corporate Executive Vice President

Kenichiro Yonezawa
Corporate Executive Vice President

Mitsuru Ohki
Corporate Executive Vice President

Takeo Minomiya
Corporate Executive Vice President

Masayuki Nozoe
Corporate Executive Vice President

Takeo Eguchi
Corporate Senior Vice President

Yoshio Nishi
Corporate Research Fellow (Corporate Senior Vice President)

Yutaka Nakagawa
Corporate Senior Vice President

Tetsujiro Kondo
Corporate Senior Vice President

Kiyoshi Nishitani
Corporate Senior Vice President

Tsutomu Niimura
Corporate Senior Vice President

Nobuyuki Oneda
Corporate Senior Vice President

Ryoji Chubachi
Corporate Senior Vice President

Keiji Kimura
Corporate Senior Vice President

Fujio Nishida
Corporate Senior Vice President

Yoshiyuki Kamon
Corporate Vice President

Takeo Kaji
Corporate Vice President

Kozo Kaminaga
Corporate Vice President

Shigeo Kubota
Corporate Research Fellow (Corporate Vice President)

Akira Iga
Corporate Research Fellow (Corporate Vice President)

Norihisa Shirota
Corporate Research Fellow (Corporate Vice President)

Mitsuru Inaba
Corporate Vice President

Kazuo Yamagiwa
Corporate Vice President

Hiromasa Otsuka
Corporate Vice President

Yoshinori Onoue
Corporate Vice President

Yoshihiro Taya
Corporate Vice President

Shoji Nemoto
Corporate Vice President

Takashi Hayashi
Corporate Vice President

Takashi Fukushima
Corporate Vice President

Takao Yuhara
Corporate Vice President and Group CFO

Group Executive Officers

Akiyoshi Kawashima
Katsumi Ihara
Tadakatsu Hasebe
Masao Morita
Yoshihide Nakamura
Akira Kubota
Michiaki Tsurumi
Tsutomu Yamashita
Fujio Sugano
Kei Kodera
Hiroshi Shoda
John Calley
Masahiro Oki
Senji Yamamoto
Masao Tomioka
Eiji Kishi
Takeshi Matsunobu
Akira Sato
Kenji Kitatani
Hiroyuki Matsumoto
Hideki Komiyama
Nobuhiro Hamasaki
Tsugie Miyashita

(As of April 24, 2003)

Financial Section

Consolidated Balance Sheets

Sony Corporation and Consolidated Subsidiaries
March 31

	Yen in millions		Dollars in millions*
	2002	**2003**	**2003**
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 683,800	**¥ 713,058**	**$ 5,942**
Time deposits	5,176	**3,689**	**31**
Marketable securities	162,147	**241,520**	**2,013**
Notes and accounts receivable, trade	1,363,652	**1,117,889**	**9,316**
Allowance for doubtful accounts and sales returns	(120,826)	**(110,494)**	**(921)**
Inventories	673,437	**625,727**	**5,214**
Deferred income taxes	134,299	**143,999**	**1,200**
Prepaid expenses and other current assets	435,527	**418,826**	**3,490**
Total current assets	3,337,212	**3,154,214**	**26,285**
Film costs	313,054	**287,778**	**2,398**
Investments and advances:			
Affiliated companies	131,068	**111,510**	**929**
Securities investments and other	1,566,739	**1,882,613**	**15,689**
	1,697,807	**1,994,123**	**16,618**
Property, plant and equipment:			
Land	195,292	**188,365**	**1,570**
Buildings	891,436	**872,228**	**7,269**
Machinery and equipment	2,216,347	**2,054,219**	**17,118**
Construction in progress	66,825	**60,383**	**503**
	3,369,900	**3,175,195**	**26,460**
Less—Accumulated depreciation	1,958,234	**1,896,845**	**15,807**
	1,411,666	**1,278,350**	**10,653**
Other assets:			
Intangibles, net	233,088	**258,624**	**2,155**
Goodwill	317,240	**290,127**	**2,418**
Deferred insurance acquisition costs	308,204	**327,869**	**2,732**
Deferred income taxes	120,168	**328,091**	**2,734**
Other	447,356	**451,369**	**3,762**
	1,426,056	**1,656,080**	**13,801**
	¥8,185,795	**¥8,370,545**	**$69,755**

	Yen in millions		Dollars in millions*
	2002	**2003**	**2003**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings	¥ 113,277	**¥ 124,360**	**$ 1,036**
Current portion of long-term debt	240,786	**34,385**	**287**
Notes and accounts payable, trade	767,625	**697,385**	**5,812**
Accounts payable, other and accrued expenses	869,533	**864,188**	**7,202**
Accrued income and other taxes	105,470	**109,199**	**910**
Deposits from customers in the banking business	106,472	**248,721**	**2,073**
Other	355,333	**356,810**	**2,972**
Total current liabilities	2,558,496	**2,435,048**	**20,292**
Long-term liabilities:			
Long-term debt	838,617	**807,439**	**6,729**
Accrued pension and severance costs	299,089	**496,174**	**4,135**
Deferred income taxes	159,573	**159,079**	**1,326**
Future insurance policy benefits and other	1,680,418	**1,914,410**	**15,953**
Other	255,824	**255,478**	**2,129**
	3,233,521	**3,632,580**	**30,272**
Minority interest in consolidated subsidiaries	23,368	**22,022**	**184**
Stockholders' equity:			
Subsidiary tracking stock, no par value—			
2002—Authorized 100,000,000 shares,			
outstanding 3,072,000 shares	3,917		
2003—Authorized 100,000,000 shares,			
outstanding 3,072,000 shares		**3,917**	**33**
Common stock, no par value—			
2002—Authorized 3,500,000,000 shares,			
outstanding 919,744,355 shares	472,189		
2003—Authorized 3,500,000,000 shares,			
outstanding 922,385,176 shares		**472,361**	**3,936**
Additional paid-in capital	968,223	**984,196**	**8,202**
Retained earnings	1,209,262	**1,301,740**	**10,848**
Accumulated other comprehensive income—			
Unrealized gains on securities	22,997	**17,658**	**147**
Unrealized losses on derivative instruments	(711)	**(4,793)**	**(40)**
Minimum pension liability adjustment	(72,040)	**(182,676)**	**(1,522)**
Foreign currency translation adjustments	(225,839)	**(302,167)**	**(2,519)**
	(275,593)	**(471,978)**	**(3,934)**
Treasury stock, at cost			
(2002—1,239,304 shares, 2003—1,573,396 shares)	(7,588)	**(9,341)**	**(78)**
	2,370,410	**2,280,895**	**19,007**
	¥8,185,795	**¥8,370,545**	**$69,755**

** U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2003.*

Consolidated Statements of Income

Sony Corporation and Consolidated Subsidiaries
Year ended March 31

	Yen in millions			Dollars in millions*
	2001	2002	**2003**	**2003**
Sales and operating revenue:				
Net sales	¥6,829,003	¥7,058,755	**¥6,916,042**	**$57,634**
Financial service revenue	447,147	483,313	**512,641**	**4,272**
Other operating revenue	38,674	36,190	**44,950**	**374**
	7,314,824	7,578,258	**7,473,633**	**62,280**
Costs and expenses:				
Cost of sales	5,046,694	5,239,592	**4,979,421**	**41,495**
Selling, general and administrative	1,613,069	1,742,856	**1,819,468**	**15,162**
Financial service expenses	429,715	461,179	**489,304**	**4,078**
	7,089,478	7,443,627	**7,288,193**	**60,735**
Operating income	225,346	134,631	**185,440**	**1,545**
Other income:				
Interest and dividends	18,541	16,021	**14,441**	**120**
Royalty income	29,302	33,512	**32,375**	**270**
Foreign exchange gain, net	–	–	**1,928**	**16**
Gain on sales of securities investments, net	41,708	1,398	**72,552**	**605**
Gain on issuances of stock by equity investees	18,030	503	**–**	**–**
Other	60,073	44,894	**36,232**	**302**
	167,654	96,328	**157,528**	**1,313**
Other expenses:				
Interest	43,015	36,436	**27,314**	**228**
Loss on devaluation of securities investments	4,230	18,458	**23,198**	**193**
Foreign exchange loss, net	15,660	31,736	**–**	**–**
Other	64,227	51,554	**44,835**	**373**
	127,132	138,184	**95,347**	**794**
Income before income taxes	265,868	92,775	**247,621**	**2,064**
Income taxes:				
Current	121,113	114,930	**178,847**	**1,491**
Deferred	(5,579)	(49,719)	**(98,016)**	**(817)**
	115,534	65,211	**80,831**	**674**
Income before minority interest, equity in net losses of affiliated companies and cumulative effect of accounting changes	150,334	27,564	**166,790**	**1,390**
Minority interest in income (loss) of consolidated subsidiaries	(15,348)	(16,240)	**6,581**	**55**
Equity in net losses of affiliated companies	44,455	34,472	**44,690**	**372**
Income before cumulative effect of accounting changes	121,227	9,332	**115,519**	**963**
Cumulative effect of accounting changes (2001: Including ¥491 million income tax expense 2002: Net of income taxes of ¥2,975 million)	(104,473)	5,978	**–**	**–**
Net income	¥ 16,754	¥ 15,310	**¥ 115,519**	**$ 963**

(Continued on following page.)

	Yen			Dollars*
	2001	2002	**2003**	**2003**
Per share data:				
Common stock				
Income before cumulative effect of accounting changes				
—Basic	¥ 132.64	¥ 10.21	**¥125.74**	**$ 1.05**
—Diluted	124.36	10.18	**118.21**	**0.99**
Cumulative effect of accounting changes				
—Basic	(114.31)	6.51	**–**	**–**
—Diluted	(105.08)	6.49	**–**	**–**
Net income				
—Basic	18.33	16.72	**125.74**	**1.05**
—Diluted	19.28	16.67	**118.21**	**0.99**
Cash dividends	25.00	25.00	**25.00**	**0.21**
Subsidiary tracking stock				
Net income (loss)				
—Basic	–	(15.87)	**(41.98)**	**(0.35)**
Cash dividends	–	–	**–**	**–**

** U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2003.*

Consolidated Statements of Cash Flows

Sony Corporation and Consolidated Subsidiaries
Year ended March 31

	Yen in millions			Dollars in millions*
	2001	2002	**2003**	**2003**
Cash flows from operating activities:				
Net income	¥ 16,754	¥ 15,310	**¥ 115,519**	**$ 963**
Adjustments to reconcile net income to net cash provided by operating activities—				
Depreciation and amortization, including amortization of deferred insurance acquisition costs	348,268	354,135	**351,925**	**2,933**
Amortization of film costs	244,649	242,614	**312,054**	**2,600**
Accrual for pension and severance costs, less payments	21,759	14,995	**37,858**	**316**
Loss on sale, disposal or impairment of long-lived assets, net	24,304	49,862	**39,941**	**333**
Gain on securities contribution to employee retirement benefit trust	(11,120)	–	**–**	**–**
Gain on sales of securities investments, net	(41,708)	(1,398)	**(72,552)**	**(605)**
Gain on issuances of stock by equity investees	(18,030)	(503)	**–**	**–**
Deferred income taxes	(5,579)	(49,719)	**(98,016)**	**(817)**
Equity in net losses of affiliated companies, net of dividends	47,219	37,537	**46,692**	**389**
Cumulative effect of accounting changes	104,473	(5,978)	**–**	**–**
Changes in assets and liabilities:				
(Increase) decrease in notes and accounts receivable, trade	(177,484)	111,301	**174,679**	**1,456**
(Increase) decrease in inventories	(103,085)	290,872	**36,039**	**300**
Increase in film costs (after adjustment for cumulative effect of an accounting change)	(269,004)	(236,072)	**(317,953)**	**(2,650)**
Increase (decrease) in notes and accounts payable, trade	95,213	(172,626)	**(58,384)**	**(486)**
Increase (decrease) in accrued income and other taxes	38,749	(39,589)	**14,637**	**122**
Increase in future insurance policy benefits and other	241,140	314,405	**233,992**	**1,950**
Increase in deferred insurance acquisition costs	(68,927)	(71,522)	**(66,091)**	**(551)**
Increase in marketable securities held in the insurance business for trading purpose	(20,000)	(55,661)	**–**	**–**
(Increase) decrease in other current assets	(17,031)	5,543	**29,095**	**242**
Increase (decrease) in other current liabilities	88,224	(19,418)	**26,205**	**218**
Other	5,983	(46,492)	**48,148**	**402**
Net cash provided by operating activities	¥ 544,767	¥ 737,596	**¥ 853,788**	**$ 7,115**

(Continued on following page.)

	Yen in millions			Dollars in millions*
	2001	2002	**2003**	**2003**
Cash flows from investing activities:				
Payments for purchases of fixed assets	¥(468,019)	¥(388,514)	**¥ (275,285)**	**$(2,294)**
Proceeds from sales of fixed assets	26,704	37,434	**25,711**	**214**
Payments for investments and advances by financial service business	(329,319)	(705,796)	**(1,026,361)**	**(8,553)**
Payments for investments and advances (other than financial service business)	(136,818)	(90,544)	**(109,987)**	**(917)**
Proceeds from sales of securities investments, maturities of marketable securities and collections of advances by financial service business	93,226	345,112	**542,539**	**4,521**
Proceeds from sales of securities investments, maturities of marketable securities and collections of advances (other than financial service business)	94,264	33,969	**135,834**	**1,132**
Decrease in time deposits	914	1,222	**1,124**	**10**
Net cash used in investing activities	(719,048)	(767,117)	**(706,425)**	**(5,887)**
Cash flows from financing activities:				
Proceeds from issuance of long-term debt	195,118	228,999	**12,323**	**103**
Payments of long-term debt	(143,258)	(171,739)	**(238,144)**	**(1,985)**
Increase (decrease) in short-term borrowings	106,245	(78,104)	**(7,970)**	**(66)**
Increase in deposits from customers in the banking business	–	106,472	**142,023**	**1,184**
Proceeds from issuance of subsidiary tracking stock	–	9,529	**–**	**–**
Dividends paid	(22,774)	(22,951)	**(22,871)**	**(191)**
Other	(889)	12,834	**21,505**	**179**
Net cash provided by (used in) financing activities	134,442	85,040	**(93,134)**	**(776)**
Effect of exchange rate changes on cash and cash equivalents	21,020	21,036	**(24,971)**	**(208)**
Net increase (decrease) in cash and cash equivalents	(18,819)	76,555	**29,258**	**244**
Cash and cash equivalents at beginning of year	626,064	607,245	**683,800**	**5,698**
Cash and cash equivalents at end of year	¥ 607,245	¥ 683,800	**¥ 713,058**	**$ 5,942**
Supplemental data:				
Cash paid during the year for—				
Income taxes	¥ 93,629	¥ 148,154	**¥ 171,531**	**$ 1,429**
Interest	47,806	35,371	**22,216**	**185**
Non-cash investing and financing activities— Contribution of assets into an affiliated company	–	¥ 10,545	**–**	**–**

* *U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2003.*

Consolidated Statements of Changes in Stockholders' Equity

Sony Corporation and Consolidated Subsidiaries
Year ended March 31

	Yen in millions						
	Subsidiary tracking stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total
Balance at March 31, 2000	–	¥451,550	¥940,716	¥1,223,761	¥(425,316)	¥(7,805)	¥2,182,906
Exercise of stock purchase warrants		297	297				594
Conversion of convertible bonds		20,151	20,143				40,294
Stock issued under exchange offerings		4	1,069				1,073
Comprehensive income:							
Net income				16,754			16,754
Other comprehensive income, net of tax—							
Unrealized gains on securities:							
Unrealized holding gains or losses arising during the period					(7,490)		(7,490)
Less: Reclassification adjustment for gains or losses included in net income					(9,909)		(9,909)
Minimum pension liability adjustment					(46,134)		(46,134)
Foreign currency translation adjustments					160,282		160,282
Total comprehensive income							113,503
Stock issue costs, net of tax				(466)			(466)
Dividends declared				(22,939)			(22,939)
Purchase of treasury stock						(2,123)	(2,123)
Reissuance of treasury stock			176			2,435	2,611
Balance at March 31, 2001	–	¥472,002	¥962,401	¥1,217,110	¥(328,567)	¥(7,493)	¥2,315,453
Exercise of stock purchase warrants		26	26				52
Conversion of convertible bonds		161	162				323
Issuance of subsidiary tracking stock	¥3,917		5,612				9,529
Comprehensive income:							
Net income				15,310			15,310
Other comprehensive income, net of tax—							
Unrealized gains on securities:							
Unrealized holding gains or losses arising during the period					(20,243)		(20,243)
Less: Reclassification adjustment for gains or losses included in net income					(1,276)		(1,276)
Unrealized losses on derivative instruments:							
Cumulative effect of an accounting change					1,089		1,089
Unrealized holding gains or losses arising during the period					2,437		2,437
Less: Reclassification adjustment for gains or losses included in net income					(4,237)		(4,237)
Minimum pension liability adjustment					(22,228)		(22,228)
Foreign currency translation adjustments					97,432		97,432
Total comprehensive income							68,284
Stock issue costs, net of tax				(166)			(166)
Dividends declared				(22,992)			(22,992)
Purchase of treasury stock						(468)	(468)
Reissuance of treasury stock			22			373	395
Balance at March 31, 2002	¥3,917	¥472,189	¥968,223	¥1,209,262	¥(275,593)	¥(7,588)	¥2,370,410

(Continued on following page.)

	Yen in millions						
	Subsidiary tracking stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total
Balance at March 31, 2002	¥3,917	¥472,189	¥968,223	¥1,209,262	¥(275,593)	¥(7,588)	¥2,370,410
Conversion of convertible bonds		**172**	**172**				**344**
Stock issued under exchange offering . .			**15,791**				**15,791**
Comprehensive income:							
Net income				**115,519**			**115,519**
Other comprehensive income, net of tax—							
Unrealized gains on securities:							
Unrealized holding gains or losses arising during the period					**(9,627)**		**(9,627)**
Less: Reclassification adjustment for gains or losses included in net income					**4,288**		**4,288**
Unrealized losses on derivative instruments:							
Unrealized holding gains or losses arising during the period					**(4,477)**		**(4,477)**
Less: Reclassification adjustment for gains or losses included in net income					**395**		**395**
Minimum pension liability adjustment					**(110,636)**		**(110,636)**
Foreign currency translation adjustments:							
Translation adjustments arising during the period					**(83,993)**		**(83,993)**
Less: Reclassification adjustment for losses included in net income					**7,665**		**7,665**
Total comprehensive income							**(80,866)**
Stock issue costs, net of tax				**(19)**			**(19)**
Dividends declared				**(23,022)**			**(23,022)**
Purchase of treasury stock						**(1,817)**	**(1,817)**
Reissuance of treasury stock			**10**			**64**	**74**
Balance at March 31, 2003	**¥3,917**	**¥472,361**	**¥984,196**	**¥1,301,740**	**¥(471,978)**	**¥(9,341)**	**¥2,280,895**

(Continued on following page.)

	Dollars in millions*						
	Subsidiary tracking stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total
Balance at March 31, 2002.	$33	$3,935	$8,069	$10,077	$(2,297)	$(63)	$19,754
Conversion of convertible bonds		**1**	**1**				**2**
Stock issued under exchange offering			**132**				**132**
Comprehensive income:							
Net income				**963**			**963**
Other comprehensive income, net of tax—							
Unrealized gains on securities:							
Unrealized holding gains or losses arising during the period					**(80)**		**(80)**
Less: Reclassification adjustment for gains or losses included in net income					**35**		**35**
Unrealized losses on derivative instruments:							
Unrealized holding gains or losses arising during the period					**(37)**		**(37)**
Less: Reclassification adjustment for gains or losses included in net income					**3**		**3**
Minimum pension liability adjustment					**(922)**		**(922)**
Foreign currency translation adjustments:							
Translation adjustments arising during the period					**(700)**		**(700)**
Less: Reclassification adjustment for losses included in net income					**64**		**64**
Total comprehensive income							**(674)**
Stock issue costs, net of tax				**(0)**			**(0)**
Dividends declared				**(192)**			**(192)**
Purchase of treasury stock						**(15)**	**(15)**
Reissuance of treasury stock			**0**			**0**	**0**
Balance at March 31, 2003	**$33**	**$3,936**	**$8,202**	**$10,848**	**$(3,934)**	**$(78)**	**$19,007**

** U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2003.*

Quarterly Financial and Stock Information

Sony Corporation and Consolidated Subsidiaries
Year ended March 31
(Unaudited)

	Yen in billions except per share amounts							
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**
Sales and operating revenue	¥1,633.5	**¥1,721.8**	¥1,780.9	**¥1,789.7**	¥2,279.3	**¥2,307.7**	¥1,884.6	**¥1,654.4**
Operating income (loss)	3.0	**51.9**	(3.4)	**50.5**	158.6	**199.5**	(23.6)	**(116.5)**
Income (loss) before income taxes	(14.3)	**116.6**	0.6	**48.8**	119.3	**201.9**	(12.8)	**(119.7)**
Income taxes	20.3	**53.6**	14.8	**(14.9)**	39.0	**65.5**	(8.9)	**(23.4)**
Income (loss) before cumulative effect of accounting changes	(36.1)	**57.2**	(13.2)	**44.1**	64.0	**125.4**	(5.5)	**(111.1)**
Net income (loss)	(30.1)	**57.2**	(13.2)	**44.1**	64.0	**125.4**	(5.5)	**(111.1)**
Per share data of common stock								
Income (loss) before cumulative effect of accounting changes								
—Basic	¥ (39.26)	**¥ 62.23**	¥ (14.34)	**¥ 47.89**	¥ 69.72	**¥ 136.19**	¥ (5.91)	**¥(120.47)**
—Diluted	(39.26)	**57.90**	(14.34)	**44.70**	64.87	**126.05**	(5.91)	**(120.47)**
Net income (loss)								
—Basic	(32.75)	**62.23**	(14.34)	**47.89**	69.72	**136.19**	(5.91)	**(120.47)**
—Diluted	(32.75)	**57.90**	(14.34)	**44.70**	64.87	**126.05**	(5.91)	**(120.47)**
Depreciation and amortization*	¥ 80.0	**¥ 83.3**	¥ 87.5	**¥ 83.7**	¥ 94.6	**¥ 88.7**	¥ 92.0	**¥ 96.2**
Capital expenditures (additions to fixed assets)	86.1	**60.7**	93.3	**67.0**	75.2	**56.9**	72.1	**76.6**
R&D expenses	103.2	**97.9**	123.2	**108.3**	98.9	**105.6**	107.9	**131.4**
Tokyo Stock Exchange price per share of common stock**:								
High	¥ 10,200	**¥ 7,450**	¥ 8,150	**¥ 6,300**	¥ 6,200	**¥ 5,540**	¥ 7,200	**¥ 5,110**
Low	8,100	**5,810**	4,210	**4,850**	3,980	**4,870**	5,540	**4,080**
New York Stock Exchange price per American Depositary Share**:								
High	$ 85.50	**$ 59.70**	$ 65.75	**$ 53.17**	$ 49.86	**$ 45.29**	$ 56.59	**$ 43.31**
Low	65.80	**48.63**	33.20	**40.51**	33.72	**39.88**	41.00	**34.86**

* *Including amortization expenses for intangible assets and for deferred insurance acquisition costs.*

** *Stock price data are based on daily closing prices.*

Notes: 1. *On April 1, 2002, Sony adopted Statement of Financial Accounting Standards ("FAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The adoption of the provision of FAS No. 144 did not have a material impact on Sony's results of operations and financial position for the year ended March 31, 2003.*

2. *In April 2002, the Financial Accounting Standards Board ("FASB") issued FAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." Sony elected for the early adoption of this statement retroactive to April 1, 2002. The adoption of this statement did not have an impact on Sony's results of operations and financial position.*

3. *In June 2002, the FASB issued FAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" which nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Sony adopted FAS No. 146 on January 1, 2003. The impact of the adoption of this statement on Sony's results of operations and financial position was immaterial.*

4. *In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34." The initial recognition and initial measurement provisions of FIN No. 45 did not have material effect on Sony's results of operations and financial position as at and for the year ended March 31, 2003.*

5. *In December 2002, the FASB issued FAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure — an Amendment of FASB Statement No. 123." Sony has accounted for its employee stock-based compensation in accordance with Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" and, therefore, the adoption of the provisions of FAS No. 148 did not have an impact on Sony's results of operations and financial position.*
6. *In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities — an Interpretation of ARB No. 51." This interpretation addresses consolidation by a primary beneficiary of a variable interest entity ("VIE"). FIN No. 46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN No. 46 become effective for Sony during the second quarter of the year ending March 31, 2004. Sony did not enter into any new arrangements with VIEs during the period February 1, 2003 through March 31, 2003.*
7. *On April 1, 2001, Sony adopted FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by FAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities — an Amendment of FASB Statement No. 133." As a result, Sony's operating income, income before income taxes and net income for the year ended March 31, 2002 decreased by ¥3.0 billion, ¥3.4 billion and ¥2.2 billion, respectively. Additionally, Sony recorded a one-time non-cash after-tax unrealized gain of ¥1.1 billion in accumulated other comprehensive income in the consolidated balance sheet, as well as an after-tax gain of ¥6.0 billion in the cumulative effect of accounting changes in the consolidated statement of income.*
8. *In July 2001, the FASB issued FAS No. 142, "Goodwill and Other Intangible Assets." Sony adopted FAS No. 142 retroactive to April 1, 2001. As a result, Sony's operating income and income before income taxes for the year ended March 31, 2002 increased by ¥20.1 billion and income before cumulative effect of accounting changes as well as net income for the year ended March 31, 2002 increased by ¥18.9 billion.*
9. *In the fourth quarter of the year ended March 31, 2002, Sony adopted "EITF" Issue No. 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products," which was later codified along with other similar issues into EITF Issue No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer or Reseller of the Vendor's Products," retroactive to April 1, 2001. As a result, Sony has restated sales and operating revenue for the first three quarters of the year ended March 31, 2002.*

Five-Year Summary of Selected Financial Data

Sony Corporation and Consolidated Subsidiaries
Year ended March 31

	Yen in millions except per share amounts					Dollars in millions except per share amounts
	1999	2000	2001	2002	**2003**	**2003**
FOR THE YEAR						
Sales and operating revenue	¥6,804,182	¥6,686,661	¥7,314,824	¥7,578,258	**¥7,473,633**	**$62,280**
Operating income	338,061	223,204	225,346	134,631	**185,440**	**1,545**
Income before income taxes	377,691	264,310	265,868	92,775	**247,621**	**2,064**
Income taxes	176,973	94,644	115,534	65,211	**80,831**	**674**
Income before cumulative effect of accounting changes	179,004	121,835	121,227	9,332	**115,519**	**963**
Net income	179,004	121,835	16,754	15,310	**115,519**	**963**
Per share data:						
Common stock						
Income before cumulative effect of accounting changes						
—Basic	¥ 218.43	¥ 144.58	¥ 132.64	¥ 10.21	**¥ 125.74**	**$ 1.05**
—Diluted	195.51	131.70	124.36	10.18	**118.21**	**0.99**
Net income						
—Basic	218.43	144.58	18.33	16.72	**125.74**	**1.05**
—Diluted	195.51	131.70	19.28	16.67	**118.21**	**0.99**
Cash dividends	25.00	25.00	25.00	25.00	**25.00**	**0.21**
Number of weighted-average shares for basic per share data (thousands of shares)	819,506	842,679	913,932	918,462	**919,706**	
Subsidiary tracking stock						
Net income (loss)						
—Basic	–	–	–	(15.87)	**(41.98)**	**(0.35)**
Cash dividends	–	–	–	–	**–**	**–**
Number of weighted-average shares for basic per share data (thousands of shares)	–	–	–	3,072	**3,072**	
Depreciation and amortization*	¥ 307,173	¥ 306,505	¥ 348,268	¥ 354,135	**¥ 351,925**	**$ 2,933**
Capital expenditures (additions to fixed assets)	353,730	435,887	465,209	326,734	**261,241**	**2,177**
R&D expenses	375,314	394,479	416,708	433,214	**443,128**	**3,693**
AT YEAR-END						
Net working capital	¥1,030,463	¥ 861,674	¥ 830,734	¥ 778,716	**¥ 719,166**	**$ 5,993**
Stockholders' equity	1,823,665	2,182,906	2,315,453	2,370,410	**2,280,895**	**19,007**
Stockholders' equity per share attributable to common stock	¥ 2,224.35	¥ 2,409.36	¥ 2,521.19	¥ 2,570.31	**¥ 2,466.81**	**$ 20.56**
Total assets	¥6,299,053	¥6,807,197	¥7,827,966	¥8,185,795	**¥8,370,545**	**$69,755**
Number of shares issued at year-end (thousands of shares)						
Common stock	410,439	453,639	919,617	919,744	**922,385**	
Subsidiary tracking stock	–	–	–	3,072	**3,072**	

** Including amortization expenses for intangible assets and for deferred insurance acquisition costs.*

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2003.

2. Per share data prior to the year ended March 31, 2001 have been adjusted to reflect the two-for-one stock split that has completed on May 19, 2000. However, no adjustment to reflect such stock split has been made to the number of shares issued at prior year-ends.

3. *On April 1, 2001, Sony adopted FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by FAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities — an Amendment of FASB Statement No. 133." As a result, Sony's operating income, income before income taxes and net income for the year ended March 31, 2002 decreased by ¥3.0 billion, ¥3.4 billion and ¥2.2 billion, respectively. Additionally, Sony recorded a one-time non-cash after-tax unrealized gain of ¥1.1 billion in accumulated other comprehensive income in the consolidated balance sheet, as well as an after-tax gain of ¥6.0 billion in the cumulative effect of accounting changes in the consolidated statement of income.*
4. *In July 2001, the FASB issued FAS No. 142, "Goodwill and Other Intangible Assets." Sony adopted FAS No. 142 retroactive to April 1, 2001. As a result, Sony's operating income and income before income taxes for the year ended March 31, 2002 increased by ¥20.1 billion and income before cumulative effect of accounting changes as well as net income for the year ended March 31, 2002 increased by ¥18.9 billion.*
5. *In June 2000, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 00-2, "Accounting by Producers or Distributors of Films." Sony adopted SOP 00-2 retroactive to April 1, 2000. As a result, Sony's net income for the year ended March 31, 2001 included a one-time, non-cash charge with no tax effect of ¥101.7 billion, primarily to reduce the carrying value of its film inventory.*
6. *In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." Sony adopted SAB No. 101 in the fourth quarter ended March 31, 2001 retroactive to April 1, 2000. As a result, a one-time no-cash cumulative effect adjustment of ¥2.8 billion was recorded in the income statement directly above the caption of "net income" for a change in accounting principle.*

Segment Information

Sony Corporation and Consolidated Subsidiaries

Sales and Operating Revenue by Business Segment

	Yen in millions			Dollars in millions*
	Year ended March 31			Year ended March 31
	2001	2002	**2003**	**2003**
Electronics—				
Customers	¥4,982,432	¥4,772,550	**¥4,543,313**	**$37,861**
Intersegment	472,082	513,631	**397,137**	**3,309**
Total	5,454,514	5,286,181	**4,940,450**	**41,170**
Game—				
Customers	646,147	986,529	**936,274**	**7,802**
Intersegment	14,769	17,185	**18,757**	**156**
Total	660,916	1,003,714	**955,031**	**7,958**
Music—				
Customers	571,003	588,191	**559,042**	**4,659**
Intersegment	41,110	54,649	**77,256**	**644**
Total	612,113	642,840	**636,298**	**5,303**
Pictures—				
Customers	555,227	635,841	**802,770**	**6,690**
Intersegment	0	0	**0**	**0**
Total	555,227	635,841	**802,770**	**6,690**
Financial Services—				
Customers	447,147	483,313	**512,641**	**4,272**
Intersegment	31,677	28,932	**27,878**	**232**
Total	478,824	512,245	**540,519**	**4,504**
Other—				
Customers	112,868	111,834	**119,593**	**996**
Intersegment	93,942	91,977	**130,721**	**1,090**
Total	206,810	203,811	**250,314**	**2,086**
Elimination	(653,580)	(706,374)	**(651,749)**	**(5,431)**
Consolidated total	¥7,314,824	¥7,578,258	**¥7,473,633**	**$62,280**

** U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2003.*

Note: Electronics intersegment amounts primarily consist of transactions with the Game business.
Music intersegment amounts primarily consist of transactions with the Game and Pictures businesses.
Other intersegment amounts primarily consist of transactions with the Electronics business.

«Electronics Sales and Operating Revenue to Customers by Product Category»

	Yen in millions			Dollars in millions*
	Year ended March 31			Year ended March 31
	2001	2002	**2003**	**2003**
Audio	¥ 756,393	¥ 747,469	**¥ 682,517**	**$ 5,688**
	15.2%	15.7%	**15.0%**	
Video	791,465	806,401	**823,354**	**6,861**
	15.9	16.9	**18.1**	
Televisions	797,618	842,388	**846,139**	**7,051**
	16.0	17.7	**18.6**	
Information and Communications	1,260,531	1,167,328	**958,556**	**7,988**
	25.3	24.4	**21.1**	
Semiconductors	237,668	182,276	**204,710**	**1,706**
	4.8	3.8	**4.5**	
Components	569,478	525,568	**537,358**	**4,478**
	11.4	11.0	**11.9**	
Other	569,279	501,120	**490,679**	**4,089**
	11.4	10.5	**10.8**	
Total	¥4,982,432	¥4,772,550	**¥4,543,313**	**$37,861**

** U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2003.*

Note: The above table is a breakdown of Electronics sales and operating revenue to customers in the Business Segment Information on page 65. The Electronics business is managed as a single operating segment by Sony's management. However, Sony believes that the information in this table is useful to investors in understanding the sales contributions of the products in this business segment. In addition, commencing with the first quarter ended June 30, 2002, Sony has partly realigned its product category configuration in the Electronics business. In accordance with this change, results of the previous year have been reclassified to conform to the presentations for the current year. Sales of mobile phones are no longer recorded in the "Information and Communications" category as of the third quarter ended December 31, 2001. From the third quarter of the previous year, sales of mobile phones manufactured for Sony Ericsson Mobile Communications, AB are recorded in the "Other" product category.

Profit or Loss by Business Segment

	Yen in millions			Dollars in millions*
	Year ended March 31			Year ended March 31
	2001	2002	**2003**	**2003**
Operating income (loss):				
Electronics	¥ 251,146	¥ (1,158)	**¥ 41,380**	**$ 345**
Game	(51,118)	82,915	**112,653**	**939**
Music	20,502	20,175	**(8,661)**	**(72)**
Pictures	4,315	31,266	**58,971**	**491**
Financial Services	17,432	22,134	**23,338**	**194**
Other	(13,715)	(16,604)	**(31,950)**	**(266)**
Total	228,562	138,728	**195,731**	**1,631**
Elimination	13,781	17,148	**15,894**	**132**
Unallocated amounts:				
Corporate expenses	(16,997)	(21,245)	**(26,185)**	**(218)**
Consolidated operating income	225,346	134,631	**185,440**	**1,545**
Other income	167,654	96,328	**157,528**	**1,313**
Other expenses	(127,132)	(138,184)	**(95,347)**	**(794)**
Consolidated income before income taxes	¥ 265,868	¥ 92,775	**¥247,621**	**$2,064**

* *U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2003.*

Other Significant Items by Business Segment

	Yen in millions			Dollars in millions*
	Year ended March 31			Year ended March 31
	2001	2002	**2003**	**2003**
Depreciation and amortization:				
Electronics	¥209,616	¥211,910	**¥190,836**	**$1,590**
Game	37,497	49,655	**53,496**	**446**
Music	34,648	34,835	**33,650**	**280**
Pictures	11,853	10,619	**8,552**	**71**
Financial Services, including deferred insurance acquisition costs	44,995	37,227	**52,041**	**434**
Other	6,184	6,568	**9,112**	**76**
Total	344,793	350,814	**347,687**	**2,897**
Corporate	3,475	3,321	**4,238**	**36**
Consolidated total	¥348,268	¥354,135	**¥351,925**	**$2,933**
Capital expenditures for segment assets:				
Electronics	¥281,660	¥220,032	**¥170,323**	**$1,419**
Game	108,168	47,822	**40,986**	**342**
Music	37,776	21,535	**21,875**	**182**
Pictures	11,020	11,501	**7,138**	**60**
Financial Services	9,341	16,023	**3,655**	**30**
Other	13,538	5,208	**15,402**	**128**
Total	461,503	322,121	**259,379**	**2,161**
Corporate	3,706	4,613	**1,862**	**16**
Consolidated total	¥465,209	¥326,734	**¥261,241**	**$2,177**

* *U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2003.*

Assets by Business Segment

	Yen in millions			Dollars in millions*
	March 31			March 31
	2001	2002	**2003**	**2003**
Total assets:				
Electronics	¥3,421,624	¥3,089,791	**¥2,848,492**	**$23,737**
Game	690,737	722,021	**673,208**	**5,610**
Music	747,360	739,283	**668,702**	**5,573**
Pictures	887,806	960,266	**868,395**	**7,237**
Financial Services	2,074,234	2,496,052	**2,910,434**	**24,254**
Other	255,495	240,329	**273,169**	**2,276**
Total	8,077,256	8,247,742	**8,242,400**	**68,687**
Elimination	(437,330)	(270,374)	**(261,761)**	**(2,181)**
Corporate assets	188,040	208,427	**389,906**	**3,249**
Consolidated total	¥7,827,966	¥8,185,795	**¥8,370,545**	**$69,755**

* *U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2003.*

Sales and Operating Revenue by Geographic Segment

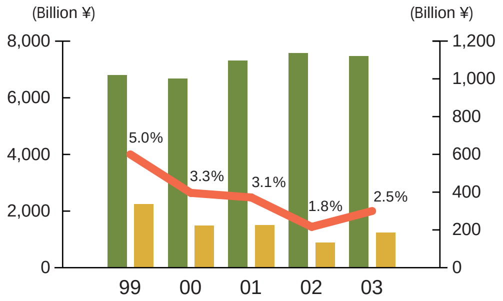
	Yen in millions			Dollars in millions*
	Year ended March 31			Year ended March 31
	2001	2002	**2003**	**2003**
Japan	¥2,400,777	¥2,248,115	**¥2,093,880**	**$17,449**
	32.8%	29.7%	**28.0%**	
U.S.A.	2,179,833	2,461,523	**2,403,946**	**20,033**
	29.8	32.5	**32.2**	
Europe	1,473,780	1,609,111	**1,665,976**	**13,883**
	20.2	21.2	**22.3**	
Other	1,260,434	1,259,509	**1,309,831**	**10,915**
	17.2	16.6	**17.5**	
Total	¥7,314,824	¥7,578,258	**¥7,473,633**	**$62,280**

* *U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2003.*

** *Classification of Geographic Segment Information shows sales and operating revenue recognized by location of customers.*

Fact Sheets

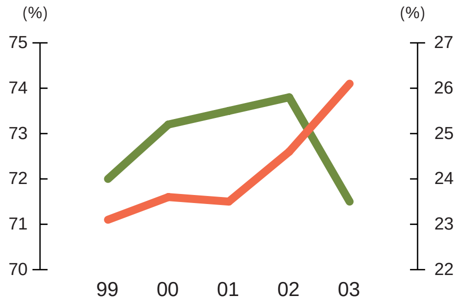
Sales and operating revenue and operating income



■ Sales and operating revenue (left)
■ Operating income (right)
▬ Operating margin

* Year ended March 31

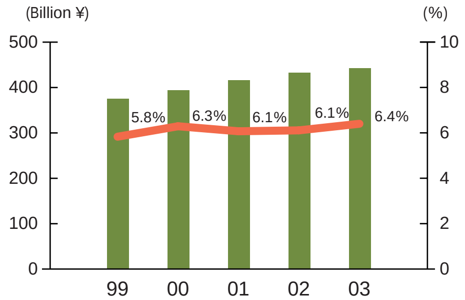
Cost of sales and selling, general and administrative expenses (SGA), as percentages of sales



▬ Cost of sales/sales (left)
▬ SGA/sales (right)

* Year ended March 31
* Excluding the Financial Services segment

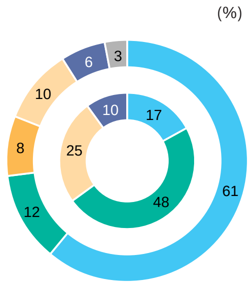
Research and development expenses and as a percentage of sales



■ Research and development expenses
▬ Percentage of sales

* Year ended March 31
* Excluding the Financial Services segment

Share of sales and operating revenue and operating income by business segment

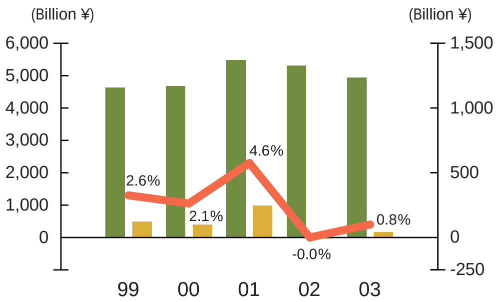


■ Electronics
■ Game
■ Music
■ Pictures
■ Financial Services
■ Other

Outside: Sales and operating revenue
Inside: Operating income

* Year ended March 31, 2003
* Including intersegment transactions
* Operating income calculated as if operating losses in the Music and the Other segments were zero.

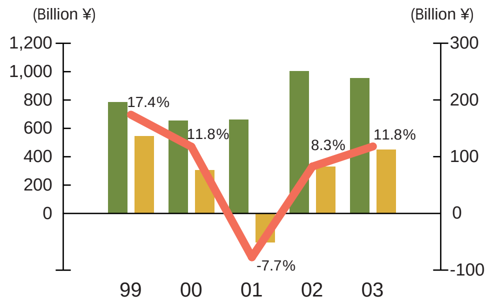
Sales and operating income in the Electronics segment



Sales (left)
Operating income (right)
Operating margin

* Year ended March 31

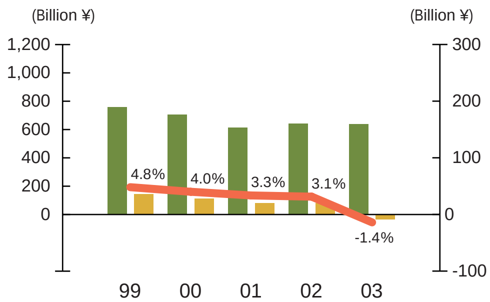
Sales and operating income in the Game segment



Sales (left)
Operating income (right)
Operating margin

* Year ended March 31

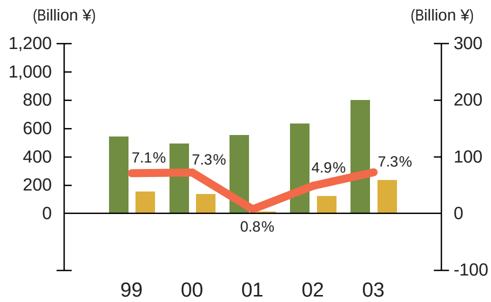
Sales and operating income in the Music segment



Sales (left)
Operating income (right)
Operating margin

* Year ended March 31

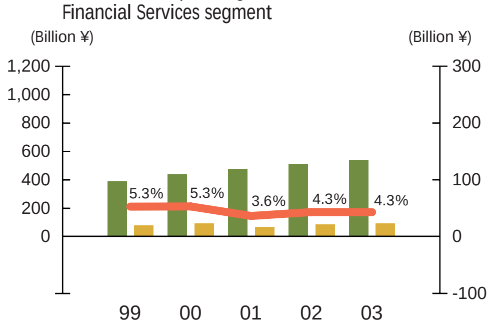
Sales and operating income in the Pictures segment



Sales (left)
Operating income (right)
Operating margin

* Year ended March 31

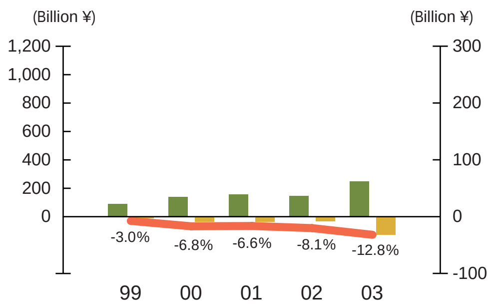
Revenue and operating income in the Financial Services segment



Financial Services revenue (left)
Operating income (right)
Operating margin

* Year ended March 31

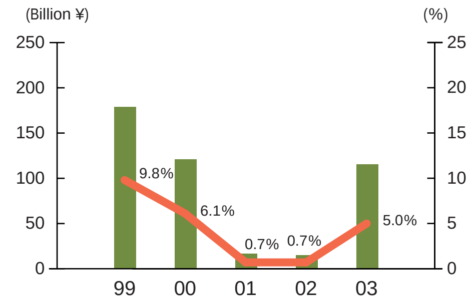
Sales and operating income in the Other segment



Sales (left)
Operating income (right)
Operating margin

* Year ended March 31

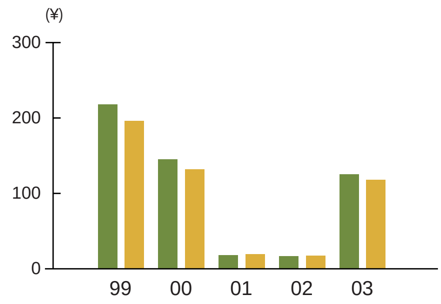
Net income and ROE



Net income
ROE

* Year ended March 31

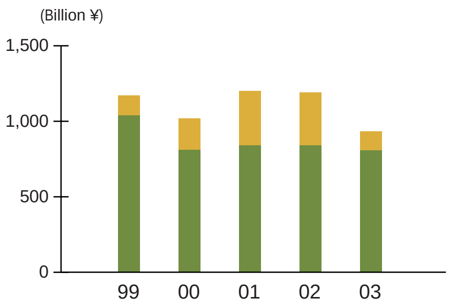
Net income per share of common stock



Basic
Diluted

* Year ended March 31
* Restated to reflect the two-for-one stock split effective May 19, 2000

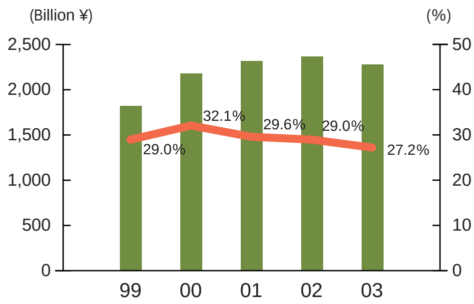
Interest-bearing liabilities



Short-term (Including the current portion of long-term debt)
Long-term

* As of March 31

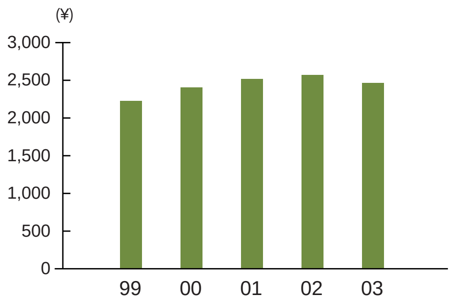
Stockholders' equity and stockholders' equity ratio



Stockholders' equity
Stockholders' equity ratio

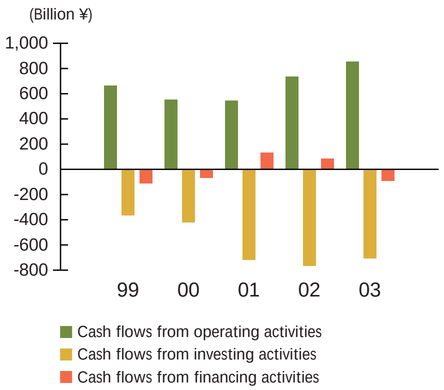
* As of March 31

Stockholders' equity per share of common stock



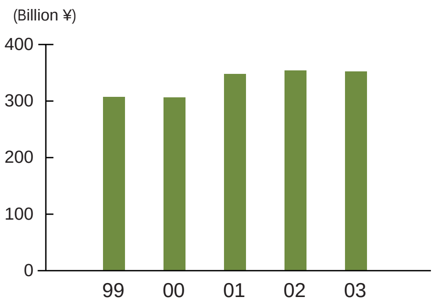
* As of March 31
* Restated to reflect the two-for-one stock split effective May 19, 2000

Cash flows



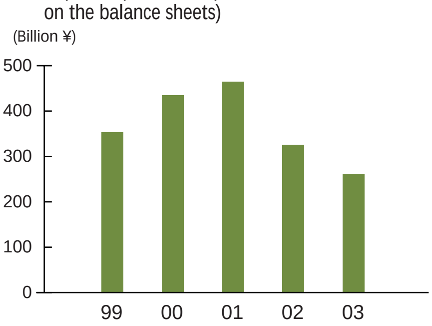
* Year ended March 31

Depreciation and amortization



* Year ended March 31
* Including amortization expenses for intangible assets and for deferred insurance acquisition costs

Capital expenditures (additions to fixed assets on the balance sheets)



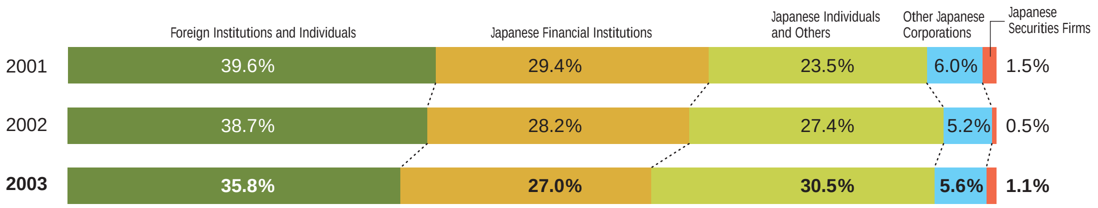
* Year ended March 31

Stock Information

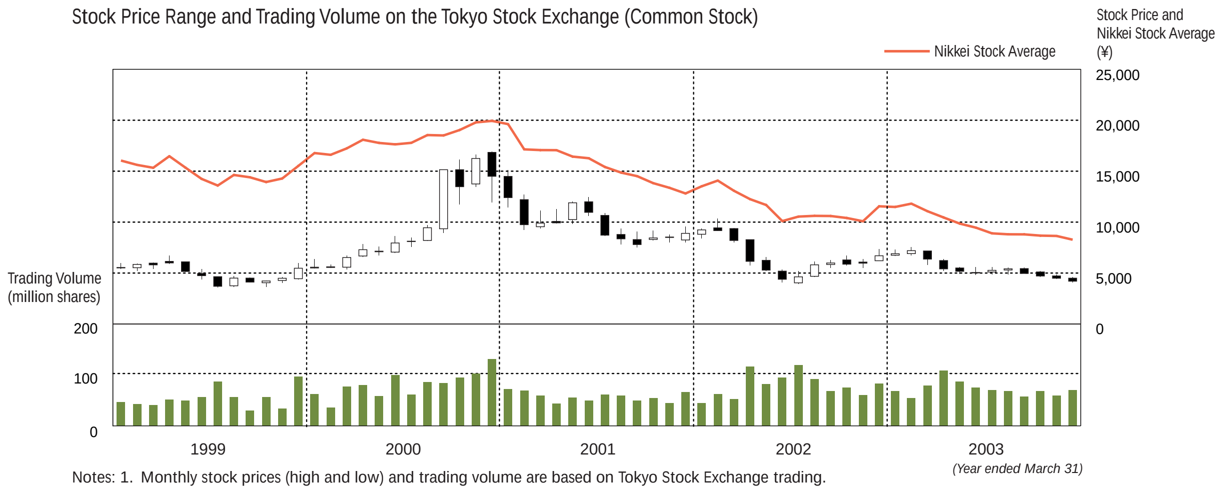
Ownership and Distribution of Shares

(Year ended March 31)

	2001		2002		**2003**	
	Number of Shares Held	Number of Shareholders	Number of Shares Held	Number of Shareholders	Number of Shares Held	Number of Shareholders
Foreign Institutions and Individuals	364,695,373	1,753	356,678,842	1,667	**331,477,756**	**1,660**
Japanese Financial Institutions	270,007,301	551	260,533,688	485	**249,934,658**	**446**
Japanese Individuals and Others	216,415,427	609,821	253,033,597	717,141	**281,939,398**	**791,371**
Other Japanese Corporations	55,029,317	5,666	47,924,895	5,755	**51,973,659**	**6,017**
Japanese Securities Firms	13,469,716	97	4,650,333	76	**10,131,705**	**121**
Total	919,617,134	617,888	922,816,355	725,124	**925,457,176**	**799,615**



Stock Price Range and Trading Volume on the Tokyo Stock Exchange (Common Stock)



Notes: 1. Monthly stock prices (high and low) and trading volume are based on Tokyo Stock Exchange trading.
2. Nikkei Stock Average is based on a simple average of monthly closing prices.
3. Stock prices (high and low) have been adjusted to reflect the two-for-one stock split completed on May 19, 2000.

(Year ended March 31)

	1999	2000	2001	2002	**2003**
Stock Price (¥)					
At year-end	5,475	14,500	8,900	6,700	**4,200**
High	6,745	16,950	15,100	10,340	**7,460**
Low	3,615	5,360	7,510	3,960	**4,070**
Annual Increase/Decrease	–3.1%	+164.8%	–38.6%	–24.7%	**–37.3%**
Number of Shares Outstanding at Year-end (thousands of shares)	410,439	453,639	919,617	919,744	**922,385**
Market Capitalization at Year-end (trillion ¥)	4.49	13.16	8.18	6.16	**3.87**
Per Share of Common Stock Data (¥)					
Cash Dividends Applicable to the Year	25.0	25.0	25.0	25.0	**25.0**
Net Income (Diluted)	195.51	131.70	19.28	16.67	**118.21**
Stockholders' Equity	2,224.35	2,409.36	2,521.19	2,570.31	**2,466.81**

Note: Stock Prices and Per Share Data have been adjusted to reflect the two-for-one stock split completed on May 19, 2000. However, no adjustment to reflect such stock split has been made to the Number of Shares Outstanding at year-end.

Corporate Governance

Revolutionizing Corporate Governance

At the Ordinary General Meeting of Shareholders held on June 20, 2003, shareholders approved an amendment to Sony Corporation's Articles of Incorporation transforming Sony into a "Company with Committees," a new corporate governance system under the Japanese Commercial Code. As a result, Sony has terminated its Statutory Auditors and Board of Statutory Auditors system. In its place, Sony has established three committees (the Nominating Committee, Audit Committee and Compensation Committee) each of which consists of a majority of outside Directors.

At the Ordinary General Meeting of Shareholders, 17 Directors, including eight outside Directors, were elected. Immediately after the meeting, the newly elected Directors met to name members of the three committees and twelve Corporate Executive Officers, three of whom are Representative Corporate Executive Officers. At this board meeting, the Directors also adopted regulations, including Sony's own rules for bolstering corporate governance, for the Board of Directors and its committees.

These revisions to Sony's corporate governance are aimed at strengthening the ability of the Board of Directors to oversee operations while facilitating delegation of greater authority and responsibility for the execution of business activities. The objective of these changes is to manage the Sony Group with greater soundness, transparency and speed.

Significant Corporate Governance Measures

1970	Established outside Director system
1976	Adopted position of Chief Executive Officer
1983	Adopted business unit system
1991	Elected first non-Japanese (outside) Director
1994	Adopted in-house company system
1997	Introduced corporate executive officer ("*Shikko-yakuin*") system
1998	Established compensation and nominating committees
1999	Established network company system
2000	Separated the duties of the Chairman of the Board and the head of corporate executive officers
2002	Established Advisory Board
2003	Moved to the "Company with Committees" system

Reforms to Strengthen Corporate Governance

Adoption of the "Company with Committees" System: From time to time in the past, Sony has taken measures on its own within the scope of Japan's Commercial Code to clearly separate the roles of corporate oversight and business execution and to enhance its unique corporate governance scheme. One example was the introduction of Sony's own corporate executive officer ("*Shikko-yakuin*") system. The previous Commercial Code was structured under the premise that directors would also serve as management in charge of certain business operations. An amendment to the Commercial Code, which took effect on April 1, 2003, gave companies the option of adopting a "Company with Committees" system under which the Board of Directors was clearly positioned as a supervisory body, while the corporate executive officer ("*Shikko-yaku*") position was officially established for the execution of business activities. Consistent with corporate governance measures taken thus far, Sony decided that adopting the "Company with Committees" system would be the best means to strengthen the supervisory role of the Board of Directors and delegate greater authority and responsibility to executives in charge of business operations.

Addition of Sony's Own Rules to Strengthen Governance: In addition to the requirements of the Commercial Code, Sony has established rules regarding the operation of the Board of Directors and its committees. These rules are designed to ensure the independence of the Board of Directors from the execution of business operations and provide a framework for the adequate functioning and decision-making of the committees, each of which operates with fewer members than the Board of Directors.

< Primary Rules for Ensuring Independence of the Board of Directors >

- Rule regarding separation of the roles of Chairman of the Board, Vice Chairman of the Board and Representative Corporate Executive Officers
- Rule limiting number of times outside Directors can be re-elected and establishing a rotation system for committee members
- Rule mandating that outside Directors must be selected as the chairmen of committees

< Primary Rules for Ensuring the Adequate Functioning and Decision-making of Committees >

- Rule establishing a maximum and minimum number of Directors
- Rule establishing criteria for directors to avoid conflicts of interest and ensure independence
- Rule establishing regulations for the fundamental composition of each committee, including a minimum required number of Nominating Committee members (at least five), prohibition of the Group CEO and COO becoming a member of the Compensation Committee, and prohibition, as a general rule, of an Audit Committee member concurrently being a member of any other committee

Due to requirements imposed by various U.S. securities regulations, all members of the Audit Committee are chosen from Directors who qualify as "independent directors" as stipulated by U.S. regulations. Furthermore, this committee also includes an individual who is qualified as a financial expert and, to ensure an adequate auditing function, there is one committee member who is assigned to this position on a full-time basis. In addition, Sony has established a support staff for the Audit Committee that is independent from the company's business operations.

Roles of Each Corporate Governance Body

Board of Directors and Three Committees: The newly organized Board of Directors and its three committees, together with the Board, perform certain oversight functions. Their duties include the determination of fundamental management policies for the Sony Group as well as ensuring that the Sony Group is managed legally and properly. The primary roles of the Board are as follows.

< Board of Directors >

(1) Determination of fundamental management policies for the Sony Group
(2) Determination of Directors comprising each committee
(3) Appointment and dismissal of Corporate Executive Officers
(4) Supervision of execution of Sony Group's business operations

< Committees of the Board of Directors >

Nominating Committee: Proposes nomination and dismissal of Directors
Audit Committee: Audits the execution of duties of Directors and Corporate Executive Officers, determines proposals to nominate and dismiss the independent auditors
Compensation Committee: Determines the individual compensation of each Director and Corporate Executive Officer

Corporate Executive Officers and Executive Board: The Corporate Executive Officers ("*Shikko-yaku*") are responsible for conducting all the business operations of the Sony Group within the scope of authority delegated by the Board of Directors. Their objective is to increase the Sony Group's corporate value. Significant decision-making authority has been transferred to the Executive Board, which is made up of all Corporate Executive Officers, and to each Corporate Executive Officer with regard to investments, business alliances and other actions related to the execution of business operations. It is expected that this delegation of authority will enable the Sony Group to be managed in a more dynamic and speedy manner than in the past.

Structure of New Sony Corporate Governance System

Supervision

Board of Directors

(1) Determination of fundamental management policies for the Sony Group
(2) Determination of Directors organizing each committee
(3) Appointment and dismissal of Corporate Executive Officers
(4) Supervision of execution of Sony Group's business operations

Chairman of the Board: Iwao Nakatani*
Vice Chairmen of the Board: Hirobumi Kawano*, Teruo Masaki

Nominating Committee

Proposes nomination and dismissal of Directors, etc.

Yotaro Kobayashi* (Chairman)
Hirobumi Kawano*
Carlos Ghosn*
Nobuyuki Idei
Kunitake Ando

Audit Committee

Audits the execution of duties of Directors and Corporate Executive Officers, determines proposals to nominate and dismiss the independent auditors, etc.

Yoshiaki Yamauchi* (Chairman)
Sakie T. Fukushima*
Akihisa Ohnishi

Compensation Committee

Determines the compensation of each Director and Corporate Executive Officer, etc.

Akishige Okada* (Chairman)
Yoshihiko Miyauchi*
Teruhisa Tokunaka

Execution

Corporate Executive Officers

Execute Sony Group business activities within the scope of authority delegated by the Board of Directors

Executive Officers / Group Executive Officers / Employees

*Outside Director

Executive Officers: The position of corporate executive officer ("*Shikko-yakuin*") that Sony created (before the legally mandated one was adopted) is being continued under the new name of Executive Officer ("*Gyomu-shikko-yakuin*"). At Sony Corporation, Executive Officers are those executives who are responsible for business operations in specific areas such as operating units, R&D units and head office functions. These Officers conduct their specific business duties in accordance with the fundamental policies set forth by the Board of Directors and the Executive Board.

Other Measures to Strengthen Corporate Governance

Sony is enacting a variety of measures with regard to its internal supervisory functions to preserve and enhance the Group's ability to manage in a manner that is legal and appropriate. The primary measures that were enacted upon adoption of the "Company with Committees" system are as follows.

- Enhancement of the system for disclosing corporate information so as to comply with tightened disclosure requirements worldwide, such as those under the Sarbanes-Oxley Act of 2002 in the U.S.
- Establishment of a Group Code of Conduct that sets forth the basic precepts by which the Directors, Corporate Executive Officers, other executives and all employees must abide.
- Establishment of an internal whistle blowing system for reporting of violations of laws and company rules.

In addition to further enhancing the governance functions of such departments as Compliance and Internal Audit at the internal, operating level, Sony has built a framework that enables the Board of Directors and Audit Committee to receive timely reports from these departments and enables these two bodies to issue instructions to these departments as necessary.

New Members of the Board

Members of the Board were elected at the June 20, 2003 Ordinary General Meeting of Shareholders.

Nobuyuki Idei
Chairman and Group CEO, Representative Corporate Executive Officer

Kunitake Ando
President and Group COO, Representative Corporate Executive Officer

Teruhisa Tokunaka
Executive Deputy President and Group CSO (Chief Strategy Officer), Representative Corporate Executive Officer

Minoru Morio
Vice Chairman and Sony Group East Asia Representative, Group CPO (Chief Production Officer), Corporate Executive Officer

Teruo Masaki
Corporate Senior Executive Vice President and Group General Counsel, Corporate Executive Officer

Vice Chairman of the Board

Nobuyuki Idei

(Born: November 22, 1937)

2003 Chairman and Group CEO, Representative Corporate Executive Officer, Member of the Board, Sony Corporation
2001 Director, Nestle S.A., Switzerland (to present)
2000 Chairman and CEO, Representative Director, Sony Corporation
1999 President and Representative Director, CEO, Sony Corporation
1995 President and Representative Director, COO, Sony Corporation
1990 Senior General Manager, Advertising & Marketing Communication Strategy Group, Sony Corporation
1989 Director, Sony Corporation
1988 Senior General Manager, Home Video Group, Sony Corporation
1960 Entered Sony Corporation

Kunitake Ando

(Born: January 1, 1942)

2003 President and Group COO, Representative Corporate Executive Officer, Member of the Board, Sony Corporation
2000 President and COO, Representative Director, Sony Corporation
1999 President and COO, Personal IT Network Company, Sony Corporation
1994 Director, Sony Corporation
1990 President and COO, Sony Engineering and Manufacturing of America
1985 Deputy President, Sony Prudential Life Insurance Co., Ltd. (later renamed Sony Life Insurance Co., Ltd.)
1969 Entered Sony Corporation

Teruhisa Tokunaka

(Born: August 9, 1945)

2003 Executive Deputy President and Group CSO, Representative Corporate Executive Officer, Member of the Board, Sony Corporation
Officer in charge of Personal Solutions Business Group and Network Application and Content Service Sector
2000 Executive Deputy President and CFO, Representative Director, Sony Corporation
1999 Senior Managing Director and CFO, Sony Corporation
1995 President, Sony Computer Entertainment Inc.
1989 Deputy Senior General Manager, Corporate Strategy Group, Sony Corporation
1969 Entered Sony Corporation

Minoru Morio

(Born: May 20, 1939)

2003 Vice Chairman and Sony Group East Asia Representative, Group CPO, Corporate Executive Officer, Member of the Board, Sony Corporation
2001 Chairman, Sony Ericsson Mobile Communications Japan, Inc. (to present)
2001 Director, Oki Electric Industry Co., Ltd. (to present)
2001 Chairman, Sony EMCS Corporation
2000 Vice Chairman, Director, Sony Corporation
1994 President, Consumer A&V Products Company, Sony Corporation
1993 Executive Deputy President, Sony Corporation
1990 Senior General Manager, Home Video Group, Sony Corporation
1988 Director, Sony Corporation
1988 Senior General Manager, Personal Video Systems Group, Sony Corporation
1963 Entered Sony Corporation

Teruo Masaki

(Born: August 7, 1943)

2003 Corporate Senior Executive Vice President and Group General Counsel, Corporate Executive Officer, Member of the Board, Sony Corporation
2000 Corporate Senior Executive Vice President, Director, Sony Corporation
1999 Senior Managing Director, Sony Corporation
1997 Executive Vice President, Sony Corporation of America
1992 Deputy Senior General Manager, Legal and Intellectual Property Group, Sony Corporation
1971 Entered Sony Corporation

Howard Stringer
Vice Chairman and Sony Group Americas Representative, Corporate Executive Officer

Ken Kutaragi
Executive Deputy President, Corporate Executive Officer

Göran Lindahl
Sony Group Europe Representative, Corporate Executive Officer

Akihisa Ohnishi

Iwao Nakatani
(Director of Research, UFJ Institute Ltd.)

Chairman of the Board

Akishige Okada
(Chairman of the Board (Representative Director), Sumitomo Mitsui Financial Group, Inc.)

Chairman of the Compensation Committee

Howard Stringer

(Born: February 19, 1942)

2003 Vice Chairman and Sony Group Americas Representative, Corporate Executive Officer, Member of the Board, Sony Corporation
Officer in charge of Entertainment Business Group
2000 President, Sony Broadband Entertainment Inc. (to present)
1999 Director, Sony Corporation
1998 Chairman and CEO, Sony Corporation of America (to present)
1998 Chairman, Sony Pictures Entertainment Inc.
1998 Chairman, Sony Electronics Inc. (to present)
1997 President, Sony Corporation of America
1995 Chairman and CEO, TELE-TV, U.S.A.
1988 President, CBS Broadcast Group, CBS Inc., U.S.A.
1986 President, CBS News, U.S.A.

Ken Kutaragi

(Born: August 2, 1950)

2003 Executive Deputy President, Corporate Executive Officer, Member of the Board, Sony Corporation
Officer in charge of Game Business Group and Broadband Network Company
2001 President and CEO, Sony Computer Entertainment Inc. (to present)
2000 Director, Sony Corporation
1999 Executive President, Sony Computer Entertainment Inc.
1991 Manager, PS Project, Video Disc Player Group, Sony Corporation
1975 Entered Sony Corporation

Göran Lindahl

(Born: April 28, 1945)

2003 Sony Group Europe Representative and Chairman of Sony Group in Europe, Corporate Executive Officer, Member of the Board, Sony Corporation
2001 Director, Anglo American plc, U.K. (to present)
2001 Director, Sony Corporation
1999 Director, E.I. DuPont de Nemours, U.S.A. (to present)
1999 Director, LM Ericsson Telephone Co., Sweden
1997 President and CEO, Asea Brown Boveri Ltd., Switzerland
1985 President, ASEA Transmission AB, Sweden
1983 President, ASEA Transformers AB, Sweden

Akihisa Ohnishi

(Born: March 10, 1937)

2003 Member of the Board, Sony Corporation
1993 Standing Statutory Auditor, Sony Corporation
1989 Senior General Manager, Corporate Planning Group, Sony Corporation (concurrent with prior position)
1989 Director, Sony Corporation
1988 General Manager, Accounting Division, Sony Corporation
1977 Managing Director, Hispano Sony S.A.
1961 Entered Sony Corporation

Iwao Nakatani

(Born: January 22, 1942)

2003 Member of the Board, Sony Corporation
2001 President, Tama University (to present)
2000 Director of Research, SRIC Corporation (later renamed UFJ Institute Ltd.) (to present)
1999 Professor, School of Management and Information Sciences, Tama University
1999 Director, Sony Corporation
1991 Professor, Faculty of Commerce, Hitotsubashi University
1984 Professor, Faculty of Economics, Osaka University
1973 Lecturer and Researcher, Faculty of Economics, Harvard University

Akishige Okada

(Born: April 9, 1938)

2003 Member of the Board, Sony Corporation
2002 Chairman of the Board (Representative Director), Sumitomo Mitsui Financial Group, Inc. (to present)
2002 Director, Sony Corporation
2001 Chairman of the Board (Representative Director), Sumitomo Mitsui Banking Corporation (to present)
1997 President, The Sakura Bank, Ltd.
1996 Senior Managing Director, The Sakura Bank, Ltd.
1995 Managing Director, The Sakura Bank, Ltd.
1991 Director, The Mitsui Taiyo Kobe Bank, Ltd.

Hirobumi Kawano
(Former Director-General of the Agency for Natural Resources and Energy, Executive Adviser to The Tokio Marine and Fire Insurance Co., Ltd.)

Vice Chairman of the Board

Yotaro Kobayashi
(Chairman and CEO, Fuji Xerox Co., Ltd.)

Chairman of the Nominating Committee

Carlos Ghosn
(President and CEO, Nissan Motor Co., Ltd.)

Sakie T. Fukushima
(Representative Director & Regional Managing Director- Japan, Korn / Ferry International)

Yoshihiko Miyauchi
(Representative Director, Chairman and CEO, ORIX Corporation)

Yoshiaki Yamauchi
(Director, Sumitomo Mitsui Financial Group, Inc.)

Chairman of the Audit Committee

Hirobumi Kawano
(Born: January 1, 1946)

2003 Member of the Board, Sony Corporation
2002 Executive Adviser to The Tokio Marine and Fire Insurance Co., Ltd. (to present)
1999 Director-General, Agency for Natural Resources and Energy
1998 Director-General, Basic Industries Bureau
1996 Director-General for Machinery and Information Industries Policy, Machinery and Information Industries Bureau
1995 Director-General, Petroleum Department, Agency of Natural Resources and Energy
1993 Director, General Coordination Division, Minister's Secretariat
1992 Director, General Affairs Division, Machinery and Information Industries Bureau
1989 Director, Americas-Oceania Division, International Trade Policy Bureau
1969 Entered the Ministry of International Trade and Industry (later renamed the Ministry of Economy, Trade and Industry, "METI")

Yotaro Kobayashi
(Born: April 25, 1933)

2003 Member of the Board, Sony Corporation
1999 Director, Nippon Telegraph and Telephone Corporation (to present)
1998 Director, Callaway Golf Company, U.S.A. (to present)
1996 Director, ABB Ltd., Switzerland
1992 Chairman and CEO, Fuji Xerox Co., Ltd. (to present)
1987 Director, Xerox Corporation, U.S.A. (to present)
1978 President and CEO, Fuji Xerox Co., Ltd.

Carlos Ghosn
(Born: March 9, 1954)

2003 Member of the Board, Sony Corporation
2002 Director, Renault S.A., France (to present)
2002 Director, Alcoa Inc., U.S.A. (to present)
2001 President and CEO, Nissan Motor Co., Ltd. (to present)
1990 Chairman, President and CEO, Michelin North America Inc.
1985 COO, Michelin - BRAZIL

Sakie T. Fukushima
(Born: September 10, 1949)

2003 Member of the Board, Sony Corporation
2003 Advisory Board Member, All Nippon Airways Co., Ltd. (to present)
2002 Director, Kao Corporation (to present)
2001 Representative Director and Regional Managing Director- Japan, Korn / Ferry International (to present)
1995 Member, Board of Directors, Korn / Ferry International, U.S.A. (to present)

Yoshihiko Miyauchi
(Born: September 13, 1935)

2003 Member of the Board, Sony Corporation
2003 Director, Showa Shell Sekiyu K.K. (to present)
2001 Director, Mercian Corporation (to present)
2000 Director, Aozora Bank Ltd. (to present)
2000 Representative Director, Chairman and CEO, ORIX Corporation (to present)
1999 Director, Fuji Xerox Co., Ltd. (to present)
1980 Representative Director, President, ORIX Corporation

Yoshiaki Yamauchi
(Born: June 30, 1937)

2003 Member of the Board, Sony Corporation
2002 Director, Sumitomo Mitsui Financial Group, Inc. (to present)
2001 Statutory Auditor, SEIKO WATCH CORPORATION (to present)
2001 Director, Amana Corporation (to present)
2000 Statutory Auditor, Stanley Electric Co., Ltd. (to present)
1999 Director, Sumitomo Banking Corporation
1999 Deputy President, Arthur Andersen Research Institute (later renamed ARI Research Institute) (to present)
1993 Executive Director, Asahi & Co.
1991 President, Inoue Saito Eiwa Audit Corporation
1986 President, Eiwa Audit Corporation
1986 Country Managing Partner-Japan, Arthur Andersen & Co., U.S.A.

New Corporate Executive Officers

Nobuyuki Idei
Chairman and Group CEO,
Representative Corporate Executive Officer

Kunitake Ando
President and Group COO,
Representative Corporate Executive Officer

Teruhisa Tokunaka
Executive Deputy President and Group CSO (Chief Strategy Officer), Representative Corporate Executive Officer, Officer in charge of Personal Solutions Business Group and Network Application and Content Service Sector

Minoru Morio
Vice Chairman and Sony Group East Asia Representative, Group CPO (Chief Production Officer), Corporate Executive Officer

Howard Stringer
Vice Chairman and Sony Group Americas Representative, Corporate Executive Officer,
Officer in charge of Entertainment Business Group

Shizuo Takashino
Executive Deputy President, Corporate Executive Officer, Officer in charge of IT and Mobile Solutions Network Company and Home Network Company

Ken Kutaragi
Executive Deputy President, Corporate Executive Officer, Officer in charge of Game Business Group and Broadband Network Company

Teruo Masaki
Corporate Senior Executive Vice President and Group General Counsel, Corporate Executive Officer

Akira Kondoh
Corporate Senior Executive Vice President and Group CIO (Chief Information Officer), Corporate Executive Officer

Takao Yuhara
Corporate Senior Vice President and Group CFO, Corporate Executive Officer

Göran Lindahl
Sony Group Europe Representative and Chairman of Sony Group in Europe,
Corporate Executive Officer

Nicole Seligman
Group Deputy General Counsel,
Corporate Executive Officer

(As of June 20, 2003)

Investor Information

SONY CORPORATION
7-35, Kitashinagawa 6-chome, Shinagawa-ku,
Tokyo 141-0001, Japan
Phone: 81-(0)3-5448-2111
Facsimile: 81-(0)3-5448-2244

INVESTOR RELATIONS OFFICES
If you have any questions or would like a copy of our Form 20-F, filed with the U.S. Securities and Exchange Commission, or Annual Report to shareholders, please direct your request to:

Japan
SONY CORPORATION
IR Office
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Tokyo 141-0001
Phone: 81-(0)3-5448-2180
Facsimile: 81-(0)3-5448-2183

U.S.A.
SONY CORPORATION OF AMERICA
Investor Relations
550 Madison Avenue, 27th Floor,
New York, NY 10022-3211
Phone: U.S. and Canada 800-556-3411
International 1-402-573-9867
Facsimile: 1-212-833-6938

U.K.
SONY GLOBAL TREASURY SERVICES PLC.
Investor Relations
St. Helens, 1 Undershaft,
London EC3A 8EE
Phone: 44-(0)20-7444-9713
Facsimile: 44-(0)20-7444-9763

SONY ON THE INTERNET
Sony's Investor Relations Home Pages on the World Wide Web offer a wealth of corporate information, including the latest annual report and financial results.
http://www.sony.net/IR/

ORDINARY GENERAL MEETING OF SHAREHOLDERS
The Ordinary General Meeting of Shareholders is held in June in one of the wards of Tokyo or in the City of Yokohama in Kanagawa Prefecture, Japan.

INDEPENDENT ACCOUNTANTS
PricewaterhouseCoopers
Tokyo, Japan

DEPOSITARY, TRANSFER AGENT AND REGISTRAR FOR AMERICAN DEPOSITARY RECEIPTS
JPMorgan Chase Bank
270 Park Avenue,
New York, NY 10017-2070

Contact Address:
JPMorgan Service Center
JPMorgan Chase Bank
P.O. Box 43013
Providence, RI 02940-3013, U.S.A.
Phone: U.S. 800-360-4522
International 1-781-575-4328

CO-TRANSFER AND CO-REGISTRAR AGENT
CIBC Mellon Trust Company
2001 University Street, 16th Floor,
Montreal, Quebec, H3A 2A6, Canada
Phone: 1-514-285-3600

TRANSFER AGENT OF COMMON SHARES HANDLING OFFICE
UFJ Trust Bank Limited
Corporate Agency Department
10-11, Higashisuna 7-chome, Koto-ku,
Tokyo 137-8081, Japan
Phone: 81-(0)3-5683-5111

OVERSEAS STOCK EXCHANGE LISTINGS
New York, Pacific, Chicago, Toronto, London, Paris, Frankfurt, Düsseldorf, Brussels, Vienna and Swiss stock exchanges

JAPANESE STOCK EXCHANGE LISTINGS
Tokyo, Osaka, Nagoya, Fukuoka and Sapporo stock exchanges

NUMBER OF SHAREHOLDERS
(As of March 31, 2003)
799,615

CSR REPORT (Reporting on Social and Environmental Activities)
If you would like a copy of the above report, please direct your request to: Sony Corporation Corporate Social and Environmental Affairs
Phone: 81-(0)3-5448-3533
Facsimile: 81-(0)3-5448-7838
This report is also available on the World Wide Web.
Sony's environmental showroom, "Sony Eco Plaza," can be visited at the same URL:
http://www.sony.net/eco/

Detailed discussion of results and financial statements are published as a separate document: "Consolidated Financial Information 2003." A copy of this publication can be requested from the IR contact addresses in the left-hand column above, or alternatively viewed on our website at http://www.sony.net/IR/. Please note that Sony's Annual Report 2003 does include consolidated balance sheets, statements of income and other financial data.

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Sony Corporation

Printed in Japan

Consolidated Financial Information 2003 Year Ended March 31, 2003

SONY

SONY

Consolidated Financial Information 2003

Year Ended March 31, 2003

Contents

Operating and Financial Review and Prospects

The following "Operating and Financial Review and Prospects" is based on information known to management as of August 26, 2003.

Operating Results

Overview

Although the global economy showed some signs of growth in the fiscal year ended March 31, 2003, military action in Iraq contributed to increased economic uncertainty in the second half of the year, particularly in the U.S., and the year ended without any indications of a sustained recovery. In Japan, in addition to stagnant consumer demand and an increase in unemployment, declines in the stock market contributed to the unfavorable economic climate.

Under such difficult market conditions and reflecting the impact of the translation of financial results into yen in accordance with Generally Accepted Accounting Principles in the U.S. ("U.S. GAAP"), the currency in which Sony's financial statements are prepared, Sony's sales and operating revenue ("sales") for the fiscal year ended March 31, 2003 decreased 1.4 percent compared with the previous fiscal year. This decrease was principally due to industry-wide declines in personal consumption in the Electronics segment, and also increased price competition in certain markets, including the PC, DVD-Video player and home-use video camera markets. However, operating income increased 37.7 percent compared with the previous fiscal year due to the beneficial effect of the depreciation of the yen against the euro, as well as increased profitability of the Electronics segment, resulting from restructuring initiatives in previous fiscal years, of the Game segment, due to increased software sales and decreased production costs, and of the Pictures segment, due to strong worldwide performance of certain releases in the current year.

On a local currency basis, (refer to "Foreign Exchange Fluctuations and Risk Hedging" below), Sony's sales for the fiscal year ended March 31, 2003 decreased approximately 2 percent and operating income decreased approximately 5 percent compared with the previous fiscal year.

Restructuring

Restructuring expenses for the fiscal year ended March 31, 2003 amounted to 106.3 billion yen, compared to 107.0 billion yen in the previous fiscal year. The primary restructuring activities were in the Electronics and Music segments.

Electronics

Restructuring charges in the Electronics segment for the fiscal year ended March 31, 2003, were 72.5 billion yen, compared to 86.9 billion yen in the previous fiscal year, but exceeded the 60.0 billion yen total that was estimated at the beginning of the year.

In the year ended March 31, 2003, a decision was made to reduce production capacity of CRT computer display manufacturing facilities in Japan and Southeast Asia, in response to market contraction resulting from the demand shift from CRT computer displays to flat panel displays such as LCDs. Although the worldwide market for CRT computer displays in the year ended March 31, 2002 was approximately 96.0 million units, in the year ended March 31, 2003 it had fallen to approximately 81.0 million units. In order to restore the profitability of the CRT computer display business, which, due to the decrease in demand, had been suffering from low utilization ratios at manufacturing facilities, higher ratios of fixed costs to sales and lower operating income margins, Sony decided to close under-utilized manufacturing facilities. The resulting charges totaled 6.9 billion yen, of which 1.3 billion yen was recorded in cost of sales, and 5.6 billion yen was recorded in selling, general and administrative expenses.

The restructuring program implemented in the previous fiscal year was accelerated at Aiwa Co., Ltd. and its subsidiaries ("Aiwa") in response to a continued decline in operating performance, caused by further declines in the worldwide market for audio products, which form the majority of Aiwa's sales. After further reductions in personnel and reductions in the number of unprofitable product lines which resulted in the closure of all of Aiwa's manufacturing facilities, Aiwa's operations were integrated with those of Sony. (Aiwa was made a wholly-owned subsidiary of Sony Corporation in October 2002, and merged into Sony Corporation on December 1, 2002.) Charges resulting from the restructuring of Aiwa totaled 23.0 billion yen, of which 13.8 billion yen was recorded in cost of sales, and 9.2 billion yen was recorded in selling, general and administrative expenses.

In the fourth quarter of the year ended March 31, 2003, Sony decided to close a semiconductor plant in the U.S. that produced semiconductor wafers for both internal use and the original equipment manufacturer (OEM) market. This closure was both a response to a significant decline in the business conditions of the semiconductor industry in the U.S., and the result of a shift in Sony's semiconductor strategy. Sony's semiconductor manufacturing for internal use is moving toward an emphasis on high-end, network-centric devices and components because Sony is focusing its efforts on broadband and network-related businesses in response to rapid increases in broadband Internet access. The restructuring activity is expected to be completed in the year ending March 31, 2004, and the total estimated cost of this restructuring is 8.1 billion yen, of which 5.9 billion yen was incurred through March 31, 2003. These charges were all recorded in cost of sales.

In addition to these restructuring activities, Sony has continued to reduce headcount through the implementation of several early retirement programs in Japan to further reduce costs in the Electronics segment. The resulting charges totaled 10.9 billion yen, compared to 12.3 billion yen in the previous fiscal year. These charges were recorded in selling, general and administrative expenses.

The above restructuring initiatives are expected to decrease costs in the Electronics segment by approximately 50.0 billion yen in the fiscal year ending March 31, 2004.

Music

In response to the continued contraction of the worldwide music market due to slow worldwide economic growth, the saturation of the CD market, the effects of piracy and other illegal duplication, parallel imports, pricing pressures and the diversification of customer preferences brought on by increased competition from other entertainment sectors, Sony has been actively repositioning the Music segment for the future by looking to create a more effective and profitable business model. As a result, the Music segment has undergone a worldwide restructuring program since the fiscal year ended March 31, 2001 to reduce staffing and other costs through the consolidation and rationalization of facilities worldwide. Under this worldwide restructuring program, Sony Music Entertainment Inc. ("SMEI"), a U.S. based subsidiary, incurred restructuring charges of 22.4 billion yen for the year ended March 31, 2003, compared to 8.6 billion yen in the previous fiscal year. This exceeded the estimate made in January 2003, as certain restructuring initiatives originally expected to be undertaken in the fiscal year ending March 31, 2004 were accelerated as a result of a management change and the continued decline in the worldwide music market.

Restructuring activities included the further consolidation of operations through the shutdown of a CD and cassette manufacturing and distribution center in Holland, the shutdown of a CD manufacturing facility in the U.S., which was announced on April 2, 2003, although the decision to shut down the facility was made during the fiscal year ended March 31, 2003, as well as further staff reductions to consolidate various support functions across labels and operating units. These restructuring activities resulted in the termination of over 1,400 jobs during the fiscal year ended March 31, 2003, of which approximately 600 were in the U.S. Resulting charges were included in selling, general and administrative expenses. Total restructuring charges in the Music segment, including Sony Music Entertainment (Japan) Inc. ("SMEJ"), were 23.9 billion yen.

Note that losses on sales, disposal or impairment of long-lived assets are recorded in selling, general and administrative expenses. Refer to "Cost of Sales and Selling, General and Administrative Expenses" below and to Note 18 of Notes to Consolidated Financial Statements.

The following table summarizes major restructuring activities for which charges of over 5 billion yen were recorded during the fiscal year ended March 31, 2003.

Segment	Nature of Restructuring	Costs incurred in the fiscal year ended March 31, 2003	Additional Information
Electronics	Reduction of CRT production capacity in Japan and SE Asia	6.9 billion yen	Remaining reserve balance of 0.4 billion yen at March 31, 2003, to be used during the fiscal year ending March 31, 2004.
	Personnel reductions and closure of all Aiwa's facilities	23.0 billion yen	No reserve remaining at March 31, 2003.
	Closure of semiconductor plant in U.S.	5.9 billion yen	Remaining reserve balance of 1.5 billion yen at March 31, 2003, to be used during the fiscal year ending March 31, 2004. Additional charges of 2.2 billion yen expected to be incurred up to March 31, 2004.
	Early retirement program	10.9 billion yen	Remaining reserve balance of 1.0 billion yen at March 31, 2003 to be used during the fiscal year ending March 31, 2004.
Music	Closure of CD and cassette manufacturing and distribution facility in Holland, CD manufacturing facility in U.S., and others	23.9 billion yen	Remaining reserve balance of 11.5 billion yen at March 31, 2003 to be used by March 31, 2006. Estimated total charges at SMEI, for years ended March 31, 2001 to March 31, 2006, are 43.4 billion yen with an estimated 4.5 billion yen of these charges expected to be incurred in the future.

Sales

Sales for the fiscal year ended March 31, 2003 decreased by 104.6 billion yen, or 1.4 percent, to 7,473.6 billion yen compared with the previous fiscal year. A further breakdown of sales figures is presented under "Operating Performance by Business Segment" below.

Cost of Sales and Selling, General and Administrative Expenses

Cost of sales for the fiscal year ended March 31, 2003 decreased by 260.2 billion yen, or 5.0 percent, to 4,979.4 billion yen compared with the previous fiscal year, and decreased from 74.2 percent to 72.0 percent as a percentage of sales. Year on year, the cost of sales ratio decreased from 80.5 percent to 78.8 percent in the Electronics segment, 74.7 percent to 70.2 percent in the Game segment, and 62.0 percent to 58.2 percent in the Pictures segment. However, the cost of sales ratio increased from 57.6 percent to 60.8 percent in the Music segment. The cost of sales ratio in the Electronics segment improved due to the effects of prior restructuring and other cost reduction measures, and the cost of sales ratio in the Game segment improved due to reductions in PlayStation 2 hardware production costs. These improvements occurred despite declining sales in the Electronics and Game segments. The cost of sales ratio in the Pictures segment improved due to increased revenue resulting from the strong worldwide performance, both theatrically and in home entertainment, of current year releases. The cost of sales ratio in the Music segment deteriorated due to decreased revenue from album sales resulting from the continued contraction of the global market for music.

Although the cost of sales ratio decreased year on year, assisted by the positive effect of the appreciation of the euro against the yen on sales, the cost of sales ratio in the fourth quarter of the fiscal year ended March 31, 2003 increased due to declining sales and temporary reductions in production volume for the purpose of lowering inventory to target levels at the end of the fourth quarter. These production adjustments were carried out primarily in March 2003, mainly in the Electronics segment. Research and development expenses (included in cost of sales) for the fiscal year ended March 31, 2003 increased by 9.9 billion yen, or 2.3 percent, to 443.1 billion yen compared with the previous fiscal year, with much of this increase in the Game segment. The ratio of research and development expenses to sales increased from 6.1 percent to 6.4 percent.

Selling, general and administrative expenses for the fiscal year ended March 31, 2003 increased by 76.6 billion yen, or 4.4 percent, to 1,819.5 billion yen compared with the previous fiscal year. The ratio of selling, general and administrative expenses to sales increased from 24.6 percent in the previous fiscal year to 26.1 percent. Year on year, the ratio of selling, general and administrative expenses to sales increased from 19.9 percent to 20.8 percent in the Electronics segment, from 17.1 percent to 18.0 percent in the Game segment, from 39.3 percent to 40.6 percent in the Music segment, and from 33.1 percent to 34.5 percent in the Pictures segment.

Advertising and promotion expenses increased 40.8 billion yen mainly due to increased expenses in the Pictures segment, which contributed to increased box office and home entertainment revenue. Increased competition and the continued reduction in the time interval between theatrical and home entertainment release has resulted in a trend towards larger initial advertising expenditures. Personnel related expenses increased 30.5 billion yen compared with the previous fiscal year, and have increased over each of the last three years. A major factor in this increase is the recording of increased severance related expenses, as Sony accelerates its restructuring activities. Severance-related charges in the fiscal year ended March 31, 2003 increased by 14.6 billion yen, or 23.3 percent, mainly in the Electronics and Music segments, to reach a total of 77.4 billion yen. Royalty expenses increased 16.9 billion yen.

The increase in selling, general and administrative expenses was partially offset by a 33.9 billion yen decrease in after-sales service expenses in the fiscal year ended March 31, 2003, caused mainly by the absence of non-recurring expenses recorded during the previous fiscal year due to mobile phone-related quality issues. The increase in selling, general and administrative expenses was also offset by a decrease of 10.0 billion yen in losses on the sale, disposal or impairment of long-lived assets, net. This was due to a 19.0 billion decrease in such losses in the Electronics segment, offset by a 6.4 billion yen increase in such losses in the Other segment, principally in the Network Application and Content Service Sector (“NACS”).

The ratio of selling, general and administrative expenses to sales in the fourth quarter was 32.5 percent, an increase from 26.6 percent in the fourth quarter of the previous fiscal year. This was due to an increase in selling, general and administrative expenses and a decrease in sales compared with the same quarter of the previous fiscal year. Selling, general and administrative expenses increased primarily due to an increase in royalty expenses amounting to 23.3 billion yen. Sales decreased due to pricing pressure and discount selling of goods for the purpose of lowering inventory to target levels at the end of the quarter.

“Sales” in the ratio of cost of sales to sales and in the ratio of research and development to sales refers only to net sales and excludes Financial Services revenue and other operating revenue. “Sales” in the ratio of selling, general and administrative expenses to sales includes net sales and other operating revenue, and excludes Financial

Services revenue. This is because cost of sales is not recorded in relation to other operating revenue and because the analysis of cost of sales and selling, general and administrative expenses does not include an analysis of the Financial Services segment. All the above ratios include intersegment transactions.

Operating Income

Operating income for the fiscal year ended March 31, 2003 increased by 50.8 billion yen, or 37.7 percent, to 185.4 billion yen compared with the previous fiscal year. Operating income margin increased from 1.8 percent to 2.5 percent. The segments making the most significant contributions to the year on year increase in operating income were the Electronics segment, the Game segment and the Pictures segment, in descending order of financial impact.

Operating Performance by Business Segment

The following discussion is based on segment information. Sales and operating revenue in each business segment include intersegment transactions. Refer to Note 25 of Notes to Consolidated Financial Statements.

Business Segment Information

Sales and Operating revenue	(Yen in billions) Year ended March 31		Percent change
	2002	**2003**	
Electronics	5,286.2	**4,940.5**	- 6.5%
Game	1,003.7	**995.0**	- 4.9
Music	642.8	**636.3**	- 1.0
Pictures	635.8	**802.8**	+ 26.3
Financial Services	512.2	**540.5**	+ 5.5
Other	203.8	**250.3**	+ 22.8
Elimination	(706.4)	**(651.7)**	-
Consolidated	7,578.3	**7,473.6**	- 1.4
Operating income (loss)			
Electronics	(1.2)	**41.4**	-
Game	82.9	**112.7**	+35.9%
Music	20.2	**(8.7)**	-
Pictures	31.3	**59.0**	+88.6
Financial Services	22.1	**23.3**	+5.4
Other	(16.6)	**(32.0)**	-
Elimination and unallocated corporate expenses . .	(4.1)	**(10.3)**	-
Consolidated	134.6	**185.4**	+ 37.7

Commencing with the first quarter ended June 30, 2002, Sony partly realigned its business segment configuration and Electronics segment product category configuration. In accordance with this realignment, results of the previous fiscal year have been reclassified to conform to the presentation for the current fiscal year. Sales of related businesses in the NACS, established in April 2002 to enhance network businesses, are included in the "Other" segment. In addition to Sony Communication Network Corporation ("SCN"), which was originally contained in the "Other" segment, NACS-related businesses include an in-house oriented information system service business and an Integrated Circuit ("IC") card business formerly contained in the "Other" category of the Electronics segment.

Electronics

Sales for the fiscal year ended March 31, 2003 decreased by 345.7 billion yen, or 6.5 percent, to 4,940.5 billion yen compared with the previous fiscal year. Operating income of 41.4 billion yen was recorded compared to an operating loss of 1.2 billion yen in the previous fiscal year. The year on year decrease in sales was due to the continued industry-wide effects of falling consumption in markets for certain products in the Electronics segment, increased price competition worldwide, and the impact of business withdrawals and rationalization of product lines (refer to Note 18 of Notes to Consolidated Financial Statements).

Regarding sales by geographic area, sales decreased by 12 percent in the U.S. and by 9 percent in Japan, but sales increased by 2 percent in Europe and non-Japan Asia and other geographic areas ("Other Areas"), respectively. Sales decreased in the U.S. over a wide range of products including, in descending order of financial impact, PCs, computer displays, Aiwa products, CRT televisions, DVD-Video players, home-use video cameras, home audio and CD-R/RW drives. Sales in the U.S. were also negatively impacted by Sony's withdrawal from the home telephone business in 2001. Products with increased sales in the U.S. included personal digital assistants, projection televisions and digital still cameras. In Japan, overall demand decreased substantially, with PCs, Aiwa products, home-use video cameras and CRT televisions showing year on year sales declines; however, sales of semiconductors increased. In Europe, sales of PCs, digital still cameras and digital home-use video cameras showed strong sales growth, while sales of Aiwa products and computer displays decreased. Sales in Europe were also positively impacted by the strength of the euro against the yen in the second half of the year. In Other Areas, sales of digital still cameras, home-use video cameras and PCs increased while sales of Aiwa products and broadcast- and professional-use products decreased. The transfer of Sony's mobile phone business to Sony Ericsson Mobile Communications, AB ("SEMC"), an affiliate accounted for under the equity method since October 2001, also had a negative impact on sales, particularly in Japan and Europe. This was because before the transfer of the business to SEMC, Sony handled all aspects of the mobile phone operation from manufacturing through to sales, while now Sony only manufactures handsets on consignment from SEMC and SEMC is responsible for the remainder of the operation. These consignment sales are recorded in the Electronics segment.

The sales decrease during the fiscal year ended March 31, 2003, accelerated in the fourth quarter, as sales decreased by 227.0 billion yen, or 18.1 percent, to 1,025.3 billion yen compared to the fourth quarter of the previous fiscal year. This was principally due to declines in sales, in descending order of financial impact, of PCs, CRT televisions, Aiwa products, computer displays, home-use video cameras and home audio.

Performance by product category

Sales and operating revenue by product category discussed below represent sales to customers, which do not include intersegment transactions. Refer to Note 25 of Notes to Consolidated Financial Statements.

"Audio" sales decreased by 65.0 billion yen, or 8.7 percent, to 682.5 billion yen. Sales of home audio declined in all geographic areas, although sales of home theater systems increased principally in Europe and the U.S. Regarding headphone stereos, MD format sales increased due to rapid market growth particularly in the U.S. However, CD format headphone stereos sales decreased overall due to the contraction of the U.S. market, although such sales rose strongly in Europe aided by continued market expansion and the depreciation of the yen against the euro. Sales of both formats declined in Japan. Overall sales for the cassette format decreased due to the continued contraction of the market in all areas. Worldwide shipments of MD format headphone stereos increased by approximately 370,000 units to approximately 3,320,000 units. Worldwide shipments of CD format headphone stereos increased by approximately 250,000 units to approximately 10,720,000 units. Sales of home telephones declined because of Sony's withdrawal from the home telephone business in the U.S. and Japan in the previous fiscal year.

"Video" sales increased by 17.0 billion yen, or 2.1 percent, to 823.4 billion yen. The increase was principally due to higher sales of digital still cameras in all areas and digital home-use video cameras in Other Areas, particularly Asia, and Europe. Worldwide shipments of digital still cameras increased by approximately 2,200,000 units to approximately 5,600,000 units. Worldwide shipments of home-use video cameras, both analog and digital, increased by approximately 350,000 units to approximately 5,750,000 units. However, analog home-use video camera sales decreased due to lower demand, particularly in the U.S. Overall sales of home-use video cameras decreased in Japan and the U.S. due to increased price competition. DVD-Video player sales decreased primarily in the U.S. where pricing pressure was severe, although the market expanded.

"Televisions" sales increased by 3.8 billion yen, or 0.4 percent, to 846.1 billion yen. The increase was primarily due to higher sales of large-screen projection televisions, particularly in the U.S., and plasma televisions, in the U.S., Europe and Japan. This increase was partially offset by a substantial decline in CRT televisions sales in the U.S. and Japan as a result of market contraction. However, sales of CRT televisions increased in Europe aided by the appreciation of the euro against the yen. Worldwide shipments of CRT televisions were approximately 10,000,000 units, almost flat compared with the previous fiscal year. Sales revenue from set-top boxes decreased due to a decline in unit sales in the U.S. and Europe.

"Information and Communications" sales decreased by 208.8 billion yen, or 17.9 percent, to 958.6 billion yen. The decrease was primarily due to lower sales of PCs, CRT computer displays and broadcast- and professional-use products. Further, since October 2001, when Sony began recording mobile phone handset sales as consignment sales to SEMC in "Other", no sales of mobile phone handsets have been recorded under "Information and

Communications". Sales of PCs decreased in Japan and the U.S. due to increased price competition. Worldwide shipments of PCs decreased by approximately 400,000 units to approximately 3,100,000 units. Sales of personal digital assistants increased significantly, particularly in the U.S. and Europe, as the market for these products expanded. Sales of CRT based computer displays continued to decrease in the U.S., Europe and Japan due to the demand shift towards flat panel displays. As a result, sales of flat panel displays (which include LCD televisions) increased significantly in all areas. Sales of broadcast- and professional-use products decreased as many broadcasters postponed the installation of new systems due to economic uncertainty.

"Semiconductors" sales increased by 22.4 billion yen, or 12.3 percent, to 204.7 billion yen. The increase was primarily due to a significant increase in sales of CCDs, particularly in Japan and Other Areas, reflecting higher demand for digital still cameras, and a significant increase in sales of bipolar integrated circuits for CD-R/RW and DVD drives, particularly in Japan. Partially offsetting the above increase was a decrease in sales revenue from high temperature LCDs in all geographic areas due to pricing pressure.

"Components" sales increased by 11.8 billion yen, or 2.2 percent, to 537.4 billion yen. The increase was primarily due to significant increases in sales of DVD drives, Memory Stick and batteries. DVD drive sales increased as the strong performance of Sony branded products, particularly in the U.S., allowed Sony to avoid unit price reductions. Memory Stick sales increased due to continued demand for digital still cameras, with worldwide shipments of Memory Stick increasing by approximately 8,000,000 units to approximately 19,000,000 units. At the end of the fiscal year ended March 31, 2003, Sony's cumulative shipments of Memory Stick had reached 39,000,000 units. Regarding batteries, the growing market for lithium-ion batteries led to strong revenue growth despite declines in the average selling price. On the other hand, sales of CD-R/RW drives decreased due to severe price competition. Sales of CRTs also decreased reflecting the decline in the market for CRT televisions and CRT computer displays.

"Other" sales decreased by 10.4 billion yen, or 2.1 percent, to 490.7 billion yen, primarily due to lower sales of Aiwa products in all geographic areas. This decrease was partially offset by the sales of mobile phone handsets which were transferred from "Information and Communications" to "Other" in October 2001, as a result of their becoming consignment sales to SEMC.

In the Electronics segment, cost of sales for the fiscal year ended March 31, 2003 decreased by 368.5 billion yen, or 8.7 percent to 3,869.2 billion yen compared with the previous fiscal year. This decrease was due to the effects of restructuring carried out in the previous fiscal year in CRTs and other products, the increased profitability as a result of increased sales in semiconductors, batteries and other products, and the favorable impact of the appreciation of the euro against the yen. A majority of goods sold in Europe are imported from other regions; therefore an appreciation of the euro causes increased sales without a corresponding increase in the cost of sales. Research and development expenses were 380.3 billion yen, almost flat year on year. The cost of sales ratio decreased from 80.5 percent to 78.8 percent.

Selling, general and administrative expenses decreased by 19.8 billion yen, or 1.9 percent to 1,029.9 billion yen compared with the previous fiscal year. After-sales service expenses decreased by 36.5 billion yen, partially because of the absence of mobile phone-related after-sales service expenses recorded in the previous fiscal year. Loss on sales, disposal or impairment of long-lived assets, net also decreased, by 19.0 billion yen, primarily because of a decrease in restructuring charges related to reductions in CRT computer display manufacturing capacity, mainly in the U.S. In the current fiscal year, due to CRT computer display related restructuring in Japan and South-East Asia, a restructuring charge of 5.6 billion yen was recorded in selling, general and administrative expenses. Royalty expenses increased 16.9 billion yen. The ratio of selling, general and administrative expenses to sales increased from 19.9 percent to 20.8 percent due to the decrease in sales.

Regarding profit performance by product compared with the previous fiscal year, the largest gains in operating income were recorded in CRTs, portable audio, batteries, CRT televisions, recording media and digital still cameras. Increased demand for semiconductors resulted in a substantial decrease in the size of losses. On the other hand, losses increased in PCs and Aiwa products. Restructuring carried out in the previous fiscal year also led to improved profitability in several component businesses, including CRTs and recording media, as a result of the reduction of fixed costs and the concentration of resources toward successful products. Also contributing to the increase in profitability was the withdrawal from the loss-making home telephone business and the transfer, in October 2001, of Sony's mobile handset business, which was recording a loss, to SEMC. Further, operating income benefited from the depreciation of the yen against the euro, which exceeded the negative impact of the appreciation of the yen against the U.S. dollar.

Partially offsetting the increase in profitability were losses recorded in PCs, where sales declined due to increased competition from lower priced products. Large operating losses were also recorded by Aiwa in almost all geographic areas as a result of reduced sales because of a decline in the competitiveness of Aiwa's mainstay products such as audio, restructuring expenses including costs of headcount reductions, inventory write-downs brought about by the elimination of product lines, and the sale and disposal of production facilities. Sony Corporation absorbed Aiwa by merger on December 1, 2002.

In the past Sony has recorded losses in the fourth quarter, due to a seasonal decline in demand for electronics products. However, the loss in the fourth quarter of the fiscal year ended March 31, 2003 increased substantially due to, in descending order of financial impact, a decline in sales, an increase in selling, general and administrative expenses associated with an increase in patent-related and other expenses, and a deterioration in the cost of sales ratio due to reductions in production undertaken to lower inventory to target levels and pricing pressure. Fourth quarter operating losses in the Electronics segment totaled 116.1 billion yen compared with an operating loss of 51.3 billion yen in the same quarter of the previous fiscal year. Significant losses were recorded by products including Aiwa products, semiconductors, digital still cameras and home audio. An approximate 5.9 billion yen restructuring charge for the closure of a semiconductor plant in the U.S. impacted the loss in the semiconductor business.

Manufacturing by Geographic Area

Regarding the geographic breakdown of total annual production in the Electronics segment (including the assembly of PlayStation 2 for the Game segment), and the final destination of such production, half of total production was in Japan, including production of digital still cameras, semiconductors, personal digital assistants, components (including batteries and Memory Stick), and plasma televisions. Approximately 55 percent of production in Japan was destined for other regions. Asia, here excluding Japan and China, accounted for more than 15 percent of total production, more than 60 percent of which was destined for Japan, the U.S. and Europe. China accounted for less than 10 percent of total production, more than 70 percent of which was destined for Japan, the U.S. and Europe. The Americas and Europe together accounted for the remaining quarter of total production, most of which was sold in the area where it was produced.

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

Results in the Electronics segment, on a yen basis, were positively impacted overall by the appreciation of the euro against the yen, although this impact was partially offset by the negative impact of the depreciation of the U.S. dollar against the yen. On a local currency basis, sales for the fiscal year ended March 31, 2003 decreased by approximately 7 percent compared with the previous fiscal year and an operating income was recorded where an operating loss had been recorded in the previous fiscal year.

Due to the negative impact of the depreciation of the U.S. dollar against the yen, year on year increases in sales of products in the U.S. were generally smaller, and decreases generally larger, when stated in yen than when stated on a local currency basis. However, no products which recorded a sales increase on a local currency basis recorded a sales decrease on a yen basis.

Sales in Europe were positively affected by currency fluctuations, in particular the appreciation of the euro against the yen. Year on year increases in sales of products in Europe were generally larger, and decreases generally smaller, when stated in yen than when stated on a local currency basis. Regarding significant differences between results on a yen basis and results on a local currency basis, CRT televisions and home-use video cameras recorded an increase in sales on a yen basis but a decrease in sales on a local currency basis while portable audio and batteries, which all recorded increases in sales on a yen basis, were flat year on year on a local currency basis.

The net effect of currency fluctuations on product sales in Other Areas was negative. Sales increases were generally smaller, and decreases larger, when stated in yen than when stated on a local currency basis. Regarding significant differences between results on a yen basis and results on a local currency basis, sales of CRT televisions were flat year on year on a local currency basis but showed a slight decrease on a yen basis. Sales trends for other products were not significantly different on a local currency basis or a yen basis.

Game

Sales for the fiscal year ended March 31, 2003 decreased by 48.7 billion yen, or 4.9 percent, to 955.0 billion yen compared with the previous fiscal year. Operating income increased by 29.7 billion yen, or 35.9 percent, to 112.7 billion yen compared with the previous fiscal year, and the operating income margin increased from 8.3 percent to 11.8 percent.

Sales in the Game segment were positively impacted by the yen’s depreciation against the euro. On a local currency basis, sales for the fiscal year ended March 31, 2003 decreased approximately 7 percent and operating income increased 12 percent compared with the previous fiscal year.

Regarding sales by geographic area, sales decreased in Japan and the U.S. but increased in Europe. In Japan, hardware sales declined due to lower unit sales of PlayStation 2 hardware, brought on by a stagnation of the game industry, and a price reduction of PlayStation 2 hardware. Software sales decreased slightly due to lower unit sales of software published by SCE. As a result overall sales in Japan decreased. In the U.S., unit sales of PlayStation 2 hardware increased mainly due to strategic price reductions. Despite an increase in unit sales, hardware sales decreased due to the negative impact of the price reductions exceeding the positive impact of the increase in unit sales. Software sales increased due to an increase in unit sales brought on by an expansion of the software market as a result of the increase in hardware unit sales. As the decrease in hardware sales exceeded the increase in software sales, overall sales in the U.S. decreased. In Europe the market penetration of PlayStation 2 hardware continued to expand as hardware unit sales increased mainly in Western Europe, primarily due to a strategic price reduction of PlayStation 2 hardware. As a result, software sales increased and overall sales in Europe increased. The depreciation of the yen against the euro also had a positive impact on sales in Europe.

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

	(Million units)		
	Year ended March 31		Cumulative as of March 31, 2003
	2002	**2003**	
Total Production Shipments of Hardware			
PlayStation + PS one	7.40	**6.78**	96.41
PlayStation 2	18.07	**22.52**	51.20
Total Production Shipments of Software*			
PlayStation	91.00	**61.00**	917.00
PlayStation 2	121.80	**189.90**	350.00

* Including those both from Sony and third parties under Sony licenses.

In terms of total software unit sales, PlayStation 2 titles represented 76 percent of the software unit sales for the fiscal year ended March 31, 2003, an increase from 57 percent of software unit sales recorded in the previous fiscal year.

In terms of profitability, operating income increased as compared with the previous fiscal year. This increase was due to an improvement in profitability of the hardware business as a result of a reduction in the cost of producing PlayStation 2 hardware and the positive impact of the yen's depreciation against the euro. The increase in operating income was also due to an increase in profitability of the software business brought on by an increase in unit sales mainly in the U.S. and Europe. Cost of sales in the Game segment decreased due to a decrease in manufacturing-related expenses of PlayStation 2 hardware, resulting in a decrease in the ratio of cost of sales to sales compared to the previous fiscal year. Although selling, general and administrative expenses increased primarily due to an increase in advertising and promotion expenses in conjunction with the increase in units sold, the ratio of selling, general and administrative expenses to sales decreased as compared to the previous fiscal year.

Music

Sales for the fiscal year ended March 31, 2003 decreased by 6.5 billion yen, or 1.0 percent, to 636.3 billion yen compared with the previous fiscal year. Compared to operating income of 20.2 billion yen in the previous fiscal year, an operating loss of 8.7 billion yen was recorded this year.

On a local currency basis, sales in the Music segment increased by 1 percent while the Music segment incurred an operating loss as compared to operating income in the previous fiscal year.

Sales at SMEI increased approximately 6 percent on a U.S. dollar basis (refer to "Foreign Exchange Fluctuations and Risk Hedging" below). In terms of profitability, SMEI incurred an operating loss in the current year as compared to operating income in the previous fiscal year. The increase in sales was primarily due to an increase in sales of DVD software, manufactured in the Music segment, to the Pictures and Game segments. Sales to the Pictures segment increased as a result of the greater popularity of DVD media in the home entertainment market and sales to the Game segment increased due to higher unit sales of PlayStation 2 software titles, which are packaged on DVDs. Partially offsetting the increase in sales at SMEI was a decline in album sales in many regions worldwide. Album sales at SMEI have been declining due to the continued contraction of the global market for music. Industry-wide album unit sales in the U.S. decreased for 19 consecutive months up to and including March 2003. Such sales in the fiscal year ended March 31, 2003 were 10 percent lower than in the previous fiscal year. This contraction trend has been caused by slow economic growth, the saturation of the CD market, the effects of digital piracy and other illegal duplication, parallel imports, pricing pressures and a diversification of customer preferences brought on by increased competition from other entertainment sectors.

The decline in profitability resulting in an operating loss at SMEI primarily resulted from a 120 million U.S. dollar year on year increase in restructuring charges undertaken to reduce costs in response to the downward trend of the market. The total cost of restructuring for the fiscal year ended March 31, 2003, was approximately 190 million U.S. dollars, or 22.4 billion yen (refer to "Restructuring" for details) net of a reversal of an expense of 30.8 million U.S. dollars accrued in previous fiscal years as a result of reduced compensation expense. The second largest factor leading to the operating loss was a decrease in gross profit brought about by the decrease in album sales. The third factor leading to operating loss was an increase in talent-related expenses, primarily because the continued decline in album sales led to an increase in impairments of capitalized advances paid to artists. Partially offsetting the decline in operating profitability, in descending order of magnitude, were a decrease in advertising and promotion expenses, savings realized from previously implemented restructuring initiatives and higher income generated by the increase in DVD software manufacturing activity. Although restructuring expenses increased significantly compared with the previous fiscal year, the decrease in advertising and promotion expenses and savings realized from previously implemented restructuring initiatives caused a decrease in selling, general and administrative expenses for the year and an improvement in the ratio of selling, general and administrative expenses to sales.

Regarding the results of SMEJ, sales decreased by 10 percent and operating income decreased 81 percent year on year. Sales decreased due to the continued contraction of the music industry. The decrease in operating income resulted from the decrease in sales and, to a lesser extent, an increase in severance-related expenses incurred from restructuring. Restructuring activity at SMEJ during the fiscal year centered on headcount reductions.

On a yen basis, 72 percent of the Music segment's sales were generated by SMEI while 28 percent were generated by SMEJ.

Pictures

Sales for the fiscal year ended March 31, 2003 increased by 167.0 billion yen, or 26.3 percent, to 802.8 billion yen compared with the previous fiscal year. Operating income increased by 27.7 billion yen, or 88.6 percent, to 59.0 billion yen and the operating income margin increased from 4.9 percent to 7.3 percent. The results in the Pictures segment consist of the results of Sony Pictures Entertainment ("SPE"), a U.S. based subsidiary.

On a U.S. dollar basis, sales for the fiscal year in the Pictures segment increased approximately 30 percent and operating income increased approximately 92 percent. The increase in sales was due to the strong worldwide performance, both theatrically and in home entertainment, of current year releases including *Spider-Man*, the highest grossing film in SPE's history, *Men in Black II*, *xXx* and *Mr. Deeds*. The increased worldwide popularity of DVDs also contributed to the higher home entertainment revenues. As a result of these factors, sales for the current year release slate increased 1.6 billion U.S. dollars compared with the previous fiscal year. Operating income for the segment increased significantly due to the higher theatrical and home entertainment revenues for the current year release slate, partially offset by the aggregate disappointing performance of several films including *I Spy* and *Stuart Little 2*, resulting in an increase of 221 million U.S. dollars, the benefit of restructuring initiatives undertaken in the previous fiscal year, resulting in an increase of 52 million U.S. dollars, and, less significantly, increased operating income in the television business due to higher revenues from the game show, *Wheel of Fortune*. The primary benefit of the restructuring undertaken in the previous fiscal year was a reduction in losses recorded on the production of new network television shows and pilots. Losses declined because the number of new shows and pilots was reduced and because production expenses per new show and pilot were reduced. Operating income for the segment was also higher because the 67 million U.S. dollar, or 8.5 billion yen, restructuring charge recorded in the previous fiscal year was not recorded this year (refer to "Restructuring" for details). Partially offsetting the increase in operating income was an additional provision of 66 million U.S. dollars, an increase of 26 million U.S. dollars over the previous fiscal year, with respect to previously recorded revenue from KirchMedia, an insolvent licensee in Germany of SPE's feature film and television product, and related adjustments to ultimate film income.

As of March 31, 2003, 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 product. The license fee revenue will be recognized in the year that the product is available for broadcast.

Financial Services

Financial Services revenue for the fiscal year ended March 31, 2003 increased by 28.3 billion yen, or 5.5 percent, to 540.5 billion yen compared with the previous fiscal year. Operating income increased by 1.2 billion yen, or 5.4 percent, to 23.3 billion yen and the operating income margin was flat, compared with the previous fiscal year, at 4.3 percent.

At Sony Life Insurance Co., Ltd. ("Sony Life"), revenue increased by 19.5 billion yen, or 4.4 percent, to 466.6 billion yen and operating income increased by 1.8 billion yen, or 6.4 percent, to 29.6 billion yen compared with the previous fiscal year*. Insurance revenue increased as insurance-in-force from individual life insurance products increased due to the maintenance of a lower than industry average rate of contract cancellation, despite a decrease in newly acquired insurance-in-force brought about by a decrease in disposable family incomes due to continued weak economic conditions. The increase in revenue also resulted from an improvement in the valuation gains and losses from investments in the general account which occurred because loss recorded due to the devaluation of Argentine government bonds held in that account decreased significantly compared with the previous fiscal year. On the other hand, the increase in Sony Life's revenue was partially offset by a deterioration of valuation gains and losses from investments in the separate account, which resulted from the stock market downturn. Operating income increased because of the increase in insurance revenue that accompanied the increase in insurance-in-force from individual life insurance products and the improvement in valuation gains and losses from investments in the general account mentioned above. Valuation gains and losses from investments in the separate account accrue directly to the account of policyholders and, therefore, do not affect operating income.

At Sony Assurance Inc. ("Sony Assurance"), revenue increased due to higher insurance revenue brought about by an expansion in automobile insurance-in-force reflecting greater customer awareness of the benefit of flexible insurance policies which take into account mileage driven. Regarding profit performance, an operating loss was recorded in the fiscal year ended March 31, 2003, as was the case in each of the previous three fiscal years. The loss was recorded because essential investments necessary for the expansion of the business put pressure on profitability. These investments were for advertising and for computer systems necessary to develop new products and establish customer claims service centers. However, an increase in insurance revenue and a decrease in the expense ratio (the ratio of operating expenses to premiums) and the loss ratio (the ratio of insurance payouts to premiums) caused losses to decrease.

At Sony Finance International, Inc. ("Sony Finance"), a leasing and credit financing business subsidiary in Japan, revenue decreased slightly due to a decrease in rent revenue despite an increase in leasing revenue. In terms of profitability, a loss was recorded, compared with an operating income in the previous fiscal year, due to an increase in operating expenses in connection with the issuance of credit cards that utilize contact-free IC card technology.

Sony Bank Inc. ("Sony Bank"), which started business in June 2001, recorded a loss, as was also recorded in the previous fiscal year, primarily due to start-up expenses.

*The revenue and operating income at Sony Life reported here are calculated on a U.S. GAAP basis. Therefore, they differ from the results that Sony Life discloses on a Japanese statutory basis.

Condensed Statements of Income Separating Out the Financial Services Segment (Unaudited)

The following schedule shows unaudited condensed statements of income for the Financial Services segment and all other segments excluding Financial Services as well as condensed consolidated statements of income. This presentation is not required under U.S. GAAP, which is used in Sony's consolidated financial statements. However, because the Financial Services segment is different in nature from Sony's other segments, Sony believes that a comparative presentation may be useful in understanding and analyzing Sony's consolidated financial statements. Transactions between the Financial Services segment and all other segments excluding Financial Services are eliminated in the consolidated figures shown below.

(Yen in millions)

	Financial Services		All other segments excluding Financial Services		Consolidated	
Year ended March 31	2002	**2003**	2002	**2003**	2002	**2003**
Financial Services revenue	512,245	**540,519**	-	**-**	483,313	**512,641**
Net sales and operating revenue	-	**-**	7,102,369	**6,971,737**	7,094,945	**6,960,992**
	512,245	**540,519**	7,102,369	**6,971,737**	7,578,258	**7,473,633**
Costs and expenses.	490,111	**517,181**	6,989,446	**6,808,635**	7,443,627	**7,288,193**
Operating income	22,134	**23,338**	112,923	**163,102**	134,631	**185,440**
Other income (expenses), net	(1,861)	**(1,307)**	(40,421)	**67,878**	(41,856)	**62,181**
Income before income taxes	20,273	**22,031**	72,502	**230,980**	92,775	**247,621**
Income taxes and other	11,477	**13,072**	72,785	**120,062**	83,443	**132,102**
Cumulative effect of accounting changes.	4,305	**-**	1,673	**-**	5,978	**-**
Net income	13,101	**8,959**	1,390	**110,918**	15,310	**115,519**

Other

During the fiscal year ended March 31, 2003, the Other segment was mainly comprised of the NACS, which includes SCN, an Internet-related service business subsidiary operating mainly in Japan, an in-house oriented information system service business and an IC card business, and an advertising agency business in Japan.

Sales for the fiscal year ended March 31, 2003 increased by 46.5 billion yen, or 22.8 percent, to 250.3 billion yen, compared with the previous fiscal year. During the fiscal year ended March 31, 2003, 52 percent of sales in the Other segment reflected intersegment transactions. In terms of profit performance, operating losses for the segment increased from 16.6 billion yen to 32.0 billion yen.

During the fiscal year, sales for the segment increased because intersegment transactions increased primarily due to an increase in sales at the advertising agency business in Japan due to its taking over the media buying for all Sony Group companies in Japan, and at the in-house oriented information system service business, in addition to an increase in sales at SCN. Regarding profit performance, losses were recorded at the NACS-related businesses and the advertising agency business in Japan. In comparison with the previous fiscal year, segment losses increased primarily due to an increase in expenses associated with the development of network technology intended to facilitate new businesses in the broadband age and the write-off of professional-use video software in the professional-use video software business due to a discontinuation of that business. Operating losses for the Other segment increased despite the fact that operating income was recorded at SCN, as compared to an operating loss in the previous fiscal year. SCN recorded operating income due to an increase in sales resulting from a rise in broadband subscribers and a reduction in costs associated with communication line usage.

Other Income and Expenses

In the consolidated results for the fiscal year ended March 31, 2003, other income increased by 61.2 billion yen, or 63.5 percent, to 157.5 billion yen, while other expenses decreased by 42.8 billion yen, or 31.0 percent, to 95.3 billion yen, compared with the previous fiscal year. The net amount of other income and other expenses was net income of 62.2 billion yen compared to net expense of 41.9 billion yen in the previous fiscal year.

The increase in other income was primarily due to the recording of a 72.6 billion yen gain on sales of securities investments and other, net, for the year ended March 31, 2003. This was mostly due to a 66.5 billion yen gain on the sale, in April 2002, of Sony's equity interest in Telemundo Communications Group, Inc. and its subsidiaries ("Telemundo"), a U.S. based Spanish language television network and station group that was accounted for under the equity method. In addition, Sony deferred an approximate 6.0 billion yen gain on this sale due to provisions in the sale agreement that required a partial refund of the purchase price for certain losses or claims as defined in the agreement. The right of the acquirer to claim such refunds expired in April 2003 without any such claim being made. Therefore, Sony recorded an additional gain of 6.0 billion yen in April 2003. Gains were also recorded on the sale of the equity interest in Sony Tektronix Inc., which develops, manufactures and sells electronic measuring instruments and related devices, and Columbia House Company ("CHC"), a direct marketer of music and videos. Other income was positively impacted by a net foreign exchange gain of 1.9 billion yen recorded during the year, compared with a net foreign exchange loss of 31.7 billion yen recorded in the previous fiscal year. The net foreign exchange gain recorded during the year was primarily due to gains incurred on foreign exchange forward contracts and foreign currency option contracts, which Sony employs to hedge the risk from exchange rate fluctuations, while the foreign exchange losses recorded during the previous fiscal year were due to losses incurred on such contracts due to the rapid depreciation of the yen between December 2001 and March 2002. Compared to the previous fiscal year, interest and dividends decreased from 16.0 billion yen in the previous fiscal year to 14.4 billion yen, primarily due to lower interest earned from investments.

The decrease in other expenses was primarily due to the absence of the net foreign exchange loss recorded in the previous fiscal year as noted above. Interest expense also decreased by 9.1 billion yen, or 25.0 percent, to 27.3 billion yen, primarily due to lower average balances of short-term borrowings and lower interest rates. As a result, the amount of income from interest and dividends less interest expense improved to a net expense of 12.9 billion yen, compared with a net expense of 20.4 billion yen in the previous fiscal year. Partially offsetting the decrease in other expenses was an increase of 4.7 billion yen, or 25.7 percent, to 23.2 billion yen, in losses on the devaluation of securities investments, including securities issued by companies in the U.S. and Europe with which Sony has strategic relationships for the purpose of developing and marketing new technologies. Such companies include Canal+ Technologies, a developer of middleware and conditional access technologies for digital broadcasting, TIVO

Inc., a marketer of digital video recorders, and Transmeta Corporation, a chip manufacturer.

Income before Income Taxes

Income before income taxes for the fiscal year ended March 31, 2003 increased by 154.8 billion yen, or 167 percent, to 247.6 billion yen compared with the previous fiscal year. Significant contributors to the year on year increase in income before income taxes, in descending order of significance, were the increase in operating income, the increase in gains on sales of securities investments and other, net, and the absence of the foreign exchange loss recorded in the previous fiscal year.

Income Taxes

Income taxes for the fiscal year ended March 31, 2003 increased by 15.6 billion yen, or 24.0 percent, to 80.8 billion yen. The increase in income tax was principally due to the increase in income before income taxes described above, although this increase was partially offset by a tax benefit of 51.9 billion yen recorded due to the reversal of valuation allowances on deferred tax assets held by Aiwa as these assets became recoverable as a result of Sony's decision to merge with Aiwa.

The ratio of income taxes to income before income taxes (the effective tax rate) decreased from 70.3 percent in the previous fiscal year to 32.6 percent.

Results of Affiliated Companies Accounted for under the Equity Method

During the year, equity in net losses of affiliated companies increased from 34.5 billion yen in the previous fiscal year to 44.7 billion yen. SEMC, a joint venture focused on mobile phone handsets recorded 20.8 billion yen losses. In addition, equity affiliates recording losses included S.T. Liquid Crystal Display Corporation ("ST-LCD"), an LCD joint venture in Japan, Crosswave Communications Inc. ("Crosswave"), a data communications carrier offering customers broadband networks and network services in Japan, and BE-ST Bellevuestrasse Development GmbH & Co. First Real Estate KG, Berlin ("BE-ST KG"), a real estate business in Germany. Regarding the significant losses at SEMC, no year on year comparison is available because SEMC was established in October 2001. However, the loss of 10.7 billion yen recorded due to SEMC in the second half of the fiscal year ended March 31, 2003 was greater than the 7.4 billion yen loss recorded in the second half of the fiscal year ended March 31, 2002. This increase in losses was due to the following factors: decreased sales in the fourth quarter ended March 31, 2003, compared to the fourth quarter ended March 31, 2002, due to increased pricing pressure; increased expenses due to the phase-in of new products in the GSM and Japanese markets; and the recording of an operating loss in the fourth quarter ended March 31, 2003 compared to income in the fourth quarter ended March 31, 2002, which benefited from the successful introduction of two high-end models in the Japanese and European markets. In January 2003, Sony and Telefonaktiebolaget LM Ericsson announced that they will each invest an additional 150 million euro in SEMC to strengthen its financial position (refer to "**Electronics**", above).

In the first quarter of the fiscal year ended March 31, 2003, SPE and other non-Sony investors sold Telemundo to NBC, a media company owned by the General Electric Company. In the same quarter, SMEI and AOL Time Warner Inc.'s Warner Music Group each sold the majority of their holding in CHC to Blackstone Capital Partners, an affiliate of The Blackstone Group, an investment bank. The Chairman of the Blackstone Group was a director of Sony until June 2002.

In August 2003, Crosswave, 23.9 percent of the equity of which Sony Corporation owns, applied for commencement of reorganization proceedings under the Corporate Reorganization Law of Japan. Sony has outstanding loans and leases certain fixed assets to Crosswave. Sony estimates that the commencement of such reorganization proceedings under the Corporate Reorganization Law will result in a maximum decrease to consolidated income before income taxes of approximately 6.0 billion yen.

Minority Interest in Income (Loss) of Consolidated Subsidiaries

In the fiscal year ended March 31, 2003, minority interest in the income of consolidated subsidiaries, which is excluded from income before income taxes, was 6.6 billion yen, compared to a 16.2 billion yen minority interest in the loss of consolidated subsidiaries recorded in the previous fiscal year. This change was principally due to the reversal of valuation allowances on deferred tax assets held by Aiwa and because Sony no longer recorded a minority interest in Aiwa's losses as Sony took Aiwa private in October 2002.

Net Income

Net income for the fiscal year ended March 31, 2003 increased by 100.2 billion yen, or 654.5 percent, to 115.5 billion yen compared with the previous fiscal year. As a percentage of sales, net income increased from 0.2 percent to 1.5 percent. The most significant contribution to the year on year increase in net income was the increase in income before income taxes. However the effect of the minority interest in the income of consolidated subsidiaries, the absolute increase in income taxes, and the increase in losses in equity of affiliated companies caused net income to be 132.1 billion yen less than income before income taxes, compared to a difference of 77.5 billion yen in the previous fiscal year.

The return on stockholders' equity increased from 0.7 percent to 5.0 percent. (This ratio is calculated by dividing net income by the simple average of stockholders' equity at the end of the previous fiscal year and at the end of the current fiscal year.)

Basic net income per share was 125.74 yen compared with 16.72 yen in the previous fiscal year, and diluted net income per share was 118.21 yen compared with 16.67 yen in the previous fiscal year. Refer to Notes 2 and 22 of Notes to Consolidated Financial Statements.

Foreign Exchange Fluctuations and Risk Hedging

During the fiscal year ended March 31, 2003, the average value of the yen was 120.9 yen against the U.S. dollar, and 119.5 yen against the euro, which was 2.6 percent higher against the U.S. dollar and 8.8 percent lower against the euro, respectively, compared with the average of the previous fiscal year. Operating results on a local currency basis described herein show results of sales and operating revenue (“sales”) and operating income obtained by applying the yen’s monthly average exchange rate in the previous fiscal year to monthly local currency-denominated sales, cost of sales, and selling, general and administrative expenses for the fiscal year ended March 31, 2003, as if the value of the yen had remained constant. In the Music segment, Sony consolidates the yen-translated results of SMEI (a U.S. based operation that aggregates the results of its worldwide subsidiaries on a U.S. dollar basis) and the results of SMEJ (a Japan based operation that aggregates the results of its operations in yen). In the Pictures segment, Sony translates into yen the U.S. dollar consolidated results of SPE, (a U.S. based operation that has worldwide subsidiaries). Therefore, in the results of SMEI and SPE, analysis and discussion of certain portions of their operating results are specified as being on “a U.S. dollar basis.” Results on a local currency basis and results on a U.S. dollar basis are not on the same basis as Sony’s consolidated financial statements and do not conform with U.S. GAAP. In addition, Sony does not believe that these measures are a substitute for U.S. GAAP measures. However, Sony believes that local currency basis results provide additional useful information to investors regarding operating performance.

Sony's consolidated results are subject to foreign currency fluctuations mainly derived from the fact that the countries where manufacturing takes place may be different from those where such products are sold. In order to reduce the risk caused by such fluctuations, Sony employs derivatives, including foreign exchange forward contracts and foreign currency option contracts, in accordance with a consistent risk management strategy. Such derivatives are used primarily to mitigate the effect of foreign currency exchange rate fluctuations on cash flows generated by anticipated intercompany transactions and intercompany accounts receivable and payable denominated in foreign currencies.

In 2001, Sony Global Treasury Services plc (“SGTS”) was established in London for the purpose of providing integrated treasury services for Sony Corporation and its subsidiaries. Sony's policy is that Sony Corporation and all subsidiaries with foreign exchange exposures should enter into commitments with SGTS for hedging their exposures. Sony Corporation and most of Sony's subsidiaries utilize SGTS for this purpose. The concentration of foreign exchange exposures at SGTS means that, in effect, SGTS hedges the net foreign exchange exposure of Sony Corporation and its subsidiaries. SGTS in turn enters into foreign exchange transactions with creditworthy third-party financial institutions. Most of the transactions are entered into against projected exposures before the actual export and import transactions take place. In particular SGTS hedges the exposures of major currency pairs such as U.S. dollar against Japanese yen, euro against Japanese yen and euro against U.S. dollar, on average three months before the actual transactions take place. In the case of emerging market currencies, such as Brazil, with high inflation and high interest rates, projected exposures are hedged one month before the actual transactions take place due to cost effectiveness considerations. Sony enters into foreign exchange transactions with financial institutions only for hedging purposes and does not undertake speculative transactions.

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

Changes in the fair value of derivatives designated as cash flow hedges, including foreign exchange forward contracts and foreign currency option contracts, are initially recorded in 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 of foreign exchange forward contracts, currency option contracts purchased and currency option contracts written as of March 31, 2003 are 1,139.3 billion yen, 484.5 billion yen and 238.8 billion yen, respectively.

Liquidity and Capital Resources

Liquidity Management

Sony's financial policy is to secure adequate liquidity and financing for its operations and to maintain the strength of its balance sheet. Sony defines liquidity sources as (a) cash, cash equivalents and time deposits, and (b) committed lines of credit contracted with banks rated "C" or above in Moody's Bank Financial Strength ratings. Sony's basic policy is to keep liquidity equal to at least 100 percent of the sum of the amount of average monthly sales and the amount of the largest expected monthly debt redemption during the fiscal year. Although its working capital needs have a general tendency to grow in the third quarter (from October 1 to December 31), Sony believes that this policy satisfies Sony's working capital requirements throughout the year.

On March 31, 2003, the total amount of liquidity sources for Sony Group excluding Sony Life, Sony Assurance and Sony Bank was 1,060.3 billion yen which was comprised of (a) 440.3 billion yen in cash, cash equivalents and time deposits and (b) approximately 620.0 billion yen in contracts for committed lines from banks rated "C" or above. The committed lines were entirely unused. Due to operational necessities, Sony also has approximately 286.0 billion yen in additional committed lines with banks that have a Moody's financial strength rating below "C". Refer to Note 12 of Notes to Consolidated Financial Statements for the total amount of committed lines with banks regardless of Moody's financial strength rating for the fiscal year ended March 31, 2003.

In general, there are no restrictions on how Sony's borrowings can be used except that, in compliance with Federal Reserve Board regulations, some borrowings in the U.S. may not be used for hostile corporate takeovers. In addition, there are no provisions in any of Sony's material financing agreements that would cause an acceleration of repayment in the event of a downgrade in Sony's credit ratings.

Finance and Capital Resources

Sony Corporation and its finance subsidiaries around the world engage in activities to acquire funds, when necessary, through the issuance of stocks and bonds, borrowings from financial institutions, and other financial instruments. In order to meet funding requirements around the world, Sony maintains commercial paper ("CP") programs and medium-term note ("MTN") programs.

SGTS, a Sony finance subsidiary in the U.K., maintains a CP program in both the U.S. and Euro CP markets, and a CP program in the Japanese CP market. Furthermore, a Sony finance subsidiary in the U.S. maintains a U.S. CP program. At March 31, 2003, the total amount of the CP programs was 2,060 billion yen. During the fiscal year ended March 31, 2003, the largest month-end outstanding balance of CP at Sony was 52.8 billion yen. The total outstanding balance of CP as of March 31, 2003 was 52.8 billion yen.

In addition to the above CP programs, SGTS maintains a Euro MTN program, while Sony's finance subsidiary in the U.S. maintains a Rule 144A U.S. MTN program targeted at the U.S. capital markets and a Euro MTN program. At March 31, 2003, the total amount of the MTN programs was 1,200.0 billion yen, and the total outstanding balance was approximately 78.0 billion yen.

Sony believes that, in order to fund investments for future growth, redemption of bonds and working capital needs, it is able to secure adequate resources through its access to financial and capital markets.

Ratings

In order to facilitate access to global capital markets, Sony obtains credit ratings from two rating agencies, Moody's Investors Services, Inc. ("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 market.

Sony's current debt ratings (long-term/short-term) are: Moody's: A1 (outlook: negative)/P-1; S&P: A+ (outlook: negative)/A-1; and R&I: AA/a-1+.

On June 25, 2003, Moody's downgraded Sony's long-term debt rating from Aa3 to A1 (outlook: negative). R&I downgraded Sony's long-term debt rating from AA+ to AA on June 16, 2003. These rating actions reflected concerns of the two agencies that Sony may take longer than expected to regain previous profit and cash flow levels as Sony's profitability, particularly in the Electronics segment, has been under pressure due to strong competition and deflationary trends. Sony's short-term debt ratings from Moody's and R&I have been unaffected.

Despite the downgrading of Sony's long-term debt rating by Moody's and R&I, Sony believes that its access to the global capital markets will remain sufficient for its financing needs going forward, and that it will retain its ability to issue CP to meet its working capital needs.

Sony seeks to maintain a stable credit rating in order to ensure financial flexibility for liquidity and capital management, and to continue to maintain access to sufficient funding resources through financial and capital markets.

Cash Management

Sony is centralizing and making more efficient its global cash management through SGTS. The excess or shortage of cash at most of its subsidiaries in Japan is invested or funded by SGTS after having been netted out. In addition, a cash concentration system has been introduced in which proxy payments are carried out for Japanese subsidiaries. In order to improve the efficiency of its cash management, Sony manages uneven cash distribution directly and indirectly through SGTS when surplus funds are generated at subsidiaries so that Sony can reduce unnecessary cash and cash equivalents as well as borrowings as much as possible.

The above description of basic policies and quantitative information excludes Sony Life, Sony Assurance and Sony Bank, each of which respectively secures liquidity on its own.

Financial Services Segment

In the Financial Services segment, the management of Sony Life, Sony Assurance, and Sony Bank recognize the importance of securing sufficient liquidity to cover the payment obligations that they take on as a result of their ordinary course of business. These companies abide by the regulations imposed by regulatory authorities and establish and operate under company guidelines that comply with these regulations and are designed to secure sufficient means to pay their obligations.

Sony Life currently obtains ratings from four rating agencies: AA- by S&P, A+ by AM Best Corporation, and AA by R&I and the Japan Credit Rating Agency Ltd. However, since April 2002, S&P has changed its outlook from “stable” to “negative” in conjunction with the Japanese Government Bond rating reduction. In September 2001, Sony Bank obtained an A-/A-2 rating from S&P for its long-term/short-term debt.

Contractual obligations, commitments, and contingent liabilities

The following table summarizes Sony’s contractual obligations and major commitments.

		(Yen in millions) Payments Due by Period			
	Total	Less than 1 year	1 to 3 year	3 to 5 year	After 5 year
Contractual Obligations and Major Commitments:					
Long-term debt (Note 12)					
Capital lease obligations (Notes 9 and 12).	**39,899**	11,313	19,731	2,696	6,159
Other long-term debt (Note 12)	**801,925**	23,072	452,478	196,327	130,048
Minimum rental payments required under operating leases (Note 9)	**289,511**	51,786	77,953	47,305	112,467
Purchase commitments for property, plant and equipment and other assets (Note 24)	**30,814**	30,814	-	-	-
Expected payments regarding contracts with recording artists and other (Note 24)	**54,508**	24,913	20,182	6,138	3,275
Expected cost for the production or purchase of films or certain rights (Note 24).	**128,140**	65,831	62,309	-	-

The total amount of commitments at March 31, 2003 was 297.8 billion yen (refer to Note 24 of Notes to Consolidated Financial Statements). The commitments include major purchase obligations as shown above.

In the ordinary course of business, Sony makes commitments to purchase property, plant and equipment. As of March 31, 2003, such outstanding commitments totaled 30.8 billion yen. Most of these assets will be used for general operating purposes.

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. The total amount of expected payments regarding these long-term contracts was 54.5 billion yen as of March 31, 2003.

A subsidiary in the Pictures segment has committed to fund a portion of the production cost of completed films and is responsible for all distribution and marketing expenses relating to these films under a distribution agreement with a third party. Further, certain subsidiaries in the Pictures segment have committed to acquire completed films, or certain rights therein, from third parties. As of March 31, 2003, the total amount of the expected cost for the production or purchase of films or certain rights under the above commitments was 128.1 billion yen.

Sony will use cash flows generated by its operating activities, and if necessary, raise funds for the commitments from the global capital markets and from banks.

The following table summarizes Sony's contingent liabilities.

	(Yen in millions) Total Amounts of Contingent Liabilities
Contingent Liabilities: (Notes 23 and 24)	
Loan guarantees to related parties	49,078
Guaranteed residual value in connection with the lease of the headquarters of Sony's U.S. subsidiary	25,727
Maximum exposure associated with a joint venture in the Pictures segment	30,574
Other	33,740
Total contingent liabilities	139,119

Other Financing Arrangements

In the U.S., Sony has an accounts receivable securitization program which provides for the accelerated receipt of up to approximately 900 million U.S. dollars of cash on eligible trade accounts receivable of Sony's U.S. electronics subsidiary. Through this program, Sony can securitize and sell a percentage of undivided interest in that pool of receivables to several multi-seller commercial paper conduits owned and operated by banks. These securitization transactions are accounted for as a sale in accordance with FAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", because Sony has relinquished control of the receivables. Accordingly, accounts receivable sold under these facilities are excluded from receivables in the accompanying consolidated balance sheet. There were no amounts outstanding under this facility at March 31, 2003. Refer to Note 7 of Notes to Consolidated Financial Statements for more information.

Sony has, from time to time, entered into various other financing arrangements with variable interest entities ("VIE"). These arrangements include facilities which provide for the leasing of certain property, the financing of film production, the development and operation of a multi-use real estate complex and the implementation of a stock option plan for selected Japanese employees. Although not a significant part of its financing activities, Sony employs these arrangements because they provide a diversification of funding sources. The assets and financings associated with these arrangements generally qualify for off-balance sheet treatment. Although Sony continues to evaluate the impact of FASB's FIN No. 46 on Sony's result of operations and financial position, significant arrangements with VIEs include the following:

- During the fiscal year ended March 31, 2002, Sony Corporation of America ("SCA") entered into a financing arrangement with a VIE to lease its headquarters, which qualified for off-balance sheet treatment. The total obligation of the VIE under this arrangement is 255 million U.S. dollars. Upon the maturity of this lease arrangement in December 2008, SCA has guaranteed a residual value totaling 214 million U.S. dollars if SCA decides to forgo the purchase of the building or renewal of the lease. Upon Sony's adoption of FASB's FIN 46, "Consolidation of Variable Interest Entities", Sony will begin consolidation of the special purpose entity.

- In the fiscal year ended March 31, 2000, SPE entered into a joint venture agreement with a VIE for the purpose of funding certain film production and acquisition costs. The joint venture allows SPE to utilize its existing international distribution capabilities while sharing the possible risks of financing the increased acquisition and distribution activities with third party investors. SPE contributed 11 million U.S. dollars of the VIE's total equity capitalization of 106 million U.S. dollars. Additionally, the VIE has a 300 million U.S. dollar bank credit facility of which 11.2 million U.S. dollars was outstanding as of March 31, 2003. Under this financing arrangement, SPE is obligated to acquire international distribution rights, as defined, for twelve pictures meeting certain minimum requirements within a 3.5- to 4.5-year period and transfer those rights to the VIE at cost plus a 5 percent fee. SPE is required to distribute the product internationally, for contractually defined fees determined as percentages of gross receipts, as defined, and is responsible for all distribution and marketing expenses which are recouped from such distribution fees. Under the agreement, SPE will bear all losses incurred by the VIE of less than or equal to 30 million U.S. dollars as SPE's 11 million U.S. dollar equity investment in the VIE is the last equity to be repaid, and as SPE must use a portion of its distribution fees to repay third party investors up to 19 million U.S. dollars of any losses they incur. If losses incurred by the VIE exceed 30 million U.S. dollars, third party investors will bear the remainder of the losses. If the venture is profitable, all parties will share in any net proceeds, as defined, remaining after the third party investors' equity has been repaid. If, and only if, SPE fails to deliver twelve pictures meeting the minimum requirements to the VIE and the bank credit facility or the third-party equity investors are not paid in full by March 10, 2008 (or earlier upon the occurrence of certain events), SPE is required to reimburse the VIE to the extent necessary to repay the bank credit facility in full and pay certain minimum returns to the third party equity investors. As of March 31, 2003, the maximum exposure amount was 255 million U.S. dollars. Sony guarantees all of the financial obligations of SPE under this financing arrangement. Sony does not reflect in its balance sheet the production costs of the films acquired by the VIE, the VIE's bank credit facility debt, or the third-party equity investment. Upon adoption of FASB's FIN 46, SPE will begin consolidation of the VIE.

- During the fiscal years ended March 31, 1995 and 1997, Sony made an investment in a VIE which has been accounted for under the equity method by Sony, for the purpose of erecting and operating a multi-use real estate complex in Berlin, Germany. The VIE was initially capitalized with 90.8 billion yen of total funding, 32.6 billion yen was provided by the equity investors with the remaining funding of 58.2 billion yen being provided through a syndicated bank loan which matures in November 2004. The syndicated bank loan is secured by the multi-use real estate complex. Should the VIE be unable to meet its obligations under the syndicated bank loan, Sony would be exposed to the potential impairment of its investment in the VIE which was 12.8 billion yen at March 31, 2003. Upon Sony's adoption of FASB's FIN 46, Sony will begin consolidation of the special purpose entity.

- During the fiscal year ended March 31, 1998, Sony established a VIE to implement a stock option plan for selected Japanese employees. The VIE has been consolidated by Sony since its establishment. Accordingly, there will be no impact to Sony's results of operations and financial position upon the adoption of FIN No. 46. Under the terms of the stock option plan, upon exercise, Japanese employees receive cash equal to the amount that the market price of Sony Corporation's common stock exceeds the strike price of the plan. In order to minimize cash flow exposure associated with the plan, Sony holds treasury stock through the VIE. The VIE purchased the common stock with funding provided by the employee's cash contribution and a bank loan which has been guaranteed by Sony Corporation. If the market value of common stock is below the price that Sony acquired the treasury stock for at the time of settlement of the stock option plan, Sony is required to reimburse the VIE for repayment of the bank loan. At March 31, 2003, the balance of the bank loan was 6.9 billion yen.

Assets, Liabilities and Stockholders' Equity

Assets

Total assets on March 31, 2003 increased by 184.8 billion yen, or 2.3 percent, to 8,370.5 billion yen, compared with the previous fiscal year-end. (Total assets on March 31, 2003 would have increased by approximately 5 percent compared with the previous fiscal year-end if the value of the yen had remained the same on March 31, 2003 as it was on March 31, 2002.) Total assets on March 31, 2003 in all segments excluding the Financial Services segment decreased by 251.1 billion yen, or 4.1 percent, to 5,815.8 billion yen and total assets on March 31, 2003 in the Financial Services segment increased by 414.4 billion yen, or 16.6 percent, to 2,910.4 billion yen, compared with the previous fiscal year-end.

Current Assets

Current assets on March 31, 2003 decreased by 183.0 billion yen, or 5.5 percent, to 3,154.2 billion yen compared with the previous fiscal year-end.

Current assets on March 31, 2003 in all segments excluding the Financial Services segment decreased by 273.2 billion yen, or 9.8 percent, to 2,501.0 billion yen. This decrease was primarily attributable to a 236.5 billion yen, or 20.1 percent, decrease to 942.2 billion yen in notes and accounts receivable due to a decrease in sales for the fourth quarter ended March 31, 2003 compared with the same quarter of the previous fiscal year. Inventories on March 31, 2003 decreased by 47.7 billion yen, or 7.1 percent, to 625.7 billion yen compared with the previous fiscal year-end. The inventory to cost of sales turn-over ratio (based on the average of inventories at the end of each fiscal year and previous fiscal year) was 1.57 months, a decrease of 0.28 months from the end of the previous fiscal year. Inventories in the Electronics segment decreased by 79.6 billion yen, or 15.6 percent, to 432.4 billion yen due to worldwide efforts to strengthen inventory control. On a product category basis, inventories decreased in the Televisions, Video and Audio categories. In the Game segment, overall inventories increased 24.4 billion yen, or 20.5 percent, to 143.4 billion yen due to an increase in PlayStation 2 hardware inventories and an increase in inventories of semiconductors brought on by the establishment of increased production capacity during the fiscal year.

Current assets on March 31, 2003 in the Financial Services segment increased by 61.2 billion yen, or 9.8 percent, to 687.9 billion yen, compared with the previous fiscal year-end. The increase was primarily attributable to an increase in the value of investment assets in marketable securities held by the banking business.

Investments and Advances

Investments and advances on March 31, 2003 increased by 296.3 billion yen, or 17.5 percent, to 1,994.1 billion yen, compared with the previous fiscal year.

Investments and advances on March 31, 2003 in all segments excluding the Financial Services segment decreased by 47.6 billion yen, or 11.3 percent, to 372.7 billion yen. This decrease was mainly due to the recognition of equity in net losses of affiliated companies such as SEMC.

Investments and advances on March 31, 2003 in the Financial Services segment increased by 353.2 billion yen, or 25.4 percent, to 1,741.7 billion yen, compared with the previous fiscal year-end. This increase was primarily due to an increase in investment assets in securities investments and other held by Sony Life.

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

In evaluating the factors for available-for-sale securities whose fair values are readily determinable, management 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 a period of up to six to twelve months). This criteria 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.

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

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

	Yen in Millions			
	March 31, 2003			
	Cost	Unrealized gain	Unrealized Loss	Fair market Value
Financial Services Business:				
Available for sale				
Debt securities				
Sony Life	1,301,734	36,073	8,231	1,329,576
Other	248,483	1,164	199	249,448
Equity securities				
Sony Life	23,337	1,710	2,603	22,444
Other	2,662	1,710	4	4,368
Held to maturity				
Debt securities				
Sony Life	-	-	-	-
Other	17,322	656	1	17,977
Total Financial Services	1,593,538	41,313	11,038	1,623,813
Non-Financial Services:				
Available for sale securities	37,860	4,802	1,723	40,939
Held to maturity securities	831	16	0	847
Total Non-Financial Services	38,691	4,818	1,723	41,786
Consolidated	1,632,229	46,131	12,761	1,665,599

The most significant portion of these unrealized losses relate to investments held by Sony Life. Sony Life principally invests in debt securities in various industries. Almost all of these securities were rated "BBB" or better by Standard & Poor's, Moody's or others. As of March 31, 2003, Sony Life had debt and equity securities with 8.2 billion yen and 2.6 billion yen, respectively, of gross unrealized losses. Of the unrealized loss amounts recorded by Sony Life, approximately 80 percent relate to securities being in an unrealized loss position of greater than 6 months. These unrealized losses related to numerous investments, with no single investment being in a material unrealized loss position. In addition, there was no individual security with unrealized losses that met the test discussed above for impairment as the declines in value were observed to be small both in amounts and percentage, and therefore, the decline in value for those investments was still determined to be temporary in nature. The percentage of noninvestment grade securities held by Sony Life represents approximately 5 percent of Sony Life's total investment portfolio, while the percentage of unrealized losses that relate to those noninvestment grade securities is approximately 19 percent of Sony Life's total unrealized losses as of March 31, 2003.

For fixed maturity securities with unrecognized losses held by Sony Life as of March 31, 2003 (8.2 billion yen), maturity dates vary as follows:

- Within 1 year: 22 percent
- 1 to 5 years: 47 percent
- 5 to 10 years: 31 percent

Sony also maintains long-term investment securities issued by a number of non-public companies. The aggregate carrying amount of the investments in non-public companies at March 31, 2003, which were valued at the lower of cost or fair value, was 69.6 billion yen.

For the years ended March 31, 2001, 2002 and 2003, total impairment losses were 4.2 billion yen, 27.6 billion yen and 25.5 billion yen of which none, 9.2 billion yen and 2.3 billion yen, respectively, were recorded by Sony Life in Financial Services revenue (refer to "**Financial Services**" under "Operating Performance by Business Segment"). The remaining losses in each of the three years were reflected in non-operating expenses and primarily relate to the certain strategic investments in non- financial services businesses. These investments primarily relate to companies in the U.S. and Europe with which Sony has strategic relationships for the purpose of developing and marketing new technologies and the impairment losses recorded for each of the three years primarily reflect the inability of these companies to successfully develop and market such technology. None of these impairment losses was individually material to Sony, except for the devaluation of securities explained in "Other Income and Expenses" for the fiscal year ended March 31, 2003. Upon determination that the value of an investment is impaired, the value of the investment is written down to its fair value. For publicly traded investments, fair value is determined by the closing stock price as of the date on which the impairment determination is made. For non-public investments, fair value is determined through the use of such methodologies as discounted cash flows, valuation of recent financings and comparable valuations of similar companies. The impairment losses that were recorded in each of the three years related to the unique facts and circumstances of each individual investment and did not significantly impact other investments.

Sony Life and Sony Bank's investments constitute the majority of the investments in the Financial Services segment. Sony Life and Sony Bank account for approximately 84 percent and 14 percent of the investments of the Financial Services segment, respectively.

Sony Life's basic investment policy is to take both expected returns and investment risks into account in order to maintain sound asset quality, structuring its asset management portfolio to ensure steady medium- and long-term returns by investing assets in an efficient manner and responding flexibly to changes in financial conditions and the investment environment. Moreover, the company analyzes the character of future insurance policy benefits by utilizing Asset Liability Management ("ALM"), a method of managing interest rate fluctuation risk through the comprehensive identification of the mismatches of duration and cash flows between assets and liabilities. Government bonds and corporate bonds constitute a majority of Sony Life's current portfolio. Sony Life invests in various types of government and corporate bonds in many countries, companies and industries, to diversify associated risks. Further, as stocks accounted for approximately 1.7 percent of such securities, the financial structure of the company is not greatly influenced by stock prices.

Sony Bank operates using the same basic investment policy as Sony Life, taking expected returns and investment risks into account in order to disperse associated risks, and structuring its asset portfolio to ensure steady returns from investments. In addition, the company is careful to match the duration of its asset portfolio with the duration of liabilities resulting from customer deposits, in order to ensure that significant discrepancies do not occur. Government bonds and corporate bonds constitute a majority of Sony Bank's current portfolio. The company invests in various types of government and corporate bonds in many countries, companies and industries, to diversify associated risks. To safeguard its assets the company does not lend its assets to corporations or invest in equity securities.

Tangible fixed assets (after deduction of accumulated depreciation)

Tangible fixed assets on March 31, 2003 decreased by 133.3 billion yen, or 9.4 percent, to 1,278.4 billion yen, compared with the previous fiscal year-end.

Tangible fixed assets on March 31, 2003 in all segments excluding the Financial Services segment decreased by 129.2 billion yen, or 9.5 percent, to 1,232.4 billion yen, compared with the previous fiscal year-end. The decrease was due to a reduced level of capital expenditures, primarily in the Electronics segment, during the fiscal year.

Tangible fixed assets on March 31, 2003 in the Financial Services segment decreased by 4.1 billion yen, or 8.2 percent, to 46.0 billion yen, compared with the previous fiscal year-end.

Capital expenditures (additions to fixed assets) for the fiscal year ended March 31, 2003 decreased by 65.5 billion yen, or 20.0 percent, to 261.2 billion yen compared with the previous fiscal year. The largest decreases were in the Electronics segment, where capital expenditures declined by 49.7 billion yen, or 22.6 percent year on year, to 170.3 billion yen, and in the Financial Services segment, where capital expenditures declined by 12.4 billion yen, or 77.2 percent, to 3.7 billion yen. Capital expenditures in the Electronics segment decreased year on year because investments were reduced in response to the deterioration of the market environment, and because large investments related to the construction of device manufacturing facilities, principally for semiconductors, were recorded in the previous fiscal year. Capital expenditures in the Financial Services segment decreased year on year because investments related to the start-up of Sony Bank were recorded in the previous fiscal year. On the other hand, capital expenditures in the Other segment increased by 10.2 billion yen, or 195.7 percent, to 15.4 billion yen because large investments related to the development of network technology intended to facilitate new businesses in the broadband age were recorded in this fiscal year.

Capital expenditures in the Game segment decreased by 6.8 billion yen, or 14.3 percent, to 41.0 billion yen; capital expenditures in the Pictures segment decreased by 4.4 billion yen, or 37.9 percent, to 7.1 billion yen and capital expenditures in the Music segment increased by 0.3 billion yen, or 1.6 percent, to 21.9 billion yen.

Other Assets

Other assets on March 31, 2003 increased by 230.0 billion yen, or 16.1 percent, to 1,656.1 billion yen, compared with the previous fiscal year-end.

Other assets on March 31, 2003 in all segments excluding the Financial Services segment increased by 224.1 billion yen, or 21.8 percent, to 1,251.8 billion yen. This was mainly due to an increase in deferred tax assets. The increase in deferred tax assets occurred due to an increase in the minimum pension liability adjustment and the reversal of valuation allowances on deferred tax assets held by Aiwa because these assets became recoverable as a result of Sony's decision to merge with Aiwa.

Other assets on March 31, 2003 in the Financial Services segment increased by 4.0 billion yen, or 0.9 percent, to 434.8 billion yen, compared with the previous fiscal year-end.

Liabilities

Total current and long-term liabilities on March 31, 2003, increased by 275.6 billion yen, or 4.8 percent, to 6,067.6 billion yen compared with the previous fiscal year-end. (Total liabilities on March 31, 2003 would have increased by approximately 7 percent compared with the previous fiscal year-end if the value of the yen had remained the same on March 31, 2003 as it was on March 31 of the previous fiscal year.) Total current and long-term liabilities on March 31, 2003 in all segments excluding the Financial Services segment decreased by 156.4 billion yen, or 4.1 percent, to 3,662.0 billion yen. Total current and long-term liabilities on March 31, 2003, in the Financial Services segment increased by 410.9 billion yen, or 18.9 percent, to 2,588.7 billion yen, compared with the previous fiscal year-end.

Current Liabilities

Current liabilities on March 31, 2003 increased by 123.4 billion yen, or 4.8 percent, to 2,435.0 billion yen compared with the previous fiscal year-end.

Current liabilities on March 31, 2003 in all segments excluding the Financial Services segment decreased by 305.9 billion yen, or 12.9 percent, to 2,061.5 billion yen. This was due to a 203.3 billion yen, or 61.6 percent, decrease in short-term liabilities, which include the current portion of long-term debt, to 126.7 billion yen and a 82.1 billion yen, or 10.6 percent, decrease in notes and accounts payable, trade to 693.3 billion yen. The decrease in notes and accounts payable, trade was primarily due to a decrease in purchases that resulted from adjustments in production in the Electronics segment in the fourth quarter of the fiscal year ended March 31, 2003.

Current liabilities on March 31, 2003 in the Financial Services segment increased by 165.5 billion yen, or 65.0 percent, to 420.2 billion yen. Deposits from customers in the banking business increased by 142.2 billion yen, or 133.6 percent, to 248.7 billion yen, due to the expansion of the banking business.

Long-term Liabilities

Long-term liabilities on March 31, 2003 increased by 399.1 billion yen, or 12.3 percent, to 3,632.6 billion yen compared with the previous fiscal year-end.

Long-term liabilities on March 31, 2003 in all segments excluding the Financial Services segment increased by

149.5 billion yen, or 10.3 percent, to 1,600.5 billion yen. Among long-term liabilities, accrued pension and severance costs increased 195.8 billion yen, or 67.1 percent, to 487.4 billion yen. The increase was primarily due to an increase in benefit obligations due to a review of discount rates and other factors used to calculate benefit obligations, as well as an additional minimum pension liability that was recorded due to decreases in the current value of pension plan assets held by Sony Corporation, reflecting sluggish stock market conditions in Japan during the fiscal year.

Long-term liabilities on March 31, 2003 in the Financial Services segment increased by 245.4 billion yen, or 12.8 percent, to 2,168.5 billion yen. This was due to an increase in insurance-in-force in the life insurance business which resulted in an increase in future insurance policy benefits and other of 234.0 billion yen, or 13.9 percent, to 1,914.4 billion yen.

Total Interest-bearing Debt

Total interest-bearing debt (the total of short-term borrowings and long-term debt) on March 31, 2003 decreased by 226.5 billion yen, or 19.0 percent, to 966.2 billion yen, compared with the previous fiscal year-end.

Total interest-bearing debt on March 31, 2003 in all segments excluding the Financial Services segment decreased by 213.9 billion yen, or 18.7 percent, to 929.6 billion yen. As a result of repayment of debt including 1.5 billion U.S. dollars of U.S. dollar notes redeemed on March 4, 2003, long-term debt decreased by 10.6 billion yen, or 1.3 percent, to 802.9 billion yen and short-term debt decreased by 203.3 billion yen, or 61.6 percent, to 126.7 billion yen, compared with the previous fiscal year-end.

Stockholders' Equity

Stockholders' equity on March 31, 2003 decreased by 89.5 billion yen, or 3.8 percent, to 2,280.9 billion yen compared with the previous fiscal year-end. Stockholders' equity decreased because the amount of stockholders' equity that was deducted for minimum pension liability adjustments increased from 72.0 billion yen at the end of the previous fiscal year to 182.7 billion yen, reflecting sluggish stock market conditions in Japan during the fiscal year. Also, the amount of stockholders' equity that was deducted for foreign currency translation adjustments increased from 225.8 billion yen at the end of the previous fiscal year to 302.2 billion yen, due to the appreciation of the yen against the U.S. dollar. Stockholders' equity on March 31, 2003 in all segments excluding the Financial Services segment decreased by 94.2 billion yen, or 4.2 percent, to 2,138.1 billion yen compared with the previous fiscal year-end. Stockholders' equity on March 31, 2003 in the Financial Services segment increased by 3.5 billion yen, or 1.1 percent, to 321.7 billion yen compared with the previous fiscal year-end. The ratio of stockholders' equity to total assets decreased from 29.0 percent to 27.2 percent.

Condensed Balance Sheets Separating Out the Financial Services Segment (Unaudited)

The following schedule shows an unaudited condensed balance sheet for the Financial Services segment and all other segments excluding the Financial Services as well as the condensed consolidated balance sheet. This presentation is not required under U.S. GAAP, which is used in Sony's consolidated financial statements. However, because the Financial Services segment is different in nature from Sony's other segments, Sony believes that a comparative presentation may be useful in understanding and analyzing Sony's consolidated financial statements. Transactions between the Financial Services segment and all other segments excluding the Financial Services are eliminated in the consolidated figures shown below.

(Yen in millions)

As at March 31	Financial Services		All other Segments excluding Financial Services		Consolidated	
	2002	**2003**	2002	**2003**	2002	**2003**
Assets						
Current assets	626,676	**687,925**	2,774,121	**2,500,959**	3,337,212	**3,154,214**
Cash and cash equivalents	327,262	**274,928**	356,538	**438,130**	683,800	**713,058**
Marketable securities	157,363	**236,621**	4,784	**4,899**	162,147	**241,520**
Notes and accounts receivable, trade	76,530	**69,067**	1,178,675	**942,193**	1,242,826	**1,007,395**
Other	65,521	**107,309**	1,234,124	**1,115,737**	1,248,439	**1,192,241**
Film costs	-	**-**	313,054	**287,778**	313,054	**287,778**
Investments and advances	1,388,556	**1,741,748**	420,226	**372,671**	1,697,807	**1,994,123**
Investments in Financial Services, at cost	-	**-**	170,189	**170,189**	-	**-**
Property, plant and equipment	50,084	**45,993**	1,361,582	**1,232,357**	1,411,666	**1,278,350**
Other assets	430,736	**434,768**	1,027,716	**1,251,811**	1,426,056	**1,656,080**
Deferred insurance acquisition costs	308,204	**327,869**	-	**-**	308,204	**327,869**
Other	122,532	**106,899**	1,027,716	**1,251,811**	1,117,852	**1,328,211**
	2,496,052	**2,910,434**	6,066,888	**5,815,765**	8,185,795	**8,370,545**
Liabilities and stockholders' equity						
Current liabilities	254,740	**420,246**	2,367,341	**2,061,485**	2,558,496	**2,435,048**
Short-term borrowings	66,886	**72,753**	329,977	**126,687**	354,063	**158,745**
Notes and accounts payable, trade	4,552	**5,658**	775,452	**693,347**	767,625	**697,385**
Deposits from customers in the banking business	106,472	**248,721**	-	**-**	106,472	**248,721**
Other	76,830	**93,114**	1,261,912	**1,241,451**	1,330,336	**1,330,197**
Long-term liabilities	1,923,126	**2,168,476**	1,451,033	**1,600,484**	3,233,521	**3,632,580**
Long-term debt	135,958	**140,908**	813,487	**802,911**	838,617	**807,439**
Accrued pension and severance costs	7,469	**8,737**	291,620	**487,437**	299,089	**496,174**
Future insurance policy benefits and other	1,680,418	**1,914,410**	-	**-**	1,680,418	**1,914,410**
Other	99,281	**104,421**	345,926	**310,136**	415,397	**414,557**
Minority interest in consolidated subsidiaries	-	**-**	16,170	**15,677**	23,368	**22,022**
Stockholders' equity	318,186	**321,712**	2,232,344	**2,138,119**	2,370,410	**2,280,895**
	2,496,052	**2,910,434**	6,066,888	**5,815,765**	8,185,795	**8,370,545**

Cash Flows

During the fiscal year ended March 31, 2003, Sony generated 853.8 billion yen of net cash from operating activities, an improvement of 116.2 billion yen, or 15.8 percent compared with the previous fiscal year.

All segments excluding the Financial Services segment generated 542.8 billion yen of net cash from operating activities. The primary reasons for the positive cash flow were the contribution to profit by the Game, Pictures and Electronics segments and a decrease in notes and accounts receivable despite a decrease in notes and accounts payable. Compared to the previous fiscal year, net cash generated from operating activities improved 106.8 billion yen, or 24.5 percent. Although there was a smaller decrease in inventories, the increase in the operating income in the Electronics, Game and Pictures segments, a smaller decrease in notes and accounts payable, and a larger decrease in notes and accounts receivable all contributed to the net increase in cash generated from operating activities compared with the previous fiscal year.

The Financial Services segment generated 316.0 billion yen of net cash from operating activities. While cash declined primarily as a result of an increase in deferred insurance acquisition costs, an increase in future insurance policy benefits and other as a result of an increase in insurance-in-force resulted in cash generated from operating activities exceeding expenditures. Compared with the previous fiscal year, cash generated from operating activities in the Financial Services segment improved by 14.3 billion yen, or 4.8 percent.

During the fiscal year, 706.4 billion yen in cash was used in investing activities (a decrease of 60.7 billion yen, or 7.9 percent compared with the previous fiscal year).

In all segments excluding the Financial Services segment, 185.2 billion yen in cash was used in investing activities. During the fiscal year, cash was used to purchase fixed assets mainly in the Electronics segment. Cash proceeds of 135.8 billion yen were generated from sales of securities investments, maturities of marketable securities and collections of advances, including 88.4 billion yen from the sale of Telemundo. Compared with the previous fiscal year, cash used in investing activities decreased by 183.8 billion yen, or 49.8 percent. As a result of a reduction in capital expenditures mainly in the Electronics segment, cash used to purchase fixed assets decreased compared with the previous fiscal year.

In the Financial Services segment, 517.4 billion yen in cash was used in investing activities (an increase of 115.5 billion yen, or 28.7 percent compared with the previous fiscal year). The use of cash derived primarily from the fact that investments and advances of 1,026.4 billion yen exceeded sales of securities investments, maturities of marketable securities and collections of advances of 542.5 billion yen, reflecting an increase in assets under management in the Financial Services segment.

As a result of these factors, net cash flow (the difference between cash generated from operating activities and cash used in investing activities) was a positive 147.4 billion yen for the fiscal year, an improvement of 176.9 billion yen compared with the previous fiscal year (in the previous fiscal year, net cash flow was a negative 29.5 billion yen). In terms of net cash flow from all segments excluding the Financial Services segment, net cash flow was a positive 357.7 billion yen for the fiscal year, an improvement of 290.6 billon yen, or 433.0 percent, compared with the previous fiscal year. Net cash flow from the Financial Services segment was a negative 201.4 billion yen, a deterioration of 101.2 billion yen compared with the previous fiscal year.

During the fiscal year ended March 31, 2003, 93.1 billion yen of net cash was used in financing activities compared to 85.0 billion yen of cash provided by financing activities. 22.9 billion yen in cash was used for the payment of dividends.

In all segments excluding the Financial Services segment, 251.1 billion yen of net cash was used in financing activities compared to 31.6 billion yen of cash used in financing activities. Cash was used during the fiscal year for repayments of long-term debt including 1.5 billion U.S. dollars of U.S. dollar notes redeemed on March 4, 2003. These repayments caused cash used in financing activities to exceed cash generated by financing activities.

In the Financial Services segment, 149.1 billion yen of net cash was provided by financing activities compared to 120.3 billion yen provided by financing activities. This was due to a 142.2 billion yen, or 133.6 percent, increase in deposits from customers in the banking business.

Accounting for all these factors and the effect of exchange rate changes, the total outstanding balance of cash and cash equivalents at the end of the fiscal year increased 29.3 billion yen, or 4.3 percent, to 713.1 billion yen, compared with the end of the previous fiscal year. The total outstanding balance of cash and cash equivalents of all segments excluding the Financial Services segment increased 81.6 billion yen, or 22.9 percent, to 438.1 billion yen and for the Financial Services segment decreased 52.3 billion, or 16.0 percent, to 274.9 billion yen, compared with the previous fiscal year.

Condensed Statements of Cash Flows Separating Out the Financial Services Segment (Unaudited)

The following schedule shows unaudited condensed statements of cash flow for the Financial Services segment and all other segments excluding the Financial Services segment as well as condensed consolidated statements of cash flow. These presentations are not required under U.S. GAAP, which is used in Sony's consolidated financial statements. However, because the Financial Services segment is different in nature from Sony's other segments, Sony believes that a comparative presentation may be useful in understanding and analyzing Sony's consolidated financial statements. Transactions between the Financial Services segment and all other segments excluding the Financial Services segment are eliminated in the consolidated figures shown below.

(Yen in millions)

Year ended March 31	Financial Services		All other segments excluding Financial Services		Consolidated	
	2002	**2003**	2002	**2003**	2002	**2003**
Net cash provided by operating activities	301,625	**315,968**	436,059	**542,848**	737,596	**853,788**
Net cash used in investing activities	(401,866)	**(517,383)**	(368,951)	**(185,163)**	(767,117)	**(706,425)**
Net cash provided by (used in) financing activities	120,255	**149,086**	(31,603)	**(251,128)**	85,040	**(93,134)**
Effect of exchange rate changes on cash and cash equivalents	3	**(5)**	21,033	**(24,965)**	21,036	**(24,971)**
Net increase (decrease) in cash and cash equivalents . . .	20,017	**(52,334)**	56,538	**81,592**	76,555	**29,258**
Cash and cash equivalents at beginning of year	307,245	**327,262**	300,000	**356,538**	607,245	**683,800**
Cash and cash equivalents at end of year	327,262	**274,928**	356,538	**438,130**	683,800	**713,058**

The Use of EVA® Methodology

Aiming to advance corporate value creation management, Sony uses EVA®*, which reflects cost of capital, as one of its internal evaluation measures. The fiscal year ended March 31, 2003 marked the third year Sony has used EVA®. EVA® is used in the Electronics, Game, Music, and Pictures segments for various internal evaluation measures such as setting, monitoring and evaluating financial performance targets. EVA® is also linked to compensation. As a result, recognition of return on invested capital and cost of capital has spread further within each business unit and proactive efforts have been made to improve EVA®. These efforts include focusing on key businesses in order to concentrate management resources in highly growing and profitable areas and controlling investments and inventories to improve capital efficiency.

*EVA® (Economic Value Added) is a trademark of Stern Stewart & Co.

Research and Development

Recognizing that research and development are indispensable for business growth, Sony actively pursues various technical themes, including technologies that support current services and those that will create new markets. Themes that require rapid commercialization are handled individually by each business unit; themes that have the potential for commercialization within two to three years are pursued by the development divisions of network companies; and strategic future-oriented themes are handled by corporate laboratories under the direct management of Sony Corporate headquarters. This arrangement increases the ability of Sony to react in a rapid and flexible manner to changes in the operating environment.

Sony's thirteen corporate laboratories are listed below:

- Content & Applications Laboratory (content related application technology)
- Broadband Applications Laboratories (networking related application technology)
- Networked CE Development Laboratories (consumer application technology)
- Ubiquitous Technology Laboratories (communications and security technology)
- Storage Technology Laboratories (storage technology)
- Display Technology Laboratories (display technology)
- Materials Laboratories (materials and device technology)
- Sony Corporate Laboratories Europe (various fields)
- A^3 Research Center (signal processing technology)
- Intelligent Dynamics Laboratory (robotics)
- Fusion Domain Laboratory (advanced convergence technology)
- Material Science Laboratory (fundamental materials and device technology)
- Institute of Environmental Research

In addition, research and development is carried out in close conjunction with two independent research laboratories: Sony Computer Science Laboratories, Inc. (fundamental research and user interface research) and Sony-Kihara Research Center, Inc. (three-dimensional computer graphics and image processing technologies).

Research and development expenses for the fiscal year ended March 31, 2003 increased 9.9 billion yen, or 2.3 percent, to 443.1 billion yen, compared with the previous fiscal year. The ratio of research and development expenses to sales (excluding the Financial Services segment) increased from 6.1 percent to 6.4 percent. The bulk of research and development expenses were incurred in the Electronics and Game segments; expenses in the Electronics segment decreased 3.1 billion yen, or 0.8 percent, to 380.3 billion yen, and expenses in the Game segment increased 13.2 billion yen, or 27.4 percent, to 61.5 billion yen. In the Electronics segment, approximately 66 percent of expenses were for the development of new product prototypes while the remaining approximately 34 percent were for the development of mid- to long-term new technologies in such areas as semiconductors, communications, and displays. Research and development expenses in the Game segment increased primarily in the semiconductor and hardware field.

Employees

As of March 31, 2003, Sony had approximately 161,100 employees, including fixed-term employees, a decrease of approximately 6,900 from the number as of March 31, 2002. The decrease is attributable to a reduction of the number of employees, primarily in the Electronics and Music segments.

Dividend Policy

A year-end cash dividend of 12.5 yen per share of Sony Corporation common stock was approved at the General Meeting of Shareholders, which was held on June 20, 2003. Sony Corporation had already paid 12.5 yen per share to each shareholder; accordingly the annual cash dividend per share was 25.0 yen.

Sony believes that by continuously increasing corporate value, its shareholders can be rewarded. Accordingly, as for retained earnings, Sony plans to utilize them to carry out various investments that are indispensable for ensuring future growth and strengthening competitiveness.

Trend Information

Strategic Developments and Forecast

This section, including the **Forecast of Consolidated Results,** 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 which applies to this entire document.

The following is a summary of certain recent strategic developments and Sony's forecast for its fiscal year ending March 31, 2004.

Management's Recognition of Issues and Policy Going Forward

Sony's management endeavors to develop the best possible management strategy given the current operating environment and information available to it.

Over the last few years, the global business environment in which Sony operates continued to be stagnant, reflecting the economic slowdown, weak growth in personal consumption and price competition.

In the Electronics segment, which holds a very strong position in the worldwide consumer AV products market, price competition has increased further across a wide range of products including CRT televisions and DVD players which have been commoditized, as well as products previously considered to have comparatively high added value, such as video cameras. To respond to this changing environment, in addition to reducing manufacturing costs and supplying more attractive new products to the consumer, Sony's goal is to increase its competitive edge by strengthening the in-house production of semiconductors and other devices to raise the added value of its products. In the television business and home video business, demand for new products including flat panel displays, such as plasma and LCD displays, and demand for DVD recorders is currently increasing rapidly, and Sony is expanding its product line-up to meet this increase in demand.

In the Game segment, PlayStation 2 holds an exceptionally high share of the global game console market, and Sony believes that the PlayStation 2 business is still in the harvest stage. Going forward, Sony will invest heavily in semiconductors for next-generation computer entertainment systems.

In the Music segment, slow worldwide economic growth and the effects of digital piracy and other illegal duplication have led to industry-wide difficulties. In addition to the reduction of fixed costs through the acceleration of restructuring initiatives, Sony is also developing new business models to generate profits through the digital distribution of content.

In the Pictures segment, Sony plans to continue to maximize global motion picture revenues through its strategy of distributing a diversified portfolio of motion pictures. The expanding DVD home entertainment market is becoming a more significant source of revenues and profits, both for current releases and for library product. Additionally, to differentiate itself in the marketplace and to pro-actively address risks of digital piracy, Sony Pictures Digital is developing broadband network strategies to facilitate the integration between Sony's hardware and content products and create protected revenue-generating alternatives.

In the Financial Services segment, Sony Life has recorded satisfactory growth due to an increase in insurance-in-force, and will continue to provide new products and services to meet the individual needs and preferences of customers.

In 2006, Sony will celebrate its 60th anniversary. In the next three years leading up to this landmark date, Sony will invest a total of 1.3 trillion yen in the following initiatives as it establishes a new profit model and accelerates its transformation into a knowledge- and capital-intensive company.

1) Sony will strengthen its semiconductor business with investments of approximately 500 billion yen over the next three years. The investments will drive the development and manufacture of key devices such as imaging devices, a market for which Sony foresees significant growth, and semiconductors, which make use of the latest process technology, to help form the foundation of its competitive strength in the broadband network era.

2) Sony will increase investment in research and development to enhance the competitiveness of products and will create a new laboratory to further stimulate content distribution. Investment in the development of mid- to long-term new technologies over the next three years will total 500 billion yen (excludes expenses for the development of new product prototypes).

3) In order to transform Sony into a more profitable company, over the next three years Sony expects to incur approximately 300 billion yen in restructuring costs for a variety of initiatives, including the further pursuit of

downsizing and withdrawal from selected businesses and the continued implementation of fixed cost reductions.

In addition, Sony will continue to strengthen its potential for growth, competitiveness, and earnings capacity in the middle to long term through strategic alliances and other endeavors.

Recent Strategic Developments and Business Alliances

In an environment of rapidly advancing technology, Sony is engaging in alliances with other companies to quickly and efficiently expand its business given limited resources.

Sony believes that its future growth is dependent upon the creation of a new market which combines the latest content (including game, video and music) over an integrated platform that builds upon advanced devices in the Electronics segment and leading-edge semiconductor technology adopted by the Game segment.

In the area of semiconductors and devices, in April 2003, Sony Computer Entertainment Inc. ("SCEI") and Sony Corporation announced that together they will invest a total of approximately 200 billion yen during the next three fiscal years, beginning with the fiscal year ending March 31, 2004. This amount includes 73 billion yen to be invested during the fiscal year ending March 31, 2004 for the installation of a semiconductor fabrication line to build chips with 65 nanometer line width on 300 mm wafers. With this investment, SCEI will be able to manufacture a new microprocessor for the broadband era, as well as other system LSIs for the broadband era, which will be used in a next generation computer entertainment system. This investment serves an important role in developing future broadband network businesses, not only for SCEI, but also for Sony as a whole. Since the spring of 2001, SCEI has been engaged, together with IBM Corporation and Toshiba Corporation, in the development of new microprocessors for the broadband era. Since the spring of 2002, Sony Corporation has participated in this three-company alliance for the development of advanced semiconductor process technologies. Research and development of digital signal processing technologies for broadband applications are also underway. By means of this investment, SCEI and Sony Corporation aim to effectively conduct test production and to quickly establish a mass production system with a 65 nanometer embedded DRAM process.

Regarding the convergence of Electronics and Game, in May 2003, Sony announced plans to sell PSX, the first commercial product in which Electronics and Game converge. Combining DVD and hard disk drive recorders, PSX will spawn a completely new product category. PSX will be based on the operating system and semiconductors used in PlayStation 2, will have a television and broadcast satellite tuner inside, and will be compatible with PlayStation and PlayStation 2 games. Recording and playback of television programs is just one of its many functions. Users can also view still and moving images from digital still and video cameras as well as enjoy music CDs and video games. The unit accepts a variety of home-use disc-based media as well as the Memory Stick, and it can be linked to an Ethernet network. PSX is slated to go on sale in Japan late in 2003 and in Europe and the U.S. in 2004. Inside PSX is technology from the Game and Electronics segments. PlayStation 2 technology includes the EmotionEngine and Graphics Synthesizer semiconductors as well as PlayStation 2's operating system. Our Electronics segment is the source of the semiconductor laser, recordable DVD drive, codec (data compression and decompression) technology and many other sophisticated technologies at the heart of PSX.

Also, SCEI plans to introduce a new, all-in-one portable entertainment platform, PSP, which utilizes a newly developed small optical disc, scheduling a release for the third quarter ending December 31, 2004. The foundation of this new platform is the Universal Media Disc (UMD), which is comprised of a 60mm optical disc (1.8 GB) in a cartridge developed by Sony utilizing its latest disc technologies. Compared to the mask ROM cartridge, the optical disc has significant advantages such as shorter turn around time for manufacturing, larger data capacity and lower media costs. The latest copy-protection technology will be applied to offer content developers and publishers a safe and copy-protected environment.

To establish business models which combine hardware with networks, in November 2002, Sony Corporation of America, a subsidiary of Sony Corporation, together with other investors, executed a definitive agreement to acquire all of the outstanding common stock of InterTrust for approximately 453 million U.S. dollars. In January 2003, the acquisition of InterTrust by Sony Corporation of America, Koninklijke Philips Electronics N.V. of Holland, and another investor was successfully completed. InterTrust is a leading holder of intellectual property in digital rights management. This transaction fits with Sony's network strategy which is to enable wide access to secure digital content through networks.

In order to further expand its music catalogue, in August 2002, SMEI's joint venture publishing company Sony/ATV Music Publishing LLC purchased from Gaylord Entertainment Company the music publishing catalogue and real estate of Acuff-Rose, a music publishing business, for 157 million U.S. dollars in cash.

Forecast of Consolidated Results

Factors which may affect Sony's financial performance include the following: market conditions, including general economic conditions, in major areas where Sony conducts its businesses, levels of consumer spending, foreign exchange fluctuations, Sony's ability to continue to design, develop, manufacture, sell, and win acceptance of its products and services, Sony's ability to continue to implement personnel reduction and other business reorganization activities, Sony's ability to implement its network strategy, and implement successful sales and distribution strategies in the light of the Internet and other technological developments, Sony's ability to devote sufficient resources to research and development, Sony's ability to prioritize capital expenditures, and the success of Sony's joint ventures and alliances. Risks and uncertainties also include the impact of any future events with material unforeseen impacts.

Regarding the forecast of consolidated results for the fiscal year ending March 31, 2004, Sony expects the uncertain economic environment to continue in this fiscal year, with personal consumption declining and price competition intensifying. As a result, Sony's consolidated sales, operating income, income before income taxes, and net income are expected to decrease compared with the fiscal year ended March 31, 2003. This forecast assumes that the yen for the fiscal year ending March 31, 2004 will strengthen against the U.S. dollar and will weaken against the euro, in each case compared with the fiscal year ended March 31, 2003.

In response to this uncertain environment, Sony has decided to implement a restructuring program, primarily in the Electronics segment, which will be even more aggressive than the one it implemented in the fiscal year just ended.

As a result, Sony expects to record restructuring charges of approximately 140 billion yen across the Sony Group, which will result in a decrease in consolidated operating income. One of the reasons for the expected decrease in income before income taxes is the gain of 66.5 billion yen recorded in the fiscal year ended March 31, 2003, due to the sale of Sony's equity interest in Telemundo.

Electronics

Although sales from plasma televisions, LCD televisions, digital still cameras, personal digital assistants, CCDs, and other products are expected to increase, Sony expects segment sales to decrease because an increase in the percentage of PlayStation 2 hardware production outsourced to third parties will result in a decrease in intersegment sales to the Game segment and the net effect of foreign exchange rates is likely to negatively impact results. Operating income is also expected to decrease due to increased restructuring expenses.

Game

Although strong sales of software for the PlayStation 2 will continue, Sony expects segment sales to decrease. Sony has set a cautious forecast of 20 million units for PlayStation 2 hardware production shipments due to concern that the global economy will contract, and Sony expects PS one units to decrease year on year. Regarding operating income, although growth in PlayStation 2 software sales and other factors will positively influence profitability, the effect of the aforementioned decrease in sales, combined with the start, in earnest, of investments in next-generation computer entertainment systems (including research and development expenses), leads Sony to anticipate a drop in operating income.

Music

Sony expects sales to decrease due to the expected continued contraction in the music industry and a reduction in the unit price of DVDs in the manufacturing division. However, a decrease in restructuring expenses, the benefits of restructuring activities already carried out, and a decrease in talent-related expenses are projected to return the segment to profitability.

Pictures

Sony forecasts that sales and operating income will decrease compared with the fiscal year ended March 31, 2003 because record sales and operating income were recorded in the fiscal year ended March 31, 2003 due to the success of box office hits such as *Spider-Man*.

Financial Services

Although increased revenue is anticipated in the life and automobile insurance businesses, due to the planned expansion of these businesses, increased expenses, such as expenses resulting from the planned expansion of Sony Finance International Inc.'s credit card business and other factors, are expected to lead to a decrease in operating income.

Capital Expenditures

Sony will strengthen its semiconductor business with investments of approximately 500 billion yen over the next three years. Over the next three years Sony is planning to invest approximately 200 billion yen of this 500 billion yen in semiconductor production facilities for next-generation broadband processors, of which approximately 73 billion yen is expected to be invested in the fiscal year ending March 31, 2004. Across the Sony Group, Sony expects capital expenditures for the fiscal year ending March 31, 2004 to amount to approximately 350 billion yen.

Depreciation Expenses

In the fiscal year ending March 31, 2004, expenses for depreciation and amortization, which includes the amortization of intangible assets and the amortization of deferred insurance acquisition costs, are expected to be approximately 390 billion yen, an increase of 38.0 billion yen, or 11 percent. This is because expenses for the amortization of deferred insurance acquisition costs in the Financial Services segment are expected to increase although expenses for depreciation and amortization are expected to be flat in the Electronics segment.

Research and Development

Sony expects research and development expenses (total of expenses for the development of new product prototypes and expenses for the development of mid- to long-term new technologies) for the fiscal year ending March 31, 2004 to increase slightly compared with the fiscal year ended March 31, 2003. In the Electronics segment, Sony anticipates research and development expenses to center around the introduction of new products and communications technology, next generation displays, optical and magnetic storage media and semiconductor technology. In the Game segment, the main expenses are expected to be for the development of semiconductor technology, the development of software for the PlayStation 2, and research and development for next-generation computer entertainment systems. Sony expects that investment in development of mid- to long-term new technologies over the next three years will total 500 billion yen (excluding expenses for the development of new product prototypes).

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 and on 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 under different assumptions. Sony believes that the following represent critical accounting policies of the company that require significant management judgments and estimates.

Impairment of long-lived assets

Sony reviews 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 may not be recoverable. This review is performed using estimates of future cash flows by product category (e.g. 15 inch computer display CRT) or entity (e.g. semiconductor manufacturing division in the U.S.). If the carrying value of the asset is considered impaired, an impairment charge is recorded for the amount by which the carrying value of the asset exceeds its fair value. Fair value is determined using the present value of estimated net cash flows or comparable market values.

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 business assumptions such as a drastic decline of demand for computer display CRTs due to a change in the tastes of consumers could negatively affect the valuations of those long-lived assets.

In the year ended March 31, 2003, Sony recorded impairment charges for long-lived assets totaling 12.4 billion yen. It included 8.1 billion yen for the impairment of semiconductor and computer display CRT manufacturing equipment to be abandoned or sold in connection with certain Electronics restructuring activities. It also included 2.7 billion yen for the impairment of a CD manufacturing facility in the U.S., of which the fair value was estimated by using such methods as a survey of the local real estate market.

Goodwill and other intangible assets

Goodwill and other intangible assets that are determined to have an indefinite life are not amortized and are tested for impairment in accordance with FAS No. 142 on an annual basis and between 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 value. Such an event would include unfavorable variances from established business plans or significant changes in forecasted results, which are periodically reviewed by management. Specifically, 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 (generally, Sony's operating segments) with its carrying amount, including goodwill. 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 unnecessary. 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. The impairment test for other intangible assets consists of a comparison of 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 have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. In its impairment review, Sony performs internal valuation analyses and considers other market information that is publicly available. Estimates of fair value are primarily determined using discounted cash flows. This approach uses significant estimates and assumptions including projected future cash flows, 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. Since the adoption of FAS No. 142, Sony has performed internal valuation analyses on an annual basis and no material impairment loss has been recognized. 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 business assumptions could negatively affect the valuations, which may result in Sony recognizing the impairment of goodwill and other intangible assets in the future. As of March 31, 2003, a 10% decrease in the fair value of each of Sony's reporting units would not have resulted in a material impairment charge.

<u>Investments</u>

Sony's investments are comprised of 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 earnings. 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 credit condition of the issuers, sovereign risk, and ability 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, management 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 a period of up to six to twelve months). This criteria 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.

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

Pension benefits 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 rate of return on plan assets and other factors. Specifically, the discount rate and expected long-term rate of return on assets are two critical assumptions in the determination of periodic pension costs and pension liabilities. Assumptions are evaluated at least annually, and events may occur or circumstances change which may have a significant effect on critical assumptions. 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 expenses 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 expense.

Sony’s principal pension plans are its Japanese pension plans. Foreign pension plans are not significant individually with total assets and pension obligation amounting to less than 10% of those of the Japanese plans.

Sony used a discount rate of 1.9% for its Japanese pension plan as of March 31, 2003. The discount rate was determined by using available 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. The 1.9% discount rate represents a 50 basis point reduction from the 2.4% discount rate used for the fiscal year ended March 31, 2002 and reflects market interest rate conditions. For Japanese plans, a 50 basis point decrease in the discount rate would increase pension expenses by approximately 12.0 billion yen, compared to the year ended March 31, 2003.

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 rate of returns on various categories of plan assets. For Japanese pension plans, the expected long-term rate of return on pension plan assets was 4.0% as of March 31, 2002 and March 31, 2003. The actual return on pension plan assets for the year ending March 31, 2003 was a negative return of 14.6%. Consistent with U.S. GAAP, actual results that differ from the expected return on plan assets are accumulated and amortized as a component of pension expense over the average future service period, thereby reducing the year-to-year volatility in pension expense. At March 31, 2002 and 2003, Sony had unrecognized actuarial losses of 325.6 billion yen and 513.0 billion yen, respectively, including losses related to plan assets. The unrecognized actuarial losses reflect the unfavorable performance of equity markets over the past two years and will result in an increase in pension expense as they are recognized.

Sony recorded a liability for the unfunded accumulated benefit obligation for Japanese pension plans of 148.0 billion yen and 308.7 billion yen as of March 31, 2002 and 2003, respectively. This liability represents the excess of the accumulated benefit obligation under Sony's qualified defined benefit pension plans over the fair value of the plans' assets. In accordance with U.S. GAAP, this liability was established by a charge to stockholders' equity, resulting in no impact to the accompanying consolidated statement of income.

The following table illustrates the sensitivity to a change in the discount rate and the expected return on pension plan assets, while holding all other assumptions constant, for Japanese pension plans as of March 31, 2003:

Change in Assumption	PBO	Pre-Tax Pension Expense	Equity (Net of Tax)
(Yen in billions)			
25 basis point increase / decrease in discount rate	-/+ 50.0	-/+ 6.0	+/- 3.1
25 basis point increase / decrease in expected return on assets	-	-/+ 1.0	+/- 0.6

Future insurance policy benefits

Long-term liabilities for future policy benefits are established in amounts adequate to meet the estimated future obligations of policies in force. These liabilities are computed by the net level premium method based upon estimates as to future investment yield, mortality, morbidity, withdrawals and other factors. Future policy benefits are computed using interest rates ranging from approximately 1.00% to 5.50%. Mortality, morbidity and withdrawal assumptions for all policies are based on either the life insurance subsidiary's own experience or various actuarial tables. Generally these assumptions are "locked-in" upon the issuance of new insurance. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect Sony's future insurance policy benefits.

Tax asset valuation

In establishing the appropriate valuation reserve for tax loss carry-forwards, all available evidence, both positive and negative, is considered. Information on historical results is supplemented by all currently available information on future years, as realization of tax loss carry-forwards is dependent on each company or tax filing unit generating sufficient taxable income prior to expiration of the loss carryforwards. The estimates and assumptions used in determining future taxable income are consistent with those used in Sony's approved forecasts of future operations. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets, less valuation allowance, will be realized. The amount of such net deferred tax assets which are considered realizable, however, could change in the near term if estimates of future taxable income during the carryforward period are changed. A decrease in the amount of deferred tax assets considered realizable due to a change in the estimate of future taxable income may result in higher income tax expense in future periods.

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 based on the actual results to date of 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 video and distribution ultimate revenues adjusted downward; a failure to do so would result in the understatement of amortized film costs for the period. Since the total film cost to be amortized for a given film is fixed, the estimate of ultimate revenues impacts only the timing of film cost amortization.

For a summary of Sony's significant accounting policies, including the critical accounting policies discussed above, please see Note 2 of Notes to the Consolidated Financial Statements.

Recently Adopted Accounting Standards

Impairment or Disposal of Long-Lived Assets

On April 1, 2002, Sony adopted Statement of Financial Accounting Standards ("FAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". FAS No. 144 supersedes FAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" and the accounting and reporting provisions of Accounting Principles Board Opinion ("APB") No. 30 "Reporting the results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" for the disposal of segments of a business. FAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. FAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and modifies the accounting and disclosure rules for discontinued operations. The adoption of the provision of FAS No. 144 did not have a material impact on Sony's results of operations and financial position for the year ended March 31, 2003.

Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections

In April 2002, the Financial Accounting Standards Board ("FASB") issued FAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections". This statement rescinds certain authoritative pronouncements and amends, clarifies or describes the applicability of others, effective for fiscal years beginning or transactions occurring after May 15, 2002, with early adoption encouraged. Sony elected early adoption of this statement retroactive to April 1, 2002. The adoption of this statement did not have an impact on Sony's results of operations and financial position.

Accounting for Costs Associated with Exit or Disposal Activities

In June 2002, the FASB issued FAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". FAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. FAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities. FAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred, rather than the date of an entity's commitment to an exit plan. Sony adopted FAS No. 146 on January 1, 2003. The adoption of this statement did not have a material effect on Sony's results of operations and financial position.

Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34". The interpretation elaborates on the existing disclosure requirements for most guarantees. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value of the obligations it assumes under the guarantee. The provisions related to recognizing a liability at inception of the guarantee for the fair value of the guarantor's obligations do not apply to product warranties or to guarantees accounted for as derivatives. The initial recognition and initial measurement provisions of FIN No. 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The initial recognition and initial measurement provisions of FIN No. 45 did not have a material effect on Sony's results of operations and financial position as at and for the fiscal year ended March 31, 2003. The disclosure provisions, which increase the required disclosure related to guarantees, have been adopted in the consolidated financial statements.

Accounting for Stock-Based Compensation - Transition and Disclosure

In December 2002, the FASB issued FAS No. 148, ''Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment of FASB Statement No. 123''. FAS No. 148 amends FAS No. 123, ''Accounting for Stock-Based Compensation'', to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. FAS No. 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. For Sony, the transition and annual disclosure requirements of FAS No. 148 are effective for the year ended March 31, 2003. Sony has accounted for its employee stock-based compensation in accordance with APB No. 25, "Accounting for Stock Issued to Employees" and, therefore, the adoption of the provisions of FAS No. 148 did not have an impact on Sony's results of operations and financial position. Sony has adopted the disclosure-only requirements in accordance with FAS No. 148.

Consolidation of Variable Interest Entities

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51". This interpretation addresses consolidation by a primary beneficiary of a variable interest entity ("VIE"). FIN No. 46 is effective immediately for all new VIEs created or acquired after January 31, 2003. For VIEs created or acquired prior to February 1, 2003, the provisions of FIN No. 46 become effective for Sony during the second quarter of the year ending March 31, 2004. For VIEs acquired prior to February 1, 2003, any difference between the net amount added to the balance sheet and the amount of any previously recognized interest in the VIE will be recognized as a cumulative effect of an accounting change.

Sony continues to evaluate the impact of FIN No. 46 on Sony's results of operations and financial position. However, Sony has identified potential VIEs created prior to February 1, 2003, which may be consolidated upon the adoption of FIN No. 46. If these potential VIEs are consolidated, Sony would record a charge of approximately 1.8 billion yen as a cumulative effect of accounting change and an increase in assets and liabilities of approximately 97.3 billion yen. Refer to Note 23 of Notes to Consolidated Financial Statements and "Other Financing Arrangements" for further discussion on the VIEs that are used by Sony. Sony did not enter into any new arrangements with VIEs during the period February 1, 2003 through March 31, 2003.

Recent Pronouncements

Accounting for Asset Retirement Obligations

In June 2001, the FASB issued FAS No. 143, "Accounting for Asset Retirement Obligations". This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Sony adopted FAS No. 143 on April 1, 2003. The adoption of FAS No. 143 did not have a material impact on Sony's results of operations and financial position.

Multiple Element Arrangements

In November 2002, the FASB issued EITF Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables". EITF Issue No. 00-21 provides guidance on when and how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF Issue No. 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Sony is currently evaluating the impact of adopting this guidance.

Derivative Instruments and Hedging Activities

In April 2003, the FASB issued FAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". This statement amends and clarifies financial accounting and reporting for derivative instruments, including derivative instruments embedded in other contracts and for hedging activities under FAS No. 133. Sony is currently evaluating the impact of adopting this new pronouncement.

Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity

In May 2003, the FASB issued FAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". FAS No. 150 establishes standards for how certain financial instruments with characteristics of both liabilities and equity shall be classified and measured. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Sony adopted FAS No. 150 during the first quarter of the year ending March 31, 2004. The adoption of FAS No. 150 did not have an impact on Sony's results of operations and financial position.

August 26, 2003

Teruhisa Tokunaka

Teruhisa Tokunaka

Executive Deputy President and Group CSO, Representative Corporate Executive Officer, Director

Takao Yuhara

Senior Vice President and Group CFO, Corporate Executive Officer

Quarterly Financial and Stock Information

Sony Corporation and Consolidated Subsidiaries

Year ended March 31
(Unaudited)

	Yen in billions except per share amounts							
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**
Sales and operating revenue	¥1,633.5	**¥1,721.8**	¥1,780.9	**¥1,789.7**	¥2,279.3	**¥2,307.7**	¥1,884.6	**¥1,654.4**
Operating income (loss)	3.0	**51.9**	(3.4)	**50.5**	158.6	**199.5**	(23.6)	**(116.5)**
Income (loss) before income taxes	(14.3)	**116.6**	0.6	**48.8**	119.3	**201.9**	(12.8)	**(119.7)**
Income taxes	20.3	**53.6**	14.8	**(14.9)**	39.0	**65.5**	(8.9)	**(23.4)**
Income (loss) before cumulative effect of accounting changes	(36.1)	**57.2**	(13.2)	**44.1**	64.0	**125.4**	(5.5)	**(111.1)**
Net income (loss)	(30.1)	**57.2**	(13.2)	**44.1**	64.0	**125.4**	(5.5)	**(111.1)**
Per share data of common stock								
Income (loss) before cumulative effect of accounting changes								
—Basic	¥ (39.26)	**¥62.23**	¥(14.34)	**¥47.89**	¥69.72	**¥136.19**	¥(5.91)	**¥(120.47)**
—Diluted	(39.26)	**57.90**	(14.34)	**44.70**	64.87	**126.05**	(5.91)	**(120.47)**
Net income (loss)								
—Basic	(32.75)	**62.23**	(14.34)	**47.89**	69.72	**136.19**	(5.91)	**(120.47)**
—Diluted	(32.75)	**57.90**	(14.34)	**44.70**	64.87	**126.05**	(5.91)	**(120.47)**
Depreciation and amortization*	¥80.0	**¥83.3**	¥87.5	**¥83.7**	¥94.6	**¥88.7**	¥92.0	**¥96.2**
Capital expenditures (additions to fixed assets)	86.1	**60.7**	93.3	**67.0**	75.2	**56.9**	72.1	**76.6**
R&D expenses	103.2	**97.9**	123.2	**108.3**	98.9	**105.6**	107.9	**131.4**
Tokyo Stock Exchange price per share of common stock**:								
High	¥10,200	**¥ 7,450**	¥ 8,150	**¥ 6,300**	¥ 6,200	**¥ 5,540**	¥ 7,200	**¥ 5,110**
Low	8,100	**5,810**	4,210	**4,850**	3,980	**4,870**	5,540	**4,080**
New York Stock Exchange price per American Depositary Share**:								
High	$ 85.50	**$59.70**	$65.75	**$53.17**	$49.86	**$45.29**	$56.59	**$43.31**
Low	65.80	**48.63**	33.20	**40.51**	33.72	**39.88**	41.00	**34.86**

** Including amortization expenses for intangible assets and for deferred insurance acquisition costs.*
***Stock price data are based on daily closing prices.*

Notes: 1. On April 1, 2002, Sony adopted Statement of Financial Accounting Standards ("FAS") No.144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The adoption of the provision of FAS No.144 did not have a material impact on Sony's results of operations and financial position for the year ended March 31, 2003.

2. In April 2002, the Financial Accounting Standards Board ("FASB") issued FAS No.145, "Rescission of FASB Statements No.4, 44 and 64, Amendment of FASB Statement No.13, and Technical Corrections." Sony elected for the early adoption of this statement retroactive to April 1, 2002. The adoption of this statement did not have an impact on Sony's results of operations and financial position.

3. In June 2002, the FASB issued FAS No.146, "Accounting for Costs Associated with Exit or Disposal Activities" which nullifies Emerging Issues Task Force ("EITF") Issue No.94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Sony adopted FAS No.146 on January 1, 2003. The impact of the adoption of this statement on Sony's results of operations and financial position was immaterial.

4. In November 2002, the FASB issued FASB Interpretation ("FIN") No.45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No.5, 57, and 107 and rescission of FASB Interpretation No.34." The initial recognition and initial measurement provisions of FIN No.45 did not have material effect on Sony's results of operations and financial position as at and for the year ended March 31, 2003.

5. In December 2002, the FASB issued FAS No.148, "Accounting for Stock-Based Compensation — Transition and Disclosure — an Amendment of FASB Statement No.123." Sony has accounted for its employee stock-based compensation in accordance with Account ing Principles Board Opinion ("APB") No.25, "Accounting for Stock Issued to Employees" and, therefore, the adoption of the provisions of FAS No.148 did not have an impact on Sony's results of operations and financial position.

6. *In January 2003, the FASB issued FIN No.46, "Consolidation of Variable Interest Entities — an Interpretation of ARB No.51." This interpretation addresses consolidation by a primary beneficiary of a variable interest entity ("VIE"). FIN No.46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN No.46 become effective for Sony during the second quarter of the year ending March 31, 2004. Sony did not enter into any new arrangements with VIEs during the period February 1, 2003 through March 31, 2003.*

7. *On April 1, 2001, Sony adopted FAS No.133, "Accounting for Derivative Instruments and Hedging Activities" as amended by FAS No.138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities — an Amendment of FASB Statement No.133." As a result, Sony's operating income, income before income taxes and net income for the year ended March 31, 2002 decreased by ¥3.0 billion, ¥3.4 billion and ¥2.2 billion, respectively. Additionally, Sony recorded a one-time non-cash after-tax unrealized gain of ¥1.1 billion in accumulated other comprehensive income in the consolidated balance sheet, as well as an after-tax gain of ¥6.0 billion in the cumulative effect of accounting changes in the consolidated statement of income.*

8. *In July 2001, the FASB issued FAS No.142, "Goodwill and Other Intangible Assets." Sony adopted FAS No.142 retroactive to April 1, 2001. As a result, Sony's operating income and income before income taxes for the year ended March 31, 2002 increased by ¥20.1 billion and income before cumulative effect of accounting changes as well as net income for the year ended March 31, 2002 increased by ¥18.9 billion.*

9. *In the fourth quarter of the year ended March 31, 2002, Sony adopted "EITF" Issue No. 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products," which was later codified along with other similar issues into EITF Issue No.01-09, "Accounting for Consideration Given by a Vendor to a Customer or Reseller of the Vendor's Products," retroactive to April 1, 2001. As a result, Sony has restated sales and operating revenue for the first three quarters of the year ended March 31, 2002.*

Five-Year Summary of Selected Financial Data

Sony Corporation and Consolidated Subsidiaries

Year ended March 31

	Yen in millions except per share amounts					Dollars in millions except per share amounts
	1999	2000	2001	2002	**2003**	**2003**
FOR THE YEAR						
Sales and operating revenue	¥6,804,182	¥6,686,661	¥7,314,824	¥7,578,258	**¥7,473,633**	**$62,280**
Operating income	338,061	223,204	225,346	134,631	**185,440**	**1,545**
Income before income taxes	377,691	264,310	265,868	92,775	**247,621**	**2,064**
Income taxes	176,973	94,644	115,534	65,211	**80,831**	**674**
Income before cumulative effect of accounting changes	179,004	121,835	121,227	9,332	**115,519**	**963**
Net income	179,004	121,835	16,754	15,310	**115,519**	**963**
Per share data:						
Common stock						
Income before cumulative effect of accounting changes						
—Basic	¥ 218.43	¥ 144.58	¥ 132.64	¥ 10.21	**¥ 125.74**	**$1.05**
—Diluted	195.51	131.70	124.36	10.18	**118.21**	**0.99**
Net income						
—Basic	218.43	144.58	18.33	16.72	**125.74**	**1.05**
—Diluted	195.51	131.70	19.28	16.67	**118.21**	**0.99**
Cash dividends	25.00	25.00	25.00	25.00	**25.00**	**0.21**
Number of weighted-average shares for basic per share data (thousands of shares)	819,506	842,679	913,932	918,462	**919,706**	
Subsidiary tracking stock						
Net income (loss)						
—Basic	–	–	–	(15.87)	**(41.98)**	**(0.35)**
Cash dividends	–	–	–	–	**–**	**–**
Number of weighted-average shares for basic per share data (thousands of shares)	–	–	–	3,072	**3,072**	
Depreciation and amortization*	¥ 307,173	¥ 306,505	¥ 348,268	¥ 354,135	**¥ 351,925**	**$2,933**
Capital expenditures (additions to fixed assets)	353,730	435,887	465,209	326,734	**261,241**	**2,177**
R&D expenses	375,314	394,479	416,708	433,214	**443,128**	**3,693**
AT YEAR-END						
Net working capital	¥1,030,463	¥ 861,674	¥ 830,734	¥ 778,716	**¥ 719,166**	**$5,993**
Stockholders' equity	1,823,665	2,182,906	2,315,453	2,370,410	**2,280,895**	**19,007**
Stockholders' equity per share attributable to common stock	¥ 2,224.35	¥ 2,409.36	¥ 2,521.19	¥ 2,570.31	**¥ 2,466.81**	**$20.56**
Total assets	¥6,299,053	¥6,807,197	¥7,827,966	¥8,185,795	**¥8,370,545**	**$69,755**
Number of shares issued at year-end (thousands of shares)						
Common stock	410,439	453,639	919,617	919,744	**922,385**	
Subsidiary tracking stock	–	–	–	3,072	**3,072**	

** Including amortization expenses for intangible assets and for deferred insurance acquisition costs.*

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2003.

2. Per share data prior to the year ended March 31, 2001 have been adjusted to reflect the two-for-one stock split that has completed on May 19, 2000. However, no adjustment to reflect such stock split has been made to the number of shares issued at prior year-ends.

3. On April 1, 2001, Sony adopted FAS No.133, "Accounting for Derivative Instruments and Hedging Activities" as amended by FAS No.138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities — an Amendment of FASB Statement No.133." As a result, Sony's operating income, income before income taxes and net income for the year ended March 31, 2002 decreased by ¥3.0 billion, ¥3.4 billion and ¥2.2 billion, respectively. Additionally, Sony recorded a one-time non-cash after-tax unrealized gain of ¥1.1 billion in accumulated other comprehensive income in the consolidated balance sheet, as well as an after-tax gain of ¥6.0 billion in the cumulative effect of accounting changes in the consolidated statement of income.

4. In July 2001, the FASB issued FAS No. 142, "Goodwill and Other Intangible Assets." Sony adopted FAS No. 142 retroactive to April 1, 2001. As a result, Sony's operating income and income before income taxes for the year ended March 31, 2002 increased by ¥20.1 billion and income before cumulative effect of accounting changes as well as net income for the year ended March 31, 2002 increased by ¥18.9 billion.

5. In June 2000, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 00-2, "Accounting by Producers or Distributors of Films." Sony adopted SOP 00-2 retroactive to April 1, 2000. As a result, Sony's net income for the year ended March 31, 2001 included a one-time, non-cash charge with no tax effect of ¥101.7 billion, primarily to reduce the carrying value of its film inventory.

6. In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." Sony adopted SAB No.101 in the fourth quarter ended March 31, 2001 retroactive to April 1, 2000. As a result, a one-time no-cash cumulative effect adjustment of ¥2.8 billion was recorded in the income statement directly above the caption of "net income" for a change in accounting principle.

Segment Information

Sony Corporation and Consolidated Subsidiaries - Year ended March 31

Sales and Operating Revenue by Business Segment

	Yen in millions			Dollars in millions*
	Year ended March 31			Year ended March 31
	2001	2002	**2003**	**2003**
Electronics—				
Customers	¥4,982,432	¥4,772,550	**¥4,543,313**	**$37,861**
Intersegment	472,082	513,631	**397,137**	**3,309**
Total	5,454,514	5,286,181	**4,940,450**	**41,170**
Game—				
Customers	646,147	986,529	**936,274**	**7,802**
Intersegment	14,769	17,185	**18,757**	**156**
Total	660,916	1,003,714	**955,031**	**7,958**
Music—				
Customers	571,003	588,191	**559,042**	**4,659**
Intersegment	41,110	54,649	**77,256**	**644**
Total	612,113	642,840	**636,298**	**5,303**
Pictures—				
Customers	555,227	635,841	**802,770**	**6,690**
Intersegment	0	0	**0**	**0**
Total	555,227	635,841	**802,770**	**6,690**
Financial Services—				
Customers	447,147	483,313	**512,641**	**4,272**
Intersegment	31,677	28,932	**27,878**	**232**
Total	478,824	512,245	**540,519**	**4,504**
Other—				
Customers	112,868	111,834	**119,593**	**996**
Intersegment	93,942	91,977	**130,721**	**1,090**
Total	206,810	203,811	**250,314**	**2,086**
Elimination	(653,580)	(706,374)	**(651,749)**	**(5,431)**
Consolidated total	¥7,314,824	¥7,578,258	**¥7,473,633**	**$62,280**

** U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2003.*

Note: Electronics intersegment amounts primarily consist of transactions with the Game business.
Music intersegment amounts primarily consist of transactions with the Game and Pictures businesses.
Other intersegment amounts primarily consist of transactions with the Electronics business.

«Electronics Sales and Operating Revenue to Customers by Product Category»

	Yen in millions			Dollars in millions*
	Year ended March 31			Year ended March 31
	2001	2002	**2003**	**2003**
Audio	¥ 756,393	¥ 747,469	**¥ 682,517**	**$ 5,688**
	15.2%	15.7%	**15.0%**	
Video	791,465	806,401	**823,354**	**6,861**
	15.9	16.9	**18.1**	
Televisions	797,618	842,388	**846,139**	**7,051**
	16.0	17.7	**18.6**	
Information and Communications	1,260,531	1,167,328	**958,556**	**7,988**
	25.3	24.4	**21.1**	
Semiconductors	237,668	182,276	**204,710**	**1,706**
	4.8	3.8	**4.5**	
Components	569,478	525,568	**537,358**	**4,478**
	11.4	11.0	**11.9**	
Other	569,279	501,120	**490,679**	**4,089**
	11.4	10.5	**10.8**	
Total	¥4,982,432	¥4,772,550	**¥4,543,313**	**$37,861**

** U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2003.*

Note: The above table is a breakdown of Electronics sales and operating revenue to customers in the Business Segment Information on page 65. The Electronics business is managed as a single operating segment by Sony's management. However, Sony believes that the information in this table is useful to investors in understanding the sales contributions of the products in this business segment. In addition, commencing with the first quarter ended June 30, 2002, Sony has partly realigned its product category configuration in the Electronics business. In accordance with this change, results of the previous year have been reclassified to conform to the presentations for the current year. Sales of mobile phones are no longer recorded in the "Information and Communications" category as of the third quarter ended December 31, 2001. From the third quarter of the previous year, sales of mobile phones manufactured for Sony Ericsson Mobile Communications, AB are recorded in the "Other" product category.

Profit or Loss by Business Segment

	Yen in millions			Dollars in millions*
	Year ended March 31			Year ended March 31
	2001	2002	**2003**	**2003**
Operating income (loss):				
Electronics	¥ 251,146	¥ (1,158)	**¥ 41,380**	**$ 345**
Game	(51,118)	82,915	**112,653**	**939**
Music	20,502	20,175	**(8,661)**	**(72)**
Pictures	4,315	31,266	**58,971**	**491**
Financial Services	17,432	22,134	**23,338**	**194**
Other	(13,715)	(16,604)	**(31,950)**	**(266)**
Total	228,562	138,728	**195,731**	**1,631**
Elimination	13,781	17,148	**15,894**	**132**
Unallocated amounts:				
Corporate expenses	(16,997)	(21,245)	**(26,185)**	**(218)**
Consolidated operating income	225,346	134,631	**185,440**	**1,545**
Other income	167,654	96,328	**157,528**	**1,313**
Other expenses	(127,132)	(138,184)	**(95,347)**	**(794)**
Consolidated income before income taxes	¥ 265,868	¥ 92,775	**¥ 247,621**	**$2,064**

** U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2003.*

Other Significant Items by Business Segment

	Yen in millions			Dollars in millions*
	Year ended March 31			Year ended March 31
	2001	2002	**2003**	**2003**
Depreciation and amortization:				
Electronics	¥ 209,616	¥ 211,910	**¥ 190,836**	**$1,590**
Game	37,497	49,655	**53,496**	**446**
Music	34,648	34,835	**33,650**	**280**
Pictures	11,853	10,619	**8,552**	**71**
Financial Services, including deferred insurance acquisition costs	44,995	37,227	**52,041**	**434**
Other	6,184	6,568	**9,112**	**76**
Total	344,793	350,814	**347,687**	**2,897**
Corporate	3,475	3,321	**4,238**	**36**
Consolidated total	¥ 348,268	¥ 354,135	**¥ 351,925**	**$2,933**
Capital expenditures for segment assets:				
Electronics	¥ 281,660	¥ 220,032	**¥ 170,323**	**$1,419**
Game	108,168	47,822	**40,986**	**342**
Music	37,776	21,535	**21,875**	**182**
Pictures	11,020	11,501	**7,138**	**60**
Financial Services	9,341	16,023	**3,655**	**30**
Other	13,538	5,208	**15,402**	**128**
Total	461,503	322,121	**259,379**	**2,161**
Corporate	3,706	4,613	**1,862**	**16**
Consolidated total	¥ 465,209	¥ 326,734	**¥ 261,241**	**$2,177**

** U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2003.*

Assets by Business Segment

	Yen in millions			Dollars in millions*
	March 31			March 31
	2001	2002	**2003**	**2003**
Total assets:				
Electronics	¥3,421,624	¥3,089,791	**¥2,848,492**	**$23,737**
Game	690,737	722,021	**673,208**	**5,610**
Music	747,360	739,283	**668,702**	**5,573**
Pictures	887,806	960,266	**868,395**	**7,237**
Financial Services	2,074,234	2,496,052	**2,910,434**	**24,254**
Other	255,495	240,329	**273,169**	**2,276**
Total	8,077,256	8,247,742	**8,242,400**	**68,687**
Elimination	(437,330)	(270,374)	**(261,761)**	**(2,181)**
Corporate assets	188,040	208,427	**389,906**	**3,249**
Consolidated total	¥7,827,966	¥8,185,795	**¥8,370,545**	**$69,755**

** U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2003.*

Sales and Operating Revenue by Geographic Segment

	Yen in millions			Dollars in millions*
	Year ended March 31			Year ended March 31
	2001	2002	**2003**	**2003**
Japan	¥2,400,777	¥2,248,115	**¥2,093,880**	**$17,449**
	32.8%	29.7%	**28.0%**	
U.S.A.	2,179,833	2,461,523	**2,403,946**	**20,033**
	29.8	32.5	**32.2**	
Europe	1,473,780	1,609,111	**1,665,976**	**13,883**
	20.2	21.2	**22.3**	
Other	1,260,434	1,259,509	**1,309,831**	**10,915**
	17.2	16.6	**17.5**	
Total	¥7,314,824	¥7,578,258	**¥7,473,633**	**$62,280**

** U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2003.*
*** Classification of Geographic Segment Information shows sales and operating revenue recognized by location of customers.*

Consolidated Balance Sheets

Sony Corporation and Consolidated Subsidiaries - March 31

	Yen in millions		Dollars in millions (Note 3)
	2002	**2003**	**2003**
ASSETS			
Current assets:			
Cash and cash equivalents	¥683,800	**¥713,058**	**$5,942**
Time deposits	5,176	**3,689**	**31**
Marketable securities (Note 8)	162,147	**241,520**	**2,013**
Notes and accounts receivable, trade (Notes 6 and 7)	1,363,652	**1,117,889**	**9,316**
Allowance for doubtful accounts and sales returns	(120,826)	**(110,494)**	**(921)**
Inventories (Note 4)	673,437	**625,727**	**5,214**
Deferred income taxes (Note 21)	134,299	**143,999**	**1,200**
Prepaid expenses and other current assets	435,527	**418,826**	**3,490**
Total current assets	3,337,212	**3,154,214**	**26,285**
Film costs (Note 5)	313,054	**287,778**	**2,398**
Investments and advances:			
Affiliated companies (Note 6)	131,068	**111,510**	**929**
Securities investments and other (Notes 8, 11 and 12)	1,566,739	**1,882,613**	**15,689**
	1,697,807	**1,994,123**	**16,618**
Property, plant and equipment (Note 9)**:**			
Land	195,292	**188,365**	**1,570**
Buildings	891,436	**872,228**	**7,269**
Machinery and equipment	2,216,347	**2,054,219**	**17,118**
Construction in progress	66,825	**60,383**	**503**
	3,369,900	**3,175,195**	**26,460**
Less – Accumulated depreciation	1,958,234	**1,896,845**	**15,807**
	1,411,666	**1,278,350**	**10,653**
Other assets:			
Intangibles, net (Notes 10 and 15)	233,088	**258,624**	**2,155**
Goodwill (Note 10)	317,240	**290,127**	**2,418**
Deferred insurance acquisition costs (Note 11)	308,204	**327,869**	**2,732**
Deferred income taxes (Note 21)	120,168	**328,091**	**2,734**
Other	447,356	**451,369**	**3,762**
	1,426,056	**1,656,080**	**13,801**
	¥8,185,795	**¥8,370,545**	**$69,755**

(Continued on following page.)

	Yen in millions 2002	Yen in millions 2003	Dollars in millions (Note 3) 2003
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings (Note 12)	¥113,277	**¥124,360**	**$1,036**
Current portion of long-term debt (Notes 9, 12 and 14)	240,786	**34,385**	**287**
Notes and accounts payable, trade (Note 6)	767,625	**697,385**	**5,812**
Accounts payable, other and accrued expenses (Notes 5 and 15)	869,533	**864,188**	**7,202**
Accrued income and other taxes	105,470	**109,199**	**910**
Deposits from customers in the banking business (Note 13)	106,472	**248,721**	**2,073**
Other (Notes 21 and 24)	355,333	**356,810**	**2,972**
Total current liabilities	2,558,496	**2,435,048**	**20,292**
Long-term liabilities:			
Long-term debt (Notes 9, 12 and 14)	838,617	**807,439**	**6,729**
Accrued pension and severance costs (Note 15)	299,089	**496,174**	**4,135**
Deferred income taxes (Note 21)	159,573	**159,079**	**1,326**
Future insurance policy benefits and other (Note 11)	1,680,418	**1,914,410**	**15,953**
Other	255,824	**255,478**	**2,129**
	3,233,521	**3,632,580**	**30,272**
Minority interest in consolidated subsidiaries	23,368	**22,022**	**184**
Stockholders' equity (Note 16)**:**			
Subsidiary tracking stock, no par value –			
2002–Authorized 100,000,000 shares, outstanding 3,072,000 shares	3,917		
2003–Authorized 100,000,000 shares, outstanding 3,072,000 shares		**3,917**	**33**
Common stock, no par value –			
2002–Authorized 3,500,000,000 shares, outstanding 919,744,355 shares	472,189		
2003–Authorized 3,500,000,000 shares, outstanding 922,385,176 shares		**472,361**	**3,936**
Additional paid-in capital	968,223	**984,196**	**8,202**
Retained earnings	1,209,262	**1,301,740**	**10,848**
Accumulated other comprehensive income –			
Unrealized gains on securities (Note 8)	22,997	**17,658**	**147**
Unrealized losses on derivative instruments (Note 14)	(711)	**(4,793)**	**(40)**
Minimum pension liability adjustment (Note 15)	(72,040)	**(182,676)**	**(1,522)**
Foreign currency translation adjustments	(225,839)	**(302,167)**	**(2,519)**
	(275,593)	**(471,978)**	**(3,934)**
Treasury stock, at cost			
(2002 – 1,239,304 shares, 2003 – 1,573,396 shares)	(7,588)	**(9,341)**	**(78)**
	2,370,410	**2,280,895**	**19,007**
Commitments and contingent liabilities (Notes 9 and 24)			
	¥8,185,795	**¥8,370,545**	**$69,755**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

Sony Corporation and Consolidated Subsidiaries - Year ended March 31

	Yen in millions			Dollars in millions (Note 3)
	2001	2002	**2003**	**2003**
Sales and operating revenue:				
Net sales (Note 6)	¥6,829,003	¥7,058,755	**¥6,916,042**	**$57,634**
Financial service revenue	447,147	483,313	**512,641**	**4,272**
Other operating revenue	38,674	36,190	**44,950**	**374**
	7,314,824	7,578,258	**7,473,633**	**62,280**
Costs and expenses:				
Cost of sales (Notes 18 and 19)	5,046,694	5,239,592	**4,979,421**	**41,495**
Selling, general and administrative (Notes 17, 18 and 19)	1,613,069	1,742,856	**1,819,468**	**15,162**
Financial service expenses	429,715	461,179	**489,304**	**4,078**
	7,089,478	7,443,627	**7,288,193**	**60,735**
Operating income	225,346	134,631	**185,440**	**1,545**
Other income:				
Interest and dividends (Note 6)	18,541	16,021	**14,441**	**120**
Royalty income	29,302	33,512	**32,375**	**270**
Foreign exchange gain, net	–	–	**1,928**	**16**
Gain on sales of securities investments, net (Note 8)	41,708	1,398	**72,552**	**605**
Gain on issuances of stock by equity investees (Note 20)	18,030	503	–	–
Other	60,073	44,894	**36,232**	**302**
	167,654	96,328	**157,528**	**1,313**
Other expenses:				
Interest	43,015	36,436	**27,314**	**228**
Loss on devaluation of securities investments	4,230	18,458	**23,198**	**193**
Foreign exchange loss, net	15,660	31,736	–	–
Other	64,227	51,554	**44,835**	**373**
	127,132	138,184	**95,347**	**794**
Income before income taxes	265,868	92,775	**247,621**	**2,064**
Income taxes (Note 21)**:**				
Current	121,113	114,930	**178,847**	**1,491**
Deferred	(5,579)	(49,719)	**(98,016)**	**(817)**
	115,534	65,211	**80,831**	**674**
Income before minority interest, equity in net losses of affiliated companies and cumulative effect of accounting changes	150,334	27,564	**166,790**	**1,390**
Minority interest in income (loss) of consolidated subsidiaries	(15,348)	(16,240)	**6,581**	**55**
Equity in net losses of affiliated companies (Note 6)	44,455	34,472	**44,690**	**372**
Income before cumulative effect of accounting changes	121,227	9,332	**115,519**	**963**
Cumulative effect of accounting changes (2001: Including ¥491 million income tax expense 2002: Net of income taxes of ¥2,975 million) (Note 2)	(104,473)	5,978	–	–
Net income	¥16,754	¥15,310	**¥115,519**	**$963**

(Continued on following page.)

	Yen			Dollars (Note 3)
	2001	2002	**2003**	**2003**
Per share data (Note 22)**:**				
Common stock				
Income before cumulative effect of accounting changes				
– Basic	¥132.64	¥10.21	**¥125.74**	**$1.05**
– Diluted	124.36	10.18	**118.21**	**0.99**
Cumulative effect of accounting changes				
– Basic	(114.31)	6.51	**–**	**–**
– Diluted	(105.08)	6.49	**–**	**–**
Net income				
– Basic	18.33	16.72	**125.74**	**1.05**
– Diluted	19.28	16.67	**118.21**	**0.99**
Cash dividends	25.00	25.00	**25.00**	**0.21**
Subsidiary tracking stock (Note 16)				
Net income (loss)				
– Basic	–	(15.87)	**(41.98)**	**(0.35)**
Cash dividends	–	–	**–**	**–**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Sony Corporation and Consolidated Subsidiaries - Year ended March 31

	Yen in millions			Dollars in millions (Note 3)
	2001	2002	2003	2003
Cash flows from operating activities:				
Net income	¥16,754	¥15,310	**¥115,519**	**$963**
Adjustments to reconcile net income to net cash provided by operating activities –				
Depreciation and amortization, including amortization of deferred insurance acquisition costs	348,268	354,135	**351,925**	**2,933**
Amortization of film costs	244,649	242,614	**312,054**	**2,600**
Accrual for pension and severance costs, less payments	21,759	14,995	**37,858**	**316**
Loss on sale, disposal or impairment of long-lived assets, net	24,304	49,862	**39,941**	**333**
Gain on securities contribution to employee retirement benefit trust (Note 8)	(11,120)	–	**–**	**–**
Gain on sales of securities investments, net	(41,708)	(1,398)	**(72,552)**	**(605)**
Gain on issuances of stock by equity investees (Note 20)	(18,030)	(503)	**–**	**–**
Deferred income taxes	(5,579)	(49,719)	**(98,016)**	**(817)**
Equity in net losses of affiliated companies, net of dividends	47,219	37,537	**46,692**	**389**
Cumulative effect of accounting changes (Note 2)	104,473	(5,978)	**–**	**–**
Changes in assets and liabilities:				
(Increase) decrease in notes and accounts receivable, trade	(177,484)	111,301	**174,679**	**1,456**
(Increase) decrease in inventories	(103,085)	290,872	**36,039**	**300**
Increase in film costs (after adjustment for cumulative effect of an accounting change)	(269,004)	(236,072)	**(317,953)**	**(2,650)**
Increase (decrease) in notes and accounts payable, trade	95,213	(172,626)	**(58,384)**	**(486)**
Increase (decrease) in accrued income and other taxes	38,749	(39,589)	**14,637**	**122**
Increase in future insurance policy benefits and other	241,140	314,405	**233,992**	**1,950**
Increase in deferred insurance acquisition costs	(68,927)	(71,522)	**(66,091)**	**(551)**
Increase in marketable securities held in the insurance business for trading purpose	(20,000)	(55,661)	**–**	**–**
(Increase) decrease in other current assets	(17,031)	5,543	**29,095**	**242**
Increase (decrease) in other current liabilities	88,224	(19,418)	**26,205**	**218**
Other	5,983	(46,492)	**48,148**	**402**
Net cash provided by operating activities	¥544,767	¥737,596	**¥853,788**	**$7,115**

(Continued on following page.)

	Yen in millions			Dollars in millions (Note 3)
	2001	2002	**2003**	**2003**
Cash flows from investing activities:				
Payments for purchases of fixed assets	¥(468,019)	¥(388,514)	**¥(275,285)**	**$(2,294)**
Proceeds from sales of fixed assets	26,704	37,434	**25,711**	**214**
Payments for investments and advances by financial service business	(329,319)	(705,796)	**(1,026,361)**	**(8,553)**
Payments for investments and advances (other than financial service business)	(136,818)	(90,544)	**(109,987)**	**(917)**
Proceeds from sales of securities investments, maturities of marketable securities and collections of advances by financial service business	93,226	345,112	**542,539**	**4,521**
Proceeds from sales of securities investments, maturities of marketable securities and collections of advances (other than financial service business)	94,264	33,969	**135,834**	**1,132**
Decrease in time deposits	914	1,222	**1,124**	**10**
Net cash used in investing activities	(719,048)	(767,117)	**(706,425)**	**(5,887)**
Cash flows from financing activities:				
Proceeds from issuance of long-term debt	195,118	228,999	**12,323**	**103**
Payments of long-term debt	(143,258)	(171,739)	**(238,144)**	**(1,985)**
Increase (decrease) in short-term borrowings	106,245	(78,104)	**(7,970)**	**(66)**
Increase in deposits from customers in the banking business (Note 13)	–	106,472	**142,023**	**1,184**
Proceeds from issuance of subsidiary tracking stock (Note 16)	–	9,529	**–**	**–**
Dividends paid	(22,774)	(22,951)	**(22,871)**	**(191)**
Other	(889)	12,834	**21,505**	**179**
Net cash provided by (used in) financing activities	134,442	85,040	**(93,134)**	**(776)**
Effect of exchange rate changes on cash and cash equivalents	21,020	21,036	**(24,971)**	**(208)**
Net increase (decrease) in cash and cash equivalents	(18,819)	76,555	**29,258**	**244**
Cash and cash equivalents at beginning of year	626,064	607,245	**683,800**	**5,698**
Cash and cash equivalents at end of year	¥607,245	¥683,800	**¥713,058**	**$5,942**

Supplemental data:				
Cash paid during the year for –				
Income taxes	¥93,629	¥148,154	**¥171,531**	**$1,429**
Interest	47,806	35,371	**22,216**	**185**
Non-cash investing and financing activities –				
Contribution of assets into an affiliated company	–	¥10,545	–	–

The accompanying notes are an integral part of these statements.

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Consolidated Statements of Changes in Stockholders' Equity

Sony Corporation and Consolidated Subsidiaries - Year ended March 31

	Yen in millions					
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total
Balance at March 31, 2000	¥451,550	¥940,716	¥1,223,761	¥(425,316)	¥(7,805)	¥2,182,906
Exercise of stock purchase warrants	297	297				594
Conversion of convertible bonds	20,151	20,143				40,294
Stock issued under exchange offerings	4	1,069				1,073
Comprehensive income:						
Net income			16,754			16,754
Other comprehensive income, net of tax (Note 16) –						
Unrealized gains on securities:						
Unrealized holding gains or losses arising during the period				(7,490)		(7,490)
Less: Reclassification adjustment for gains or losses included in net income				(9,909)		(9,909)
Minimum pension liability adjustment				(46,134)		(46,134)
Foreign currency translation adjustments				160,282		160,282
Total comprehensive income						113,503
Stock issue costs, net of tax			(466)			(466)
Dividends declared			(22,939)			(22,939)
Purchase of treasury stock					(2,123)	(2,123)
Reissuance of treasury stock		176			2,435	2,611
Balance at March 31, 2001	¥472,002	¥962,401	¥1,217,110	¥(328,567)	¥(7,493)	¥2,315,453

(Continued on following page.)

	Yen in millions						
	Subsidiary tracking stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total
Balance at March 31, 2001	–	¥472,002	¥962,401	¥1,217,110	¥(328,567)	¥(7,493)	¥2,315,453
Exercise of stock purchase warrants		26	26				52
Conversion of convertible bonds		161	162				323
Issuance of subsidiary tracking stock (Note 16)	¥3,917		5,612				9,529
Comprehensive income:							
Net income				15,310			15,310
Other comprehensive income, net of tax (Note 16) –							
Unrealized gains on securities:							
Unrealized holding gains or losses arising during the period					(20,243)		(20,243)
Less: Reclassification adjustment for gains or losses included in net income					(1,276)		(1,276)
Unrealized losses on derivative instruments:							
Cumulative effect of an accounting change					1,089		1,089
Unrealized holding gains or losses arising during the period					2,437		2,437
Less: Reclassification adjustment for gains or losses included in net income					(4,237)		(4,237)
Minimum pension liability adjustment					(22,228)		(22,228)
Foreign currency translation adjustments					97,432		97,432
Total comprehensive income							68,284
Stock issue costs, net of tax				(166)			(166)
Dividends declared				(22,992)			(22,992)
Purchase of treasury stock						(468)	(468)
Reissuance of treasury stock			22			373	395
Balance at March 31, 2002	¥3,917	¥472,189	¥968,223	¥1,209,262	¥(275,593)	¥(7,588)	¥2,370,410

(Continued on following page.)

	Yen in millions						
	Subsidiary tracking stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total
Balance at March 31, 2002	¥3,917	¥472,189	¥968,223	¥1,209,262	¥(275,593)	¥(7,588)	¥2,370,410
Conversion of convertible bonds		**172**	**172**				**344**
Stock issued under exchange offering (Note 16)			**15,791**				**15,791**
Comprehensive income:							
Net income				**115,519**			**115,519**
Other comprehensive income, net of tax (Note 16) –							
Unrealized gains on securities:							
Unrealized holding gains or losses arising during the period					**(9,627)**		**(9,627)**
Less: Reclassification adjustment for gains or losses included in net income					**4,288**		**4,288**
Unrealized losses on derivative instruments:							
Unrealized holding gains or losses arising during the period					**(4,477)**		**(4,477)**
Less: Reclassification adjustment for gains or losses included in net income					**395**		**395**
Minimum pension liability adjustment					**(110,636)**		**(110,636)**
Foreign currency translation adjustments :							
Translation adjustments arising during the period					**(83,993)**		**(83,993)**
Less: Reclassification adjustment for losses included in net income					**7,665**		**7,665**
Total comprehensive income							**(80,866)**
Stock issue costs, net of tax				**(19)**			**(19)**
Dividends declared				**(23,022)**			**(23,022)**
Purchase of treasury stock						**(1,817)**	**(1,817)**
Reissuance of treasury stock			**10**			**64**	**74**
Balance at March 31, 2003	**¥3,917**	**¥472,361**	**¥984,196**	**¥1,301,740**	**¥(471,978)**	**¥(9,341)**	**¥2,280,895**

(Continued on following page.)

	Dollars in millions (Note 3)						
	Subsidiary tracking stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total
Balance at March 31, 2002.	$33	$3,935	$8,069	$10,077	$(2,297)	$(63)	$19,754
Conversion of convertible bonds		**1**	**1**				**2**
Stock issued under exchange offering (Note 16) .			**132**				**132**
Comprehensive income:							
Net income				**963**			**963**
Other comprehensive income, net of tax (Note 16) –							
Unrealized gains on securities:							
Unrealized holding gains or losses arising during the period					**(80)**		**(80)**
Less: Reclassification adjustment for gains or losses included in net income					**35**		**35**
Unrealized losses on derivative instruments:							
Unrealized holding gains or losses arising during the period					**(37)**		**(37)**
Less: Reclassification adjustment for gains or losses included in net income.					**3**		**3**
Minimum pension liability adjustment					**(922)**		**(922)**
Foreign currency translation adjustments :							
Translation adjustments arising during the period.					**(700)**		**(700)**
Less: Reclassification adjustment for losses included in net income.					**64**		**64**
Total comprehensive income							**(674)**
Stock issue costs, net of tax				**(0)**			**(0)**
Dividends declared				**(192)**			**(192)**
Purchase of treasury stock						**(15)**	**(15)**
Reissuance of treasury stock			**0**			**0**	**0**
Balance at March 31, 2003	**$33**	**$3,936**	**$8,202**	**$10,848**	**$(3,934)**	**$(78)**	**$19,007**

The accompanying notes are an integral part of these statements.

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Sony Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

Sony Corporation and Consolidated Subsidiaries

1. Nature of operations

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

2. Summary of significant accounting policies

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

(1) Accounting changes:

***Impairment or Disposal of Long-Lived Assets* -**

On April 1, 2002, Sony adopted Statement of Financial Accounting Standards (“FAS”) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”. FAS No. 144 supersedes FAS No. 121 “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of” and the accounting and reporting provisions of Accounting Principles Board Opinion (“APB”) No. 30 “Reporting the results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions” for the disposal of segments of a business. FAS No.

144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. FAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and modifies the accounting and disclosure rules for discontinued operations. The adoption of the provision of FAS No. 144 did not have a material impact on Sony's results of operations and financial position for the year ended March 31, 2003.

***Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections* -**

In April 2002, the Financial Accounting Standards Board ("FASB") issued FAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections". This statement rescinds certain authoritative pronouncements and amends, clarifies or describes the applicability of others, effective for fiscal years beginning or transactions occurring after May 15, 2002, with early adoption encouraged. Sony elected early adoption of this statement retroactive to April 1, 2002. The adoption of this statement did not have an impact on Sony's results of operations and financial position.

***Accounting for Costs Associated with Exit or Disposal Activities* -**

In June 2002, the FASB issued FAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". FAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. FAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities. FAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred, rather than the date of an entity's commitment to an exit plan. Sony adopted FAS No. 146 on January 1, 2003. The adoption of this statement did not have a material effect on Sony's results of operations and financial position.

***Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* -**

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34". The interpretation elaborates on the existing disclosure requirements for most guarantees. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value of the obligations it assumes under the guarantee. The provisions related to recognizing a liability at inception of the guarantee for the fair value of the guarantor's obligations do not apply to product warranties or to guarantees accounted for as derivatives. The initial recognition and initial measurement provisions of FIN No. 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The initial recognition and initial measurement provisions of FIN No. 45 did not have a material effect on Sony's results of operations and financial position as at and for the year ended March 31, 2003. The disclosure provisions, which increase the required disclosure related to guarantees, have been adopted in the consolidated financial statements.

***Accounting for Stock-Based Compensation - Transition and Disclosure* -**

In December 2002, the FASB issued FAS No. 148, ''Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment of FASB Statement No. 123''. FAS No. 148 amends FAS No. 123, ''Accounting for Stock-Based Compensation'', to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. FAS No. 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. For Sony, the transition and annual disclosure requirements of FAS No. 148 are effective for the year ended March 31, 2003. Sony has accounted for its employee stock-based compensation in accordance with APB No. 25, “Accounting for Stock Issued to Employees” and, therefore, the adoption of the provisions of FAS No. 148 did not have an impact on Sony's results of operations and financial position. Sony has adopted the disclosure-only requirements in accordance with FAS No. 148.

***Consolidation of Variable Interest Entities* -**

In January 2003, the FASB issued FIN No. 46, “Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51”. This interpretation addresses consolidation by a primary beneficiary of a variable interest entity (“VIE”). FIN No. 46 is effective immediately for all new VIEs created or acquired after January 31, 2003. For VIEs created or acquired prior to February 1, 2003, the provisions of FIN No. 46 become effective for Sony during the second quarter of the year ending March 31, 2004. For VIEs acquired prior to February 1, 2003, any difference between the net amount added to the balance sheet and the amount of any previously recognized interest in the VIE will be recognized as a cumulative effect of an accounting change.

Sony continues to evaluate the impact of FIN No. 46 on Sony's results of operations and financial position. However, Sony has identified potential VIEs created prior to February 1, 2003, which may be consolidated upon the adoption of FIN No. 46. If these potential VIEs are consolidated, Sony would record a charge of approximately ¥1,800 million ($15 million) as a cumulative effect of accounting change and an increase in assets and liabilities of approximately ¥97,342 million ($811 million). See Note 23 for further discussion on the VIEs that are used by Sony. Sony did not enter into any new arrangements with VIEs during the period February 1, 2003 through March 31, 2003.

<u>Derivative instruments and hedging activities</u> -

On April 1, 2001, Sony adopted FAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” as amended by FAS No. 138, “Accounting for Certain Derivative Instruments and Certain Hedging Activities - an Amendment of FASB statement No. 133”. FAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments. Specifically, FAS No. 133 requires an entity to recognize all derivatives, including certain derivative instruments embedded in other contracts, as either assets or liabilities in the balance sheet and to measure those instruments at fair value. Additionally, the fair value adjustments will affect either stockholders’ equity or net income depending on whether the derivative instruments qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity.

As a result of the adoption of the new standards, Sony’s operating income, income before income taxes and net income for the year ended March 31, 2002 decreased by ¥3,007 million, ¥3,441 million and ¥2,167 million, respectively. Additionally, on April 1, 2001, Sony recorded a one-time non-cash after-tax unrealized gain of ¥1,089 million in accumulated other comprehensive income in the consolidated balance sheet, as well as an after-tax gain of ¥5,978 million in the cumulative effect of accounting changes in the consolidated statement of income. This after-tax gain was primarily attributable to fair value adjustments of convertible rights embedded in convertible bonds held by Sony’s life insurance subsidiary as available-for-sale debt securities.

<u>Goodwill and other intangible assets</u> -

In July 2001, Sony elected early adoption, retroactive to April 1, 2001, of FAS No. 142, “Goodwill and Other Intangible Assets” which superseded APB No. 17, “Intangible Assets”. FAS No. 142 addresses the accounting for acquired goodwill and other intangible assets. Under FAS No. 142, goodwill and certain other intangible assets that are determined to have an indefinite life are no longer amortized, but rather are tested for impairment on an annual basis 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. Prior to the adoption of FAS No. 142, goodwill recognized in acquisitions accounted for as purchases was amortized on a straight-line basis principally over a 20 or 40-year period. As a result of the adoption of FAS No. 142, Sony’s operating income and income before income taxes for the year ended March 31, 2002 increased by ¥20,114 million and income before cumulative effect of accounting changes as well as net income for the year ended March 31, 2002 increased by ¥18,932 million.

<u>Accounting for consideration paid to a reseller</u> -

In the fourth quarter of the year ended March 31, 2002, Sony adopted retroactive to April 1, 2001 EITF Issue No. 00-25, “Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor’s Products”, which was later codified along with other similar issues into EITF Issue No. 01-09, “Accounting for Consideration Given by a Vendor to a Customer or Reseller of the Vendor’s Products”.

EITF Issue No. 01-09 clarifies the income statement classification of costs incurred by a vendor in connection with the reseller's purchase or promotion of the vendor's products, resulting in certain cooperative advertising and product placement costs previously classified as selling, general and administrative expenses to be reflected as a reduction of revenues earned from that activity. The accounting change did not have any effect on operating income or a material effect on net sales and selling, general and administrative expenses for the year ended March 31, 2002. Sony has not reclassified the financial statements for the year ended March 31, 2001 due to immateriality.

Film accounting **-**

In June 2000, Sony elected early adoption of Statement of Position ("SOP") 00-2, "Accounting by Producers or Distributors of Films", issued by the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants. SOP 00-2 established new film accounting standards, including changes in revenue recognition and accounting for advertising, development and overhead costs. Specifically, SOP 00-2 requires all exploitation costs, such as advertising expenses and marketing costs, for theatrical and television product to be expensed as incurred. This compares to Sony's previous policy of first capitalizing and then expensing advertising costs for theatrical and television product over the related revenue streams. In addition, SOP 00-2 requires development costs for abandoned projects and certain indirect overhead costs to be charged directly to expense, instead of those costs being capitalized to film costs, which was required under the previous accounting standards. SOP 00-2 also requires all film costs to be classified in the balance sheet as non-current assets. The provisions of SOP 00-2 in other areas, such as revenue recognition, generally are consistent with Sony's existing accounting policies.

Sony adopted SOP 00-2 retroactive to April 1, 2000. As a result, Sony's net income for the year ended March 31, 2001 included a one-time, non-cash charge with no tax effect of ¥101,653 million, primarily to reduce the carrying value of its film inventory. The charge has been reflected as a cumulative effect of an accounting change in the accompanying consolidated statements of income.

Revenue recognition **-**

In the fourth quarter of the year ended March 31, 2001, Sony adopted Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements", issued by the United States of America Securities and Exchange Commission retroactive to April 1, 2000. As a result, Sony changed its method of accounting for revenues from electronics, game and music sales. Revenues from electronics, game and music sales are recognized upon delivery which is considered to have occurred when the customer has taken title to the product and the risk and rewards of ownership have been substantively transferred. Following SAB No. 101, revenues are recognized when the product is delivered to the customer delivery site. Previously Sony followed the guidance of FASB Statement of Financial Accounting Concept ("SFAC") No. 5 "Recognition and Measurement in Financial Statements of Business Enterprises" in which revenues were recognized when Sony had substantially completed all of its obligations pursuant to the terms of the sales contract. Under the guidance of SFAC No. 5, Sony viewed its obligation under the sales contract to be substantially completed when products were shipped and recognized revenues at that time. In accordance with SAB No. 101, Sony has recorded a one-time non-cash charge of ¥2,821 million, including ¥491 million income tax expense, which represents the net impact of sales that were previously recognized in the year ended March 31, 2000. These sales were subsequently recognized in the year ended March 31, 2001 due to the adoption of SAB No. 101. The charge has been reflected as a cumulative effect of an accounting change in the accompanying consolidated statements of income. The accounting change did not have a material effect on Sony's consolidated statements of income for the year ended March 31, 2001.

(2) <u>Significant accounting policies</u>:

<u>Basis of consolidation and accounting for investments in affiliated companies</u> -

The consolidated financial statements include the accounts of Sony Corporation and those of its majority-owned subsidiary companies. All intercompany transactions and accounts are eliminated. Investments in which Sony has significant influence or ownership of 20% or more but less than or equal to 50% are accounted for under the equity method. In addition, all investments in limited partnerships and general partnerships are also accounted for under the equity method. Under the equity method, investments are stated at cost plus/minus Sony's equity in undistributed earnings or losses. Consolidated net income includes Sony's equity in current earnings or losses of such companies, after elimination of unrealized intercompany profits. If the value of an investment has declined and is judged to be other than temporary, the investment is written down to its fair value.

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

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

<u>Use of estimates</u> -

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 rates and all income and expense accounts are translated at 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.

Foreign currency receivables and payables are translated at appropriate year-end current rates and the resulting translation gains or losses are taken into income currently.

***Cash and cash equivalents* -**

Cash and cash equivalents include all highly liquid investments, generally 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 securities 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 net realizable value by a charge to income for other than temporary declines in fair value. Realized gains and losses are determined on the average cost method and are reflected in income.

***Equity securities in non-public companies* -**

Equity securities in non-public companies are carried at cost as fair value is not readily determinable. If the 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 such factors as operating results, business plans and estimated future cash flows. Fair value is determined through the use of such methodologies as discounted cash flows, valuation of recent financings and comparable valuations of similar companies.

Inventories **-**

Inventories in electronics, game and music as well as non-film inventories for pictures 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.

Film costs **-**

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

Property, plant and equipment and depreciation **-**

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

Goodwill and other intangible assets **-**

As a result of the adoption of FAS No. 142, goodwill and certain other intangible assets that are determined to have an indefinite life are not amortized and are tested for impairment on an annual basis 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. Fair value for those assets is generally determined using a discounted cash flow analysis. Prior to the adoption of FAS No. 142, in accordance with APB No. 17, goodwill was amortized on a straight-line basis principally over a 20 or 40 year period and indefinite-lived intangible assets were also amortized on a straight-line basis principally over a 20 year period.

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

Accounting for computer software to be sold **-**

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

In the Electronics business, costs related to establishing the technological feasibility of a software product are expensed as incurred as a part of research and development in cost of sales. Costs that are incurred to produce the finished product after technological feasibility is established are capitalized and amortized over the estimated economic life of the product, which is generally three years. Sony performs periodic reviews to ensure that unamortized program costs remain recoverable from future revenue.

In the Game business, technological feasibility of the underlying software is reached shortly before the products are released to manufacturing. Costs incurred after technological feasibility is established are not material, and accordingly, Sony expenses software development costs for the Game business as incurred as a part of research and development in cost of sales.

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 are being amortized mainly over the premium-paying period of the related insurance policies using assumptions consistent with those used in computing policy reserves.

Product warranty **-**

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

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

Future insurance policy benefits **-**

Future insurance policy benefits are computed based on actuarial assumptions.

Accounting for the impairment of long-lived assets **-**

Sony periodically reviews 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 indicated that the carrying amount may not be recoverable. Long-lived assets to be held and used are reviewed for impairment by comparing the carrying value of the assets with their estimated future undiscounted cash flows. If it is determined that an impairment loss has occurred, the loss would be recognized during the period. The impairment loss would be calculated as the difference between asset carrying value and the present value of estimated net cash flows or comparable market values, giving consideration to recent operating performance. 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. Reductions in carrying value are recognized in the period in which the long-lived assets are classified as held for sale.

***Derivative financial instruments* -**

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

In accordance with FAS No. 133, the derivative financial instruments held by Sony are classified and accounted as 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 under FAS No. 133 are recognized in current period earnings.

Sony formally documents all hedging relationships between the derivatives designated as hedges and 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 transaction. 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.

***Stock-based compensation* -**

Sony follows the disclosure-only provisions of FAS No. 148 and has elected to apply APB No. 25 in accounting for its stock-based compensation plans. In accordance with APB No. 25, stock-based compensation cost is recognized in income based on the excess, if any, of the quoted market price of the common stock or subsidiary tracking stock of Sony Corporation at the grant date of the award or other measurement date over the stated exercise price of the award. As the exercise prices for Sony's stock-based compensation plans are generally determined based on the prevailing market price shortly before the date of grant, the compensation expense for these plans is not significant. For awards that generate compensation expense as defined under APB No. 25, Sony calculates the amount of compensation expense and recognizes the expense over the vesting period of the award.

The following table reflects the net effect on net income and net income per share allocated to the common stock if Sony had applied the fair value recognition provisions of FAS No. 123 to stock-based compensation. See Note 17 for detailed assumptions.

	Year ended March 31			Year ended March 31,
	2001	2002	2003	2003
	Yen in millions			Dollars in millions
Income before cumulative effect of accounting changes allocated to the common stock:				
As reported	¥121,227	¥9,381	¥115,648	$964
Deduct: Total stock-based compensation expense determined under fair value based method, net of related tax effects	(2,703)	(5,395)	(7,008)	(59)
Pro forma	¥118,524	¥3,986	¥108,640	$905
Net income allocated to the common stock:				
As reported	¥16,754	¥15,359	¥115,648	$964
Deduct: Total stock-based compensation expense determined under fair value based method, net of related tax effects	(2,703)	(5,395)	(7,008)	(59)
Pro forma	¥14,051	¥9,964	¥108,640	$905
	Yen			Dollars
Income before cumulative effect of accounting changes allocated to the common stock:				
-Basic EPS:				
As reported	¥132.64	¥10.21	¥125.74	$1.05
Pro forma	129.69	4.34	118.12	0.98
-Diluted EPS:				
As reported	¥124.36	¥10.18	¥118.21	$0.99
Pro forma	121.64	4.33	111.20	0.93
Net income allocated to the common stock:				
-Basic EPS:				
As reported	¥18.33	¥16.72	¥125.74	$1.05
Pro forma	15.37	10.85	118.12	0.98
-Diluted EPS:				
As reported	¥19.28	¥16.67	¥118.21	$0.99
Pro forma	16.56	10.82	111.20	0.93

Net income and net income per share allocated to the subsidiary tracking stock for the years ended March 31, 2002 and 2003 would not be significantly impacted.

Free distribution of common stock ***-***

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

Under the Japanese Commercial Code, a stock dividend can be effected by an appropriation of retained earnings to the common stock account by resolution of the general meeting of shareholders, followed by a free share distribution with respect to the amount appropriated by resolution of the Board of Directors' meeting.

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

***Stock issue costs* -**

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

***Revenue recognition* -**

In accordance with SAB No. 101, revenues from electronics, game and music sales are recognized upon delivery which is considered to have occurred when the customer has taken title to the product and the risk 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 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 home videocassettes and DVDs are recognized upon availability of sale to the public.

Life insurance policies that the life insurance subsidiary writes, 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.

Property and casualty insurance policies that the non-life insurance subsidiary writes 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.

***Accounting for consideration paid to a reseller* -**

In accordance with EITF Issue No. 01-09, cash consideration paid to a reseller including payments for buydowns, slotting fees and cooperative advertising programs, is accounted for as a reduction of revenue unless Sony receives an identifiable benefit (goods or services) in exchange for the consideration, can reasonably estimate the fair value of this benefit and receives documentation from the reseller to support the amounts spent. Any payments meeting these criteria are treated as selling, general and administrative expense. For the years ended March 31, 2002 and 2003, reseller payments, primarily for cooperative advertising programs, included in selling, general and administrative expense totaled ¥ 28,683 million and ¥ 29,135 million ($ 243 million), respectively.

Cost of sales ***-***

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

Research and development costs ***-***

Research and development costs are expensed as incurred.

Selling, general and administrative ***-***

Costs classified as selling expense relate to the promoting and selling of products and include such items 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 provision for policy reserves and amortization of deferred insurance acquisition cost, and all other operating costs such as personnel expenses, depreciation of fixed assets, office rental of subsidiaries in the Financial Services segment.

Advertising costs ***-***

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

***Shipping and handling costs* -**

The majority of shipping and handling, warehousing and internal transfer costs for finished goods are included in selling, general and administrative expenses. An exception to this is in the Pictures business where such costs are charged to cost of sales as it is an integral part of producing and distributing the film under SOP 00-2. 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. In addition, amounts paid by customers for shipping and handling costs are included in net sales.

***Income taxes* -**

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

***Net income per share* -**

Sony calculates and presents per share data separately for Sony’s common stock and for the subsidiary tracking stock, based on FAS No. 128, “Earnings per Share”. The holders of the subsidiary tracking stock have the right to participate in earnings, together with common stock holders. Accordingly, Sony calculates per share data by the “two-class” method based on FAS No. 128. Under this method, basic net income per share (“EPS”) for each class of stock is calculated based on the earnings allocated to each class of stock for the applicable period, divided by the weighted-average number of outstanding shares in each class during the applicable period.

The earnings allocated to the subsidiary tracking stock are determined based on the subsidiary tracking stock holders’ economic interest in the targeted subsidiary’s earnings available for dividends. As defined by Sony Corporation’s articles of incorporation, the amount distributable to the subsidiary tracking stock holders is based on the declared dividends of the targeted subsidiary, which only may be declared from the amounts available for dividends of the targeted subsidiary. The targeted subsidiary’s earnings available for dividends are, as stipulated by the Japanese Commercial Code, not including those of the targeted subsidiary’s subsidiaries. If the targeted subsidiary has accumulated losses, a change in accumulated losses is also allocated to the subsidiary tracking stock. The subsidiary tracking stock holders’ economic interest is calculated as the number of the subsidiary tracking stock outstanding (3,072,000 shares) divided by the number of the targeted subsidiary’s common stock outstanding (235,520 shares), subject to multiplying by the Standard Ratio (tracking stock : subsidiary’s common stock = 1 : 100, as defined in the articles of incorporation). The earnings allocated to the common stock are calculated by subtracting the earnings allocated to the subsidiary tracking stock from Sony’s net income for the period.

The computation of diluted net income per common stock reflects the maximum possible dilution from conversion, exercise, or contingent issuance of securities.

There are no potentially dilutive securities for net income per subsidiary tracking stock, as tracking stock shares outstanding are increased upon potential subsidiary tracking stocks' being exercised, which results in a proportionate increase in earnings allocated to the subsidiary tracking stock. However, they could have a dilutive effect on net income per common stock, as earnings allocated to the common stock would be decreased.

EPS for all periods is appropriately adjusted for any free distributions of common stock which have been completed.

(3) Recent Pronouncements

Accounting for Asset Retirement Obligations -

In June 2001, the FASB issued FAS No. 143, "Accounting for Asset Retirement Obligations". This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement shall be effective for fiscal years beginning after June 15, 2002. Sony adopted FAS No. 143 on April 1, 2003. The adoption of FAS No. 143 did not have a material impact on Sony's results of operations and financial position.

Multiple Element Arrangements -

In November 2002, the FASB issued EITF Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables". EITF Issue No. 00-21 provides guidance on when and how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF Issue No. 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Sony is currently evaluating the impact of adopting this guidance.

Derivative Instruments and Hedging Activities -

In April 2003, the FASB issued FAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". This statement amends and clarifies financial accounting and reporting for derivative instruments, including derivative instruments embedded in other contracts and for hedging activities under FAS No. 133. Sony is currently evaluating the impact of adopting this new pronouncement.

Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity -

In May 2003, the FASB issued FAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". FAS No. 150 establishes standards for how certain financial instruments with characteristics of both liabilities and equity shall be classified and measured. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Sony adopted FAS No. 150 during the first quarter of the year ending March 31, 2004. The adoption of FAS No. 150 did not have an impact on Sony's results of operations and financial position.

(4) Reclassifications:

Certain reclassifications of the financial statements for the years ended March 31, 2001 and 2002 have been made to conform to the presentation for the year ended March 31, 2003.

3. U.S. dollar amounts

U.S. dollar amounts presented in the financial statements are included solely for the convenience of the reader. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into U.S. dollars. As the amounts shown in U.S. dollars are for convenience only, the rate of ¥120 = U.S.$1, the approximate current rate at March 31, 2003, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

4. Inventories

Inventories comprise the following:

	Yen in millions		Dollars in millions
	March 31		March 31,
	2002	2003	2003
Finished products	¥429,484	¥398,180	$3,318
Work in process	108,143	110,008	917
Raw materials, purchased components and supplies	135,810	117,539	979
	¥673,437	¥625,727	$5,214

5. Film costs

Film costs comprise the following:

	Yen in millions		Dollars in millions
	March 31		March 31,
	2002	2003	2003
Theatrical:			
Released (including acquired film libraries)	¥134,997	¥142,168	$1,185
Completed not released	9,465	13,356	111
In production and development	115,458	91,696	764
Television licensing:			
Released (including acquired film libraries)	48,623	40,417	337
In production and development	4,511	141	1
	¥313,054	¥287,778	$2,398

Sony estimates that approximately 88% of unamortized costs of released films (excluding amounts allocated to acquired film libraries) at March 31, 2003 will be amortized within the next three years. Approximately ¥89,520 million ($746 million) of released film costs are expected to be amortized during the next twelve months. As of March 31, 2003, unamortized acquired film libraries of approximately ¥20,591 million ($172 million) remain to be amortized on a straight-line basis over an average of the remaining life of 7 years. Approximately ¥92,204 million ($768 million) of accrued participation liabilities included in accounts payable, other and accrued expenses are expected to be paid during the next twelve months.

6. Investments in and transactions with affiliated companies

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, all investments in limited partnerships and general partnerships are also accounted for under the equity method. Such investments include but are not limited to Sony's interest in Sony Ericsson Mobile Communications, AB (50%), American Video Glass Company (50%), ST Liquid Crystal Display Corporation (50%), BE-ST Bellevuestrasse Development GmbH & Co. First Real Estate KG, Berlin (50%), InterTrust Technologies Corporation (49.5%) and Crosswave Communications Inc. (23.9%).

Summarized combined financial information that is based on information provided by equity investees is shown below:

	Yen in millions		Dollars in millions
	March 31		March 31,
	2002	2003	2003
Current assets	¥379,747	¥349,414	$2,912
Property, plant and equipment	253,370	242,303	2,019
Other assets	244,169	43,272	361
Total assets	¥877,286	¥634,989	$5,292
Current liabilities	¥468,880	¥374,414	$3,120
Long-term liabilities	176,117	129,497	1,079
Stockholders' equity	232,289	131,078	1,093
Total liabilities and stockholders' equity	¥877,286	¥634,989	$5,292
Number of companies at end of year	98	84	

	Yen in millions			Dollars in millions
	Year ended March 31			Year ended March 31,
	2001	2002	2003	2003
Sales and revenue	¥418,213	¥659,589	¥785,697	$6,547
Gross profit	134,388	161,655	140,078	1,167
Net income (loss)	(65,229)	(68,608)	(81,422)	(679)

During the year ended March 31, 2001, ¥25,026 million of equity in net losses of Loews Cineplex Entertainment Corporation ("Loews") was recorded, principally due to continued losses as well as the impairment loss recorded against the entire carrying value of Sony's investment in Loews. Thereafter, no additional equity losses were recorded. In March 2002, Loews completed its reorganization in the United States of America under Chapter 11 of the Federal Bankruptcy Code, and in Canada under the Companies-Creditors Agreement Act. As a result, Sony is no longer a shareholder in Loews. Therefore, the financial position of Loews is not included in the above summarized combined balance sheets.

Sony Ericsson Mobile Communications, AB, a joint venture focused on mobile phone handsets, was established in October 2001 and is included in affiliated companies accounted for under the equity method.

In April 2002, Sony completed the sale of its equity interest in the Telemundo Group which resulted in cash proceeds of ¥88,373 million ($736 million) and a gain of ¥66,502 million ($554 million). In addition, Sony has deferred an approximate $50 million gain on the sale relating to certain indemnifications provided by Sony to the acquirer for events occurred prior to the sale. Under the indemnification agreement, Sony has agreed to refund up to $50 million of the purchase price to the third party acquirer if certain events occurred prior to the sale of the Telemundo Group result in a decline in the value of the Telemundo Group. These indemnifications expired in April 2003 with no amounts being refunded by Sony. Accordingly, the remaining $50 million gain was recognized in April 2003.

In June 2002, Sony completed the partial sale of its equity investment in the Columbia House Company ("CHC"), a 50-50 joint venture between AOL Time Warner Inc., and Sony, to Blackstone Capital Partners III LP ("Blackstone"), an affiliate of The Blackstone Group, a private investment bank. The Chairman of The Blackstone Group was also a director of Sony until June 2002. Under the terms of the sale agreement, Sony received cash proceeds of ¥17,839 million ($149 million) and a subordinated note receivable from Columbia House Holdings, Inc., a majority owned subsidiary of Blackstone, with a face amount of ¥7,827 million ($65 million). The sale resulted in a gain of ¥1,324 million ($11 million). Sony still has a 7.5% ownership interest in CHC, which is no longer accounted for under the equity method but is now accounted for as a cost method investment.

In September 2002, Sony completed the sale of its equity interest in Sony Tektronix Inc. which resulted in a gain of ¥3,090 million ($26 million).

In January 2003, Sony acquired a 49.5% interest in InterTrust Technologies Corporation for ¥23,076 million ($192 million) and it is included in affiliated companies accounted for under the equity method.

Affiliated companies accounted for under the equity method with an aggregate carrying amount of ¥7,623 million and ¥6,342 million ($53 million) at March 31, 2002 and 2003, were quoted on established markets at an aggregate value of ¥17,991 million and ¥6,894 million ($57 million), respectively.

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

	Yen in millions		Dollars in millions
	March 31		March 31,
	2002	2003	2003
Accounts receivable, trade	¥46,296	¥35,132	$293
Advances	¥25,907	¥13,090	$109
Accounts payable, trade	¥5,865	¥9,964	$83

	Yen in millions			Dollars in millions
	Year ended March 31			Year ended March 31,
	2001	2002	2003	2003
Sales	¥31,239	¥72,824	¥161,983	$1,350
Purchases	¥75,379	¥69,254	¥102,735	$856

Dividends from affiliated companies accounted for under the equity method for the years ended March 31, 2001, 2002 and 2003 were ¥2,764 million, ¥3,065 million and ¥2,002 million ($17 million), respectively.

7. Accounts receivable securitization program

In the United States of America, Sony set up an accounts receivable securitization program whereby Sony can sell interests in up to $900 million of eligible trade accounts receivable, as defined. Through this program, Sony can securitize and sell a percentage of undivided interest in that pool of receivables to several multi-seller commercial paper conduits owned and operated by banks. Sony can sell receivables in which the agreed upon original due dates are no more than 90 days after the invoice dates. The value assigned to undivided interests retained in securitized trade receivables is based on the relative fair values of the interest retained and sold in the securitization. Sony has assumed that the fair value of the retained interest is equivalent to its carrying value as the receivables are short-term in nature, high quality and have appropriate reserves for bad debt incidence. The initial sale of the receivables was in October 2001 and the maximum amount funded was ¥109,060 million for the fiscal year ended March 31, 2002. There was no sale of receivables for the fiscal year ended March 31, 2003. There were no outstanding amounts due at March 31, 2002 and 2003 relating to the existing undivided interests in the pool of receivables that had been sold. Losses from these transactions were insignificant.

8. Marketable securities and securities investments and other

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

	Yen in millions							
	March 31, 2002				March 31, 2003			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:								
Debt securities	¥1,150,630	¥41,241	¥15,930	¥1,175,941	¥1,550,290	¥37,237	¥8,430	¥1,579,097
Equity securities	58,374	30,371	7,829	80,916	63,786	8,222	4,330	67,678
Held-to-maturity securities	19,835	353	9	20,179	18,153	672	1	18,824
Total	¥1,228,839	¥71,965	¥23,768	¥1,277,036	¥1,632,229	¥46,131	¥12,761	¥1,665,599

	Dollars in millions			
	March 31, 2003			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:				
Debt securities	$12,919	$310	$70	$13,159
Equity securities	532	68	36	564
Held-to-maturity securities	151	6	0	157
Total	$13,602	$384	$106	$13,880

At March 31, 2003, debt securities classified as available-for-sale securities and held-to-maturity securities mainly consist of Japanese government and municipal bonds and corporate debt securities due within 1 to 10 years.

Proceeds from sales of available-for-sale securities were ¥91,424 million, ¥193,048 million and ¥215,554 million ($1,796 million) for the years ended March 31, 2001, 2002 and 2003, respectively. On those sales, gross realized gains computed on the average cost basis were ¥5,291 million, ¥6,397 million and ¥3,570 million ($30 million) and gross realized losses were ¥416 million, ¥3,803 million and ¥3,125 million ($26 million), respectively.

In March 2001, Sony Corporation and consolidated subsidiaries contributed certain marketable equity securities, not including those of its subsidiaries and affiliated companies, to an employee retirement benefit trust, with no cash proceeds thereon. The fair value of these securities at the time of contribution was ¥14,316 million.

Marketable securities as of March 31, 2002 and 2003 included short-term investments in money market funds of ¥124,762 million and ¥123,964 million ($1,033 million), respectively.

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, 2002 and 2003, which were valued at the lower of cost or fair value, were ¥82,490 million and ¥69,596 million ($580 million), respectively.

The net change in the unrealized gains or losses on trading securities that has been included in earnings during the years ended March 31, 2001, 2002 and 2003 was insignificant.

Securities investments and other as of March 31, 2002 and 2003 also included separate account assets (Note 11) in the life insurance business, which were carried at fair value. Although the separate account assets consist primarily of debt and equity securities, they are excluded from the above table due to the nature of the assets. Proceeds from sales of available-for-sale securities and gross realized gains or losses described above also exclude the amounts related to the separate account assets. Separate account assets at March 31, 2002 and 2003 were ¥106,150 million and ¥118,190 million ($985 million), respectively.

9. Leased assets

Sony leases certain communication and commercial equipment, plant, office space, warehouses, employees' residential facilities and other assets.

An analysis of leased assets under capital leases is as follows:

	Yen in millions		Dollars in millions
	March 31		March 31,
Class of property	2002	2003	2003
Land	¥1,983	¥1,829	$15
Buildings	15,448	15,937	133
Machinery, equipment and others	35,255	33,733	281
Accumulated depreciation	(20,830)	(21,236)	(177)
	¥31,856	¥30,263	$252

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, 2003:

	Yen in millions	Dollars in millions
Year ending March 31:		
2004	¥15,545	$129
2005	11,851	99
2006	7,788	65
2007	4,561	38
2008	2,410	20
Later years	7,775	65
Total minimum lease payments	49,930	416
Less - Amount representing interest	10,031	84
Present value of net minimum lease payments	39,899	332
Less - Current obligations	11,313	94
Long-term capital lease obligations	¥28,586	$238

Minimum lease payments have not been reduced by minimum sublease income of ¥14,583 million ($122 million) due in the future under noncancelable subleases.

Minimum rentals under operating leases for the years ended March 31, 2001, 2002 and 2003 were ¥93,727 million, ¥104,497 million and ¥94,364 million ($786 million), respectively. Sublease rentals under operating leases for the years ended March 31, 2001, 2002 and 2003 were ¥5,078 million, ¥7,006 million and ¥6,240 million ($52 million), respectively. The total minimum rentals to be received in the future under noncancelable subleases as of March 31, 2003 are ¥36,692 million ($306 million). The minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at March 31, 2003 are as follows:

	Yen in millions	Dollars in millions
Year ending March 31:		
2004	¥51,786	$432
2005	42,074	351
2006	35,879	299
2007	26,187	218
2008	21,118	176
Later years	112,467	937
Total minimum future rentals	¥289,511	$2,413

10. Goodwill and intangible assets

As discussed in Note 2, Sony elected early adoption of FAS No. 142, retroactive to April 1, 2001. Upon the adoption of this statement, Sony reassessed the useful lives of its intangible assets and determined that certain intangible assets including trademarks have indefinite lives and, as a result, will no longer be amortized. At April 1, 2001, intangible assets having an indefinite life totaled ¥76,029 million. Sony performed the transitional impairment test for these intangible assets and determined that the fair value of these assets was in excess of the current carrying amount. Accordingly, no impairment loss was recorded for intangible assets upon the adoption of FAS No. 142.

Intangible assets acquired during the year ended March 31, 2003 totaled ¥54,404 million ($453 million), which are subject to amortization and primarily consist of music catalogs of ¥24,058 million ($200 million), acquired patent rights of ¥13,114 million ($109 million) and software to be sold, leased or otherwise marketed of ¥6,412 million ($53 million). The weighted average amortization period for music catalogs, acquired patent rights and software to be sold, leased or otherwise marketed is 37 years, 8 years and 3 years, respectively.

Intangible assets subject to amortization comprise the following:

	Yen in millions				Dollars in millions	
	March 31				March 31, 2003	
	2002		2003			
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Artist contracts	¥97,390	¥(72,890)	¥89,078	¥(69,281)	$742	$(577)
Music catalog	103,732	(46,137)	120,242	(48,447)	1,002	(404)
Acquired patent rights	36,962	(13,678)	46,758	(18,024)	390	(150)
Software to be sold, leased or otherwise marketed	11,608	(3,149)	17,848	(7,267)	149	(61)
PlayStation format	11,873	(5,344)	11,873	(7,719)	99	(64)
Other	27,137	(14,047)	45,257	(20,499)	377	(171)
Total	¥288,702	¥(155,245)	¥331,056	¥(171,237)	$2,759	$(1,427)

The aggregate amortization expense for intangible assets for the years ended March 31, 2002 and 2003 was ¥25,554 million and ¥27,871 million ($232 million), respectively. The estimated aggregate amortization expense for intangible assets for the next five years is as follows:

	Yen in millions	Dollars in millions
Year ending March 31,		
2004	¥26,799	$223
2005	22,342	186
2006	14,683	122
2007	13,620	114
2008	12,635	105

Total carrying amount of intangible assets having an indefinite life comprise the following:

	Yen in millions		Dollars in millions
	March 31		March 31, 2003
	2002	2003	
Trademarks	¥57,195	¥57,410	$478
Distribution agreement	18,834	18,834	157
	¥76,029	¥76,244	$635

In addition to the amortizable and indefinite-lived intangible assets shown in the above tables, intangible assets at March 31, 2002 and 2003 also include unrecognized prior service costs totaling ¥23,602 million and ¥22,561 million ($188 million), respectively, which were recorded under FAS No. 87, “Employer’s Accounting for Pensions” as discussed in Note 15.

Sony also performed the transitional impairment test for existing goodwill as required by FAS No. 142. Sony determined that the fair value of each reporting unit which includes goodwill was in excess of its carrying amount. Accordingly, no impairment loss was recorded for goodwill upon the adoption of FAS No. 142.

The changes in the carrying amount of goodwill by operating segment for the years ended March 31, 2002 and 2003 are as follows:

	Yen in millions					
	Electronics	Game	Music	Pictures	Other	Total
Balance at March 31, 2001	¥54,895	¥115,009	¥52,017	¥83,238	–	¥305,159
Goodwill acquired during year	3,674	–	3,184	–	¥1,439	8,297
Other *	(1,716)	(3,904)	3,399	6,154	(149)	3,784
Balance at March 31, 2002	56,853	111,105	58,600	89,392	1,290	317,240
Goodwill acquired during year	5,380	108	1,837	–	140	7,465
Reduction under FAS No. 109	(9,054)	–	(17,768)	(6,703)	–	(33,525)
Other *	–	(607)	3,352	(3,992)	194	(1,053)
Balance at March 31, 2003	¥53,179	¥110,606	¥46,021	¥78,697	¥1,624	¥290,127

	Dollars in millions					
	Electronics	Game	Music	Pictures	Other	Total
Balance at March 31, 2002	$473	$926	$489	$745	$11	$2,644
Goodwill acquired during year	45	1	15	–	1	62
Reduction under FAS No. 109	(75)	–	(148)	(56)	–	(279)
Other *	–	(5)	27	(33)	2	(9)
Balance at March 31, 2003	$443	$922	$383	$656	$14	$2,418

*Other primarily consists of translation adjustments and reclassification to/from other accounts.

During the year ended March 31, 2003, Sony realized tax benefits from operating loss carryforwards that were acquired in connection with Sony's acquisition of companies within the Electronics, Music and Pictures businesses. Under FAS No. 109, "Accounting for Income Taxes", the reversal of the valuation allowance upon the realization of tax benefits from the operating loss carryforwards was applied to reduce a portion of the goodwill relating to the acquisition of these companies.

Amounts previously reported for income before cumulative effect of accounting changes and net income and basic and diluted earnings per share (EPS) for the year ended March 31, 2001 are reconciled to amounts adjusted to exclude the amortization expense related to goodwill and indefinite-lived intangible assets as follows:

	Yen in millions Year ended March 31, 2001
Reported income before cumulative effect of accounting changes	¥121,227
Add back:	
Goodwill amortization	14,968
Intangible assets amortization	2,348
Adjusted income before cumulative effect of accounting changes	¥138,543
Reported net income	¥16,754
Add back:	
Goodwill amortization	14,968
Intangible assets amortization	2,348
Adjusted net income	¥34,070

	Yen Year ended March 31, 2001
Per share data:	
Income before cumulative effect of accounting changes -	
Reported basic EPS	¥132.64
Add back:	
Goodwill amortization	16.38
Intangible assets amortization	2.57
Adjusted basic EPS	¥151.59
Reported diluted EPS	¥124.36
Add back:	
Goodwill amortization	15.05
Intangible assets amortization	2.36
Adjusted diluted EPS	¥141.77
Net income -	
Reported basic EPS	¥18.33
Add back:	
Goodwill amortization	16.38
Intangible assets amortization	2.57
Adjusted basic EPS	¥37.28
Reported diluted EPS	¥19.28
Add back:	
Goodwill amortization	15.05
Intangible assets amortization	2.36
Adjusted diluted EPS	¥36.69

11. Insurance-related accounts

Sony's life and non-life insurance 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 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 insurance policies, and that future policy benefits 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 such items in accordance with U.S. GAAP.

The amounts of statutory net equity of the subsidiaries as of March 31, 2002 and 2003 were ¥101,989 million and ¥100,441 million ($837 million), respectively.

(1) Insurance policies:

Life insurance policies that the life insurance subsidiary writes, 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 years ended March 31, 2001, 2002 and 2003 were ¥393,432 million, ¥430,019 million and ¥450,363 million ($3,753 million), respectively. Property and casualty insurance policies that the non-life insurance subsidiary writes are primarily automotive insurance contracts which are categorized as short-duration contracts. The non-life insurance revenues for the years ended March 31, 2001, 2002 and 2003 were ¥4,545 million, ¥13,164 million and ¥21,269 million ($177 million), respectively.

(2) Deferred insurance acquisition costs:

Insurance acquisition costs, such as commission expenses, medical examination and inspection report fees, advertising costs, etc., 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 are amortized mainly over the premium-paying period of the related insurance policies using assumptions consistent with those used in computing policy reserves. Amortization charged to income for the years ended March 31, 2001, 2002 and 2003 amounted to ¥38,886 million, ¥31,000 million and ¥44,578 million ($371 million), 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 are computed by the net level premium method based upon estimates as to future investment yield, mortality and withdrawals. Future policy benefits are computed using interest rates ranging from approximately 1.00% to 5.50%. Mortality, morbidity and withdrawal assumptions for all policies are based on either the life insurance subsidiary's own experience or various actuarial tables. At March 31, 2002 and 2003, future insurance policy benefits amounted to ¥1,513,917 million and ¥1,734,673 million ($14,456 million), respectively.

(4) Separate account assets:

Separate account assets are funds on which investment income and gains or losses accrue directly to certain policyholders. Separate account assets are legally segregated. They are not subject to the claims that may arise out of any other business of a life insurance subsidiary. Separate account assets, which consist primarily of debt and equity securities, are carried at fair value and included in securities investments and other (Note 8). The related liabilities are recognized as separate account liabilities and included in future insurance policy benefits and other. Fees earned for administrative and contract-holder services performed for the separate accounts are recognized as financial service revenue.

12. Short-term borrowings and long-term debt

Short-term borrowings comprise the following:

	Yen in millions		Dollars in millions
	March 31		March 31,
	2002	2003	2003
Unsecured commercial paper:			
with weighted-average interest rate of 0.39%	¥ 51,584		
with weighted-average interest rate of 0.13%		¥ 52,820	$ 440
Unsecured loans, principally from banks:			
with weighted-average interest rate of 4.78%	51,516		
with weighted-average interest rate of 3.55%		36,840	307
Secured call money:			
with weighted-average interest rate of 0.01%	—	34,700	289
Secured bills sold and other:			
with weighted-average interest rate of 0.002%	10,177	—	—
	¥113,277	¥124,360	$1,036

At March 31, 2003, securities investments with a book value of \34,700 million ($289 million) were pledged as collateral for call money issued by a Japanese bank subsidiary.

Long-term debt comprises the following:

	Yen in millions		Dollars in millions
	March 31		March 31,
	2002	2003	2003
Unsecured loans, representing obligations principally to banks:			
Due 2002 to 2018 with interest ranging from 1.46% to 5.67% per annum	¥ 45,055		
Due 2003 to 2018 with interest ranging from 1.26% to 5.66% per annum		¥ 43,260	$ 361
Secured loans, representing obligations principally to banks:			
Due 2002 to 2009 with interest ranging from 6.75% to 7.25% per annum	2,593	—	—
Medium-term notes of consolidated subsidiaries:			
Due 2002 to 2006 with interest ranging from 1.88% to 4.95% per annum	89,981		
Due 2003 to 2006 with interest ranging from 1.28% to 4.95% per annum		78,099	651
Unsecured 1.5% convertible bonds, due 2002	218	—	—
Unsecured 1.4% convertible bonds, due 2003, convertible currently at ¥2,707.8 ($23) for one common share, redeemable before due date	8,159	8,058	67
Unsecured 1.4% convertible bonds, due 2005, convertible currently at ¥3,995.5 ($33) for one common share, redeemable before due date	287,809	287,762	2,398
Unsecured 0.03% bonds, due 2004 with detachable warrants, net of unamortized discount	3,857	3,919	33
Unsecured 0.1% bonds, due 2005 with detachable warrants, net of unamortized discount	3,810	3,867	32
Unsecured 1.55% bonds, due 2006 with detachable warrants	12,000	12,000	100
Unsecured 0.9% bonds, due 2007 with detachable warrants	7,300	7,300	61
Unsecured 0.9% bonds, due 2007 with detachable warrants of subsidiary tracking stock	150	150	1
Unsecured 1.42% bonds, due 2005, net of unamortized discount	99,986	99,990	833
Unsecured 0.64% bonds, due 2006, net of unamortized discount	99,991	99,992	833
Unsecured 2.04% bonds, due 2010, net of unamortized discount	49,975	49,978	417
Unsecured 1.52% bonds, due 2011, net of unamortized discount	49,995	49,996	417
Unsecured 6.125% U.S. dollar notes, due 2003, net of unamortized discount	199,800	—	—
Unsecured 2.5% bonds of a consolidated subsidiary, due 2003	15,035	—	—
Unsecured 2.0% bonds, due 2005	15,000	15,000	125
Unsecured 1.99% bonds, due 2007	15,000	15,000	125
Unsecured 2.35% bonds, due 2010	4,900	4,900	41
Capital lease obligations:			
Due 2002 to 2014 with interest ranging from 2.15% to 10.00% per annum	47,250		
Due 2003 to 2014 with interest ranging from 2.15% to 17.29% per annum		39,899	332
Guarantee deposits received	21,539	22,654	189
	1,079,403	841,824	7,016
Less – Portion due within one year	240,786	34,385	287
	¥ 838,617	¥807,439	$6,729

There are no significant adverse debt covenants or cross-default provisions relating to Sony's borrowings.

In accordance with the requirements of FAS No. 133, the hedged portion of Sony's fixed-rate debt is reflected in the consolidated balance sheet at fair value, which reflects any adjustment in the value attributable to movements in related market interest and foreign exchange rates.

A summary of the exercise rights of the detachable warrants as of March 31, 2003 is as follows:

Issued on	Exercisable during	Exercise price Yen	Exercise price Dollars	Number of shares per warrant	Status of exercise
August 17, 1998	September 1, 1999 through August 16, 2004	¥ 6,264	$ 52	319 shares of common stock of Sony Corporation	230 warrants exercised; 1,770 warrants outstanding
August 23, 1999	September 1, 2000 through August 22, 2005	7,167	60	279 shares of common stock of Sony Corporation	2,000 warrants outstanding
October 19, 2000	November 1, 2001 through October 18, 2006	12,457	104	100 shares of common stock of Sony Corporation	9,600 warrants outstanding
December 21, 2001	January 6, 2003 through December 20, 2007	6,039	50	100 shares of common stock of Sony Corporation	11,534 warrants outstanding
December 21, 2001	June 20, 2002 through June 20, 2007	3,300	28	75 shares of subsidiary tracking stock	600 warrants outstanding

Aggregate amounts of annual maturities of long-term debt during the next five years are as follows:

Year ending March 31	Yen in millions	Dollars in millions
2004	¥ 34,385	$ 287
2005	313,905	2,616
2006	158,304	1,319
2007	173,866	1,449
2008	25,157	210

At March 31, 2003, Sony had unused committed lines of credit amounting to ¥930,629 million ($7,755 million) and can generally borrow up to 90 days from the banks with whom Sony has committed line contracts. Furthermore, Sony has Commercial Paper Programs, the size of which was ¥2,060,000 million ($17,167 million). At March 31, 2003, the total outstanding balance of commercial paper was ¥52,820 million ($440 million). Under those programs, Sony can issue commercial paper for the period generally not in excess of 270 days up to the size of the programs. In addition, Sony has Medium Term Notes programs, the size of which was ¥1,200,000 million ($10,000 million). At March 31, 2003, the total outstanding balance of Medium Term Notes was ¥78,099 million ($651 million).

The basic agreements with certain banks in Japan include provisions that collateral (including sums on deposit with such banks) or guarantors will be furnished upon the banks' request and that any collateral furnished, pursuant to such agreements or otherwise, will be applicable to all present or future indebtedness to such banks.

13. Deposits from customers in the banking business

All deposits from customers in the banking business are interest bearing deposits, and are owned by a Japanese bank subsidiary which was established as an Online Internet bank for individuals. At March 31, 2002 and 2003, the balance of time deposits issued in amounts of ¥10 million ($83 thousand) or more was ¥24,045 million and ¥39,620 million ($330 million), respectively.

At March 31, 2003, aggregate amounts of annual maturities of time deposits with a remaining term of more than one year include ¥9,802 million ($82 million) and ¥21,010 million ($175 million) for the years ending March 31, 2005 and 2006, respectively. There are no deposits having a maturity date after March 31, 2006.

14. Financial instruments

(1) Derivative instruments and hedging activities:

Sony has certain financial instruments including financial assets and liabilities incurred 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 and currency swap agreements. Sony does not use derivative financial instruments for trading or speculative purposes. Foreign exchange forward contracts and 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. Interest rate and currency 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 resulting from adverse fluctuations in interest rates and/or foreign currency exchange rates.

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. Although Sony may be exposed to losses in the event of nonperformance by counterparties or unfavorable interest and currency rate movements, it does not anticipate significant losses due to the nature of Sony's counterparties or the hedging arrangements.

Derivative financial instruments held by Sony are classified and accounted for as described below pursuant to FAS No. 133.

Fair value hedges

The derivatives designated as fair value hedges include interest rate and currency swap agreements.

Both the derivatives designated as fair value hedge and hedged items are reflected at fair value in the consolidated balance sheet. Changes in the fair value of the derivatives designated as fair value hedge as well as offsetting changes in the carrying value of the underlying hedged items are recognized in income currently.

The amount of ineffectiveness of these fair value hedges, that was reflected in earnings, was not material for the years ended March 31, 2002 and 2003. In addition, there were no amounts excluded from the assessment of hedge effectiveness of fair value hedges.

Cash flow hedges

The derivatives designated as cash flow hedges include foreign exchange forward contracts, foreign currency option contracts and interest rate and currency swap agreements.

Changes in the fair value of derivatives designated as cash flow hedges are initially recorded in other comprehensive income and reclassified into earnings when the hedged transaction affects earnings.

For the years ended March 31, 2002 and 2003, these cash flow hedges were fully effective. In addition, there were no amounts excluded from the assessment of hedge effectiveness of cash flow hedges. At March 31, 2003, amounts related to derivatives qualifying as cash flow hedges amounted to a reduction of equity of ¥4,793 million ($40 million), of which ¥2,213 million ($18 million) is expected to be reclassified into earnings within the next twelve months. For the year ended March 31, 2003, there were no forecasted transactions that failed to occur which resulted in the discontinuance of cash flow hedges.

Derivatives not designated as hedges

The derivatives not designated as hedges under FAS No. 133 include foreign exchange forward contracts, foreign currency option contracts, interest rate and currency swap agreements, convertible rights included in convertible bonds and other.

Changes in the fair value of derivatives not designated as hedges are recognized in income currently.

A description of the purpose and classification of the derivative financial instruments held by Sony follows:

Foreign exchange forward contracts and foreign currency option contracts

Sony enters into foreign exchange forward contracts and purchased and written foreign currency option contracts primarily to fix the cash flows from intercompany accounts receivable and payable and forecasted transactions denominated in functional currencies (Japanese yen, U.S. dollars and euros) of Sony's major operating units. 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.

Since July 1, 2002, certain foreign currency option contracts have been designated as hedges of forecasted intercompany transactions in line with changes of hedging scheme regarding Sony's derivative activities, under which such derivative transactions meet the requirements for hedge accounting, including correlation, as stipulated under FAS No. 133 and 138.

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 in accordance with FAS No. 133.

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 expense.

These derivatives generally mature or expire within five months after the balance sheet date.

Interest rate and currency swap agreements

Sony enters into interest rate and currency swap agreements, which are used for reducing the risk arising from the changes in the fair value of fixed rate debt and available-for-sale debt securities. For example, Sony enters into interest rate and currency swap agreements, which effectively swap foreign currency denominated fixed rate debt for functional currency denominated variable rate debt. These derivatives are considered to be a hedge against changes in the fair value of Sony's foreign denominated fixed-rate obligations. Accordingly, these derivatives have been designated as fair value hedges in accordance with FAS No. 133.

Sony also enters into interest rate and currency swap agreements that are used for reducing the risk arising from the changes in anticipated cash flow of variable rate debt and foreign currency denominated debt. For example, Sony enters into interest rate and currency swap agreements, which effectively swap foreign currency denominated variable rate debt for functional currency denominated fixed rate debt. These derivatives are considered to be a hedge against changes in the anticipated cash flow of Sony's foreign denominated variable rate obligations. Accordingly, these derivatives have been designated as cash flow hedges in accordance with FAS No. 133.

Any other interest rate and currency swap agreements that do not qualify as hedges, which are used for reducing the risk arising from changes of variable rate and foreign currency dominated intercompany debt, are marked-to-market with changes in value recognized in other income and expense.

Embedded derivatives

The embedded derivatives that must be separated from the host contracts and accounted for as derivative instruments under FAS No. 133 are recognized in income currently. For example, the convertible rights included in convertible bonds held by Sony's life insurance subsidiary, which are classified as available-for-sale debt securities, are considered embedded derivatives and are marked-to-market with changes in value recognized in financial service revenue.

(2) Fair value of financial instruments:

The estimated fair values of Sony's financial instruments are summarized as follows. The following summary excludes cash and cash equivalents, time deposits, notes and accounts receivable, trade, short-term borrowings, notes and accounts payable, trade and deposits from customers in the banking business that are carried at amounts which approximate fair value. The summary also excludes debt and equity securities which are disclosed in Note 8.

	Yen in millions					
	March 31					
	2002			2003		
	Notional amount	Carrying amount	Estimated fair value	Notional amount	Carrying amount	Estimated fair value
Long-term debt including the current portion	—	¥(1,079,403)	¥(1,323,772)	—	¥(841,824)	¥(924,665)
Foreign exchange forward contracts	¥1,042,836	(37,243)	(37,243)	¥1,139,330	(11,753)	(11,753)
Currency option contracts purchased	357,052	1,267	1,267	484,456	2,868	2,868
Currency option contracts written	423,826	(2,933)	(2,933)	238,760	(1,975)	(1,975)
Interest rate swap agreements	256,501	(6,699)	(6,699)	181,443	(8,446)	(8,446)
Interest rate and currency swap agreements	228,433	5,550	5,550	24,588	(1,330)	(1,330)
Embedded derivatives	342,846	3,740	3,740	446,463	1,755	1,755

	Dollars in millions		
	March 31, 2003		
	Notional amount	Carrying amount	Estimated fair value
Long-term debt including the current portion	—	$(7,016)	$(7,706)
Foreign exchange forward contracts	$9,494	(98)	(98)
Currency option contracts purchased	4,037	24	24
Currency option contracts written	1,990	(16)	(16)
Interest rate swap agreements	1,512	(70)	(70)
Interest rate and currency swap agreements	205	(11)	(11)
Embedded derivatives	3,721	15	15

The following are explanatory notes regarding the estimation method of fair values in the above table.

Long-term debt including the current portion

The fair values of long-term debt, including the current portion, were estimated based on either the market value or the discounted amounts of future cash flows using Sony's current incremental debt rates for similar liabilities.

Derivative financial instruments

The fair values of foreign exchange forward contracts and foreign currency option contracts were estimated based on market quotations. The fair values of interest rate and currency swap agreements were estimated based on the discounted amounts of future net cash flows. The fair values of convertible rights, which were a majority of embedded derivatives, were estimated based on the market price of stock which will be acquired by the exercise.

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. For employees voluntarily retiring, under normal circumstances, minimum payment is an amount based on current rates of pay and lengths of service. In calculating the minimum payment for employees involuntarily retiring, including employees retiring due to meeting mandatory retirement age requirements, Sony may grant additional benefits. With respect to directors' and statutory auditors' resignations, lump-sum severance indemnities are calculated using a similar formula and are normally paid subject to the approval of Sony's shareholders.

Sony Corporation and most of its subsidiaries in Japan have contributory funded defined benefit pension plans, which are pursuant to the Japanese Welfare Pension Insurance Law. The contributory pension plans cover a portion of the governmental welfare pension program, under which the contributions are made by the companies and their employees, and an additional portion representing the substituted noncontributory pension plans. Under the contributory pension plans, the defined benefits representing the noncontributory portion of the plans, in general, cover 60% of the indemnities under the existing regulations to employees. The remaining indemnities are covered by severance payments by the companies. The pension benefits are determined based on years of service and the compensation amounts, as stipulated in the aforementioned regulations, are payable at the option of the retiring employee in a lump-sum amount or on a monthly pension. Contributions to the plans are funded through several financial institutions in accordance with the applicable laws and regulations.

Many of foreign subsidiaries have defined benefit pension plans or severance indemnity plans which substantially cover all of their employees, under which the 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.

The components of net pension and severance costs, which exclude employee termination benefits paid in restructuring activities, for the years ended March 31, 2001, 2002 and 2003 were as follows:

Japanese plans:

	Yen in millions			Dollars in millions
	Year ended March 31			Year ended March 31,
	2001	2002	2003	2003
Service cost	¥46,400	¥48,609	¥47,884	$399
Interest cost	19,040	21,232	20,857	174
Expected return on plan assets	(26,216)	(26,286)	(25,726)	(214)
Amortization of net transition asset	(375)	(375)	(375)	(3)
Recognized actuarial loss	7,447	12,639	20,655	172
Amortization of prior service cost	783	611	(939)	(8)
Gains on curtailments and settlements	—	—	(1,380)	(12)
Net periodic benefit cost	¥47,079	¥56,430	¥60,976	$508

Foreign plans:

	Yen in millions			Dollars in millions
	Year ended March 31			Year ended March 31,
	2001	2002	2003	2003
Service cost	¥14,899	¥15,161	¥13,954	$116
Interest cost	6,805	7,944	8,478	71
Expected return on plan assets	(6,492)	(7,416)	(7,319)	(61)
Amortization of net transition asset	(36)	(87)	(47)	(0)
Recognized actuarial (gain) loss	555	(351)	1,452	12
Amortization of prior service cost	(341)	848	(208)	(2)
Gains on curtailments and settlements	—	—	(460)	(4)
Net periodic benefit cost	¥15,390	¥16,099	¥15,850	$132

The changes in benefit obligation and plan assets, funded status and composition of amounts recognized in the consolidated balance sheets were as follows:

	Japanese plans			Foreign plans		
	Yen in millions		Dollars in millions	Yen in millions		Dollars in millions
	March 31		March 31,	March 31		March 31,
	2002	2003	2003	2002	2003	2003
Change in benefit obligation:						
Benefit obligation at beginning of year	¥801,322	¥869,142	$7,243	¥128,162	¥143,210	$1,193
Service cost	48,609	47,884	399	15,161	13,954	116
Interest cost	21,232	20,857	174	7,944	8,478	71
Plan participants' contributions	5,102	5,148	43	740	706	6
Amendments	(26,085)	—	—	(852)	(23)	(0)
Actuarial (gain) loss	47,877	114,665	955	(3,404)	9,019	75
Foreign currency exchange rate changes	—	—	—	4,415	(9,551)	(80)
Curtailments and settlements	(4,103)	(1,010)	(8)	—	(1,092)	(9)
Benefits paid	(24,812)	(24,926)	(208)	(8,956)	(7,121)	(59)
Benefit obligation at end of year	869,142	1,031,760	8,598	143,210	157,580	1,313
Change in plan assets:						
Fair value of plan assets at beginning of year	460,167	456,678	3,806	86,351	82,602	688
Actual return (loss) on plan assets	(29,094)	(66,682)	(556)	(6,215)	(10,466)	(87)
Foreign currency exchange rate changes	—	—	—	5,774	(3,287)	(28)
Employer contribution	31,936	21,296	177	4,694	5,235	44
Plan participants' contributions	5,102	5,148	43	740	706	6
Benefits paid	(11,433)	(11,192)	(93)	(8,742)	(6,853)	(57)
Fair value of plan assets at end of year	¥456,678	¥405,248	$3,377	¥82,602	¥67,937	$566

	Japanese plans			Foreign plans		
	Yen in millions		Dollars in millions	Yen in millions		Dollars in millions
	March 31		March 31,	March 31		March 31,
	2002	2003	2003	2002	2003	2003
Funded status	¥412,464	¥626,512	$5,221	¥60,608	¥89,643	$747
Unrecognized actuarial loss	(325,637)	(513,012)	(4,275)	(26,040)	(38,702)	(322)
Unrecognized net transition asset	1,229	854	7	(97)	(180)	(2)
Unrecognized prior service cost	22,518	21,579	180	1,668	1,283	11
Net amount recognized	¥110,574	¥135,933	$1,133	¥36,139	¥52,044	$434
Amounts recognized in the consolidated balance sheet consist of:						
Accrued pension and severance costs, including current portion	¥258,597	¥444,636	$3,705	¥36,139	¥72,048	$600
Intangibles	(23,602)	(22,433)	(187)	—	(128)	(1)
Accumulated other comprehensive income	(124,421)	(286,270)	(2,385)	—	(19,876)	(165)
Net amount recognized	¥110,574	¥135,933	$1,133	¥36,139	¥52,044	$434

Weighted-average assumptions used as of March 31, 2001, 2002 and 2003 were as follows:

Japanese plans:

	March 31		
	2001	2002	2003
Discount rate	2.7%	2.4%	1.9%
Expected return on plan assets	4.0%	4.0%	4.0%
Rate of compensation increase	3.0%	3.0%	3.0%

Foreign plans:

	March 31		
	2001	2002	2003
Discount rate	6.8%	6.6%	6.3%
Expected return on plan assets	7.7%	8.1%	8.3%
Rate of compensation increase	4.6%	4.5%	4.1%

As required under FAS No. 87, “Employers’ Accounting for Pensions”, the assumptions are reviewed in accordance with changes in circumstances.

Under FAS No. 87, Sony has recorded a pension liability to cover the amount of the projected benefit obligation in excess of plan assets, considering unrealized items and the minimum pension liability. The minimum pension liability represents the excess of the accumulated benefit obligation over plan assets and accrued pension and severance costs already recognized before recording the minimum pension liability. A corresponding amount was recognized as an intangible asset to the extent of the unrecognized prior service cost, and the balance was recorded as a component of accumulated other comprehensive income, net of tax.

The accumulated benefit obligations and the fair value of plan assets for the pension plans which Sony has recognized the minimum pension liability were as follows:

	Japanese plans			Foreign plans		
	Yen in millions		Dollars in millions	Yen in millions		Dollars in millions
	March 31		March 31,	March 31		March 31,
	2002	2003	2003	2002	2003	2003
Accumulated benefit obligations	¥685,357	¥843,463	$7,029	—	¥102,313	$853
Fair value of plan assets	445,499	405,009	3,375	—	63,024	525

16. Stockholders' equity

(1) Subsidiary tracking stock:

On June 20, 2001, Sony Corporation issued shares of subsidiary tracking stock in Japan, the economic value of which is intended to be linked to the economic value of Sony Communication Network Corporation (“SCN”), a directly and indirectly wholly owned subsidiary of Sony Corporation which is engaged in Internet-related services. The subsidiary tracking stock holders have no direct rights in the equity or assets of SCN or the assets of Sony Corporation. Except as summarized below, the shares of subsidiary tracking stock have the same rights and characteristics as those of shares of common stock.

The dividend on the shares of this series of subsidiary tracking stock is payable only when the Board of Directors of SCN has resolved to pay to its common stock holders a dividend in an amount per share of the subsidiary tracking stock equal to the amount of SCN’s dividend per share of its common stock multiplied by the Standard Ratio (as defined in the articles of incorporation), subject to statutory restriction on Sony Corporation’s ability to pay dividends on its shares of capital stock and the maximum dividend amount (as defined in the articles of incorporation). If the amount of dividends paid to the subsidiary tracking stock holders is less than the amount, which should have been paid pursuant to the formula set forth above due to the statutory restriction referred to above or for any other reason, such shortfall will be accumulated and such cumulative amount will be paid to the subsidiary tracking stock holders for subsequent fiscal years. Any such dividend on the subsidiary tracking stock is payable in priority to the payment of dividends to the common stock holders. However, the subsidiary tracking stock holders have no right to participate in the dividends to common stock holders. Furthermore, even if the Board of Directors of SCN does not take a resolution for the payment of dividends to SCN’s common stock holders, Sony Corporation may decide to pay dividends to its common stock holders.

The subsidiary tracking stock holders have the same voting rights as those of the common stock holders and, thus, are entitled to participate and vote at any General Meeting of Shareholders in the same way as the common stock holders. In addition, as each series of subsidiary tracking stock is a separate class of stock different from common stock, if any resolution of the General Meeting of Shareholders would adversely affect the rights of the shareholders of a particular class of subsidiary tracking stock, the shareholders of each class of subsidiary tracking stock will have the right to approve or disapprove such resolution by a special resolution of the meeting of shareholders of that class of subsidiary tracking stock.

In the event of distribution of residual assets to the shareholders of Sony Corporation where, as long as such assets include shares of common stock of SCN, the number of shares of SCN common stock obtained by multiplying the number of shares of the subsidiary tracking stock held by each holder by the Standard Ratio or the net proceeds from the sale of the shares of SCN common stock so to be distributed will be distributed to the holders of the subsidiary tracking stock.

The shares of subsidiary tracking stock may be subject to repurchase and retirement in the same manner and under the same restriction as the shares of common stock. In addition, at any time after the passage of three years from the date of the initial issuance of shares of a series of subsidiary tracking stock, it may retire the entire amount of all outstanding shares of that series of subsidiary tracking stock upon paying to the shareholders thereof an amount equal to the current market price of the subsidiary tracking stock out of Sony Corporation’s retained earnings available for dividend payments. Sony Corporation may also retire the shares of a series of subsidiary tracking stock in their entirety pursuant to the procedures prescribed by the Japanese Commercial Code for the reduction of capital upon payment to the subsidiary tracking stock holders an amount equal to the market value thereof as set forth above.

At any time after the passage of three years from the date of the initial issuance of shares of a series of subsidiary tracking stock, it may convert the entire amount of all outstanding shares of the subsidiary tracking stock into the shares of Sony Corporation’s common stock at the rate of the multiple of 1.1 of the market value (as defined in the articles of incorporation) of shares of the subsidiary tracking stock divided by the market value (as similarly defined) of the shares of Sony Corporation’s common stock.

If any events (as defined in the articles of incorporation) occur, the entire amount of all outstanding shares of the subsidiary tracking stock will be either retired or converted into shares of Sony Corporation’s common stock at the price or rate set forth above.

The number of shares of the subsidiary tracking stock issued and outstanding at March 31, 2003 was 3,072,000. At March 31, 2003, 90,500 shares of the subsidiary tracking stock would be issued upon exercise of warrants and stock acquisition rights outstanding.

(2) Common stock:

Changes in the number of shares of common stock issued and outstanding during the years ended March 31, 2001, 2002 and 2003 have resulted from the following:

	Number of shares
Balance at March 31, 2000	453,639,163
Stock split	453,639,163
Exercise of stock purchase warrants	111,209
Conversion of convertible bonds	12,145,253
Stock issued under exchange offerings	82,346
Balance at March 31, 2001	919,617,134
Exercise of stock purchase warrants	8,301
Conversion of convertible bonds	118,920
Balance at March 31, 2002	919,744,355
Conversion of convertible bonds	138,330
Stock issued under exchange offering	2,502,491
Balance at March 31, 2003	922,385,176

At March 31, 2003, 84,652,963 shares of common stock would be issued upon conversion or exercise of all convertible bonds, warrants and stock acquisition rights outstanding.

On October 1, 2002, Sony Corporation implemented a share exchange as a result of which Aiwa Co., Ltd. become a wholly-owned subsidiary. As a result of this share exchange, Sony Corporation issued 2,502,491 new shares, the minority interest in Aiwa Co., Ltd. was eliminated from the balance sheet, and additional paid-in capital increased ¥15,791 million ($132 million). On December 1, 2002, Sony Corporation absorbed Aiwa Co., Ltd. by merger. The merger had no effect on Sony's consolidated financial statements.

On May 19, 2000, Sony Corporation completed a two-for-one stock split. The number of shares issued was 453,639,163 shares. There was no increase in the common stock account because the new shares were distributed from the portion of previously issued shares accounted for as excess of par value in the common stock account in accordance with the Japanese Commercial Code.

On November 20, 1991, Sony Corporation made a free share distribution of 33,908,621 shares in ratios of one share for each ten shares held for which no accounting entry was required in Japan. Had the distribution been accounted for in the manner adopted by companies in the United States of America, ¥201,078 million would have been transferred from retained earnings to the appropriate capital accounts. This has been the only free distribution of common stock where no accounting entry was required in Japan.

Conversions of convertible bonds into common stock are accounted for in accordance with the provisions of the Japanese Commercial Code by crediting approximately one-half of the conversion proceeds to the common stock account and the remainder to the additional paid-in capital account.

The Ordinary General Meeting of Shareholders held on June 27, 1997 authorized Sony Corporation, pursuant to the Japanese regulations, to acquire and retire up to a total not exceeding 30 million outstanding shares of its common stock with its profit, whenever deemed necessary by the Board of Directors in view of general economic conditions, Sony's business performance and financial condition and other factors.

Subsequently, the Ordinary General Meeting of Shareholders held on June 29, 2000 increased the maximum number of shares of its common stock up to 90 million shares on and after June 30, 2000 and the Extraordinary General Meeting of Shareholders held on January 25, 2001 authorized Sony Corporation to acquire and retire the subsidiary tracking stock as well as its common stock on and after January 26, 2001.

The Ordinary General Meeting of Shareholders held on June 26, 1998 approved that (a) in addition to the shares discussed in the preceding paragraph, Sony Corporation may, by a resolution of the Board of Directors, acquire and retire up to a total not exceeding 30 million outstanding shares of its common stock with its additional paid-in capital at prices in total not exceeding ¥400 billion and (b) Sony Corporation may grant share subscription rights to directors and/or employees pursuant to the Japanese regulations. Subsequently, the Extraordinary General Meeting of Shareholders held on January 25, 2001 authorized Sony Corporation to acquire and retire the subsidiary tracking stock as well as its common stock on and after January 26, 2001.

Prior to the amendments to the Japanese Commercial Code enacted on April 1, 2002, purchase and retirement by Sony Corporation of its own shares could be made at any time by resolution of the Board of Directors up to the number of shares and total purchase price as described above. No common stock and subsidiary tracking stock had been acquired nor had any share subscription rights been granted under those approvals during the years ended March 31, 2001 and 2002.

Following such amendments to the Japanese Commercial Code, purchase by Sony Corporation of its own shares is subject to the prior approval of shareholders at the Ordinary General Meeting of Shareholders, which includes the maximum number of shares to be purchased and the maximum total purchase amount. Once such approval of shareholders is obtained, Sony Corporation may purchase its own shares at any time during the period up to the conclusion of next Ordinary General Meeting of Shareholders.

The Ordinary General Meeting of Shareholders held on June 20, 2002 approved that Sony Corporation acquire up to a total not exceeding 90 million outstanding shares of its common stock at an amount in a total not exceeding ¥650 billion ($5,417 million) and a total not exceeding 300 thousand outstanding shares of the subsidiary tracking stock at an amount in total not exceeding ¥1 billion ($8 million) until the conclusion of the General Meeting of Shareholders for the year ended March 31, 2003. As a result, no common stock and subsidiary tracking stock had been acquired under this approval.

The Ordinary General Meeting of Shareholders held on June 20, 2003 approved that Sony Corporation acquire up to a total not exceeding 90 million outstanding shares of its common stock at an amount in a total not exceeding ¥400 billion ($3,333 million) and a total not exceeding 300 thousand outstanding shares of the subsidiary tracking stock at an amount in total not exceeding ¥1 billion ($8 million) until the conclusion of the General Meeting of Shareholders to be held for the year ending March 31, 2004.

(3) Retained earnings:

The amount of statutory retained earnings of Sony Corporation available for the payments of dividends to shareholders as of March 31, 2003 was ¥650,705 million ($5,423 million). The appropriation of retained earnings for the year ended March 31, 2003 including cash dividends for the six-month period ended March 31, 2003 has been incorporated in the accompanying consolidated financial statements. This appropriation of retained earnings was approved at the Ordinary General Meeting of Shareholders held on June 20, 2003.

Retained earnings include Sony's equity in undistributed earnings of affiliated companies accounted for by the equity method in the amount of ¥9,259 million and ¥2,967 million ($25 million) at March 31, 2002 and 2003, respectively.

(4) <u>Other comprehensive income</u>

Other comprehensive income for the years ended March 31, 2001, 2002 and 2003 were as follows:

	Yen in millions		
	Pre-tax amount	Tax expense	Net-of-tax amount
For the year ended March 31, 2001:			
Unrealized gains on securities -			
Unrealized holding gains or losses arising during the period	¥(6,290)	¥(1,200)	¥(7,490)
Less: Reclassification adjustment for gains or losses included in net income	(16,095)	6,186	(9,909)
Minimum pension liability adjustment	(79,678)	33,544	(46,134)
Foreign currency translation adjustments	169,144	(8,862)	160,282
Other comprehensive income	¥67,081	¥29,668	¥96,749
For the year ended March 31, 2002:			
Unrealized gains on securities -			
Unrealized holding gains or losses arising during the period	¥(24,857)	¥4,614	¥(20,243)
Less: Reclassification adjustment for gains or losses included in net income	(2,594)	1,318	(1,276)
Unrealized losses on derivative instruments -			
Cumulative effect of an accounting change	2,040	(951)	1,089
Unrealized holding gains or losses arising during the period	5,470	(3,033)	2,437
Less: Reclassification adjustment for gains or losses included in net income	(7,200)	2,963	(4,237)
Minimum pension liability adjustment	(38,391)	16,163	(22,228)
Foreign currency translation adjustments	101,483	(4,051)	97,432
Other comprehensive income	¥35,951	¥17,023	¥52,974
For the year ended March 31, 2003:			
Unrealized gains on securities -			
Unrealized holding gains or losses arising during the period	¥(18,575)	¥8,948	¥(9,627)
Less: Reclassification adjustment for gains or losses included in net income	3,421	867	4,288
Unrealized losses on derivative instruments -			
Unrealized holding gains or losses arising during the period	(6,268)	1,791	(4,477)
Less: Reclassification adjustment for gains or losses included in net income	682	(287)	395
Minimum pension liability adjustment	(181,725)	71,089	(110,636)
Foreign currency translation adjustments -			
Translation adjustments arising during the period	(87,103)	3,110	(83,993)
Less: Reclassification adjustment for losses included in net income	7,665	-	7,665
Other comprehensive income	¥(281,903)	¥85,518	¥(196,385)

	Dollars in millions		
	Pre-tax amount	Tax expense	Net-of-tax amount
For the year ended March 31, 2003:			
Unrealized gains on securities -			
Unrealized holding gains or losses arising during the period	$(155)	$75	$(80)
Less: Reclassification adjustment for gains or losses included in net income	29	6	35
Unrealized losses on derivative instruments -			
Unrealized holding gains or losses arising during the period	(52)	15	(37)
Less: Reclassification adjustment for gains or losses included in net income	5	(2)	3
Minimum pension liability adjustment	(1,514)	592	(922)
Foreign currency translation adjustments -			
Translation adjustments arising during the period	(726)	26	(700)
Less: Reclassification adjustment for losses included in net income	64	-	64
Other comprehensive income	$(2,349)	$712	$(1,637)

During the year ended March 31, 2003, ¥7,665 million ($64 million) of foreign currency translation adjustments was transferred from other comprehensive income and charged to income as a result of the liquidation of certain foreign subsidiaries.

17. Stock-based compensation plans

Sony has four types of stock-based compensation plans as incentive plans for directors and selected employees.

(1) Warrant plan:

Upon issuance of unsecured bonds with detachable warrants which are described in Note 12, Sony Corporation has purchased all of the detachable warrants and distributed them to the directors and selected employees of Sony. By exercising a warrant, directors and selected employees can purchase the common stock or subsidiary tracking stock of Sony Corporation, the number of which is designated by each plan. The warrants generally vest ratably over a period of three years, and are generally exercisable up to six years from the date of grant.

(2) Convertible Bond plan:

In April 2000, Sony adopted an equity-based compensation plan for selected executives of Sony's United States of America 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, no accounting recognition was given to either the convertible bonds or the employee loans in Sony's consolidated balance sheet as a right of offset exists between the convertible bonds and the employee loans.

(3) Stock Acquisition Rights:

During the year ended March 31, 2003, Sony adopted an equity-based compensation plan that issues common stock acquisition rights for the purpose of granting stock options to the directors and selected employees of Sony, and subsidiary tracking stock acquisition rights for the purpose of granting stock options to the directors and selected employees of Sony Communication Network Corporation, pursuant to the Commercial Code of Japan. The stock acquisition rights generally vest ratably over a three-year period and are exercisable up to ten years from the date of grant.

Presented below is a summary of the activity for common stock warrant, convertible bond and stock acquisition rights plans for the years shown:

	Year ended March 31						
	2001		2002		2003		
	Number of Shares	Weighted-average exercise price	Number of Shares	Weighted-average exercise price	Number of Shares	Weighted-average exercise price	Weighted-average exercise price
		Yen		Yen		Yen	Dollars
Outstanding at beginning of year	1,531,573	¥6,456	2,800,270	¥9,911	5,853,892	¥8,648	$72.07
Granted	1,420,900	12,788	3,397,300	6,877	3,874,100	5,313	44.28
Exercised	(111,103)	5,341	(8,294)	6,264	—	—	—
Forfeited	(41,100)	12,544	(335,384)	6,384	(87,100)	8,306	69.22
Outstanding at end of year	2,800,270	¥9,911	5,853,892	¥8,648	9,640,892	¥7,832	$65.27
Exercisable at end of year	825,265	¥6,332	2,082,640	¥8,127	4,314,292	¥9,773	$81.44

A summary of common stock warrants, convertible bond options and stock acquisition rights outstanding and exercisable at March 31, 2003 is as follows:

	Outstanding				Exercisable		
Exercise price range	Number of Shares	Weighted-average exercise price	Weighted-average exercise price	Weighted-average remaining life	Number of Shares	Weighted-average exercise price	Weighted-average exercise price
Yen		Yen	Dollars	Years		Yen	Dollars
¥4,388～10,000	8,277,792	¥6,948	$57.90	7.57	3,358,792	¥8,774	$73.12
10,001～14,757	1,363,100	13,201	110.01	4.71	955,500	13,282	110.68
¥4,388～14,757	9,640,892	¥7,832	$65.27	7.17	4,314,292	¥9,773	$81.44

A summary of subsidiary tracking stock warrants and stock acquisition rights outstanding and exercisable at March 31, 2003 is as follows:

	Outstanding				Exercisable		
Exercise price range	Number of Shares	Weighted-average exercise price	Weighted-average exercise price	Weighted-average remaining life	Number of Shares	Weighted-average exercise price	Weighted-average exercise price
Yen		Yen	Dollars	Years		Yen	Dollars
¥1,008～3,300	90,500	¥2,148	$17.90	7.77	14,850	¥3,300	$27.50

As the exercise prices for the warrant, convertible bond and stock acquisition rights plans were determined based on the prevailing market price shortly before the date of grant, the compensation expense for these plans were not significant for the years ended March 31, 2001, 2002 and 2003, respectively.

The weighted-average fair value per share at the date of grant for common stock warrants, convertible bond options and stock acquisition rights granted during the years ended March 31, 2001, 2002 and 2003 was ¥4,111, ¥2,554 and ¥1,707 ($14.23), respectively. The fair value of common stock warrants, convertible bond options and stock acquisition rights granted on the date of grant, which is amortized to expense over the vesting period in determining the pro forma impact, is estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

Weighted-average assumptions	Year ended March 31		
	2001	2002	2003
Risk-free interest rate	2.68%	2.58%	1.73%
Expected lives	3.26 years	3.28 years	3.30 years
Expected volatility	44.07%	50.81%	44.54%
Expected dividend	0.21%	0.40%	0.49%

(4) SAR plan:

Sony grants stock appreciations rights (“SARs”) in Japan, Europe and the United States of America for selected employees. Under the terms of these plans, employees on exercise 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 six to ten years from the date of grant. Sony holds treasury stock for the SAR plan in Japan to minimize cash flow exposure associated with the SARs. In addition, Sony uses various strategies to minimize the compensation expense associated with the SAR plans in the United States of America and Europe.

In December 2001, Sony granted options under its convertible bond plan to certain employees in exchange for the employees agreeing to cancel an equal number of outstanding SARs. Under FASB Interpretation No. 44 “Accounting for Certain Transactions Involving Stock Compensation – an interpretation of APB Opinion No. 25”, no compensation charge was recorded as the number and terms of the new options under the convertible bond plan were substantially the same as the SARs that were cancelled.

The status of the SAR plans is summarized as follows:

	Year ended March 31						
	2001		2002		2003		
	Number of SARs	Weighted-average exercise price	Number of SARs	Weighted-average exercise price	Number of SARs	Weighted-average exercise price	Weighted-average exercise price
		Yen		Yen		Yen	Dollars
Outstanding at beginning of year	4,046,490	¥5,443	3,565,246	¥6,218	2,410,394	¥6,644	$55.37
Granted	154,700	9,801	141,525	7,813	28,750	6,323	52.69
Exercised	(588,092)	5,198	(91,330)	5,862	(11,800)	5,727	47.73
Cancelled	—	—	(1,192,672)	5,951	—	—	—
Expired or forfeited	(47,852)	5,869	(12,375)	8,520	(84,316)	7,274	60.62
Outstanding at end of year	3,565,246	¥6,218	2,410,394	¥6,644	2,343,028	¥6,341	$52.84
Exercisable at end of year	1,397,216	¥5,966	1,864,928	¥6,282	2,176,319	¥6,211	$51.76

A summary of SARs outstanding and exercisable at March 31, 2003 is as follows:

	Outstanding				Exercisable		
Exercise price range	Number of SARs	Weighted-average exercise price	Weighted-average exercise price	Weighted-average remaining life	Number of SARs	Weighted-average exercise price	Weighted-average exercise price
Yen		Yen	Dollars	Years		Yen	Dollars
¥3,615～5,000	242,534	¥4,455	$37.12	1.79	241,601	¥4,455	$37.13
5,001～10,000	2,046,369	6,393	53.28	2.17	1,896,036	6,298	52.48
10,001～15,000	54,125	12,823	106.86	6.56	38,682	12,940	107.83
¥3,615～15,000	2,343,028	¥6,341	$52.84	2.23	2,176,319	¥6,211	$51.76

In accordance with APB No. 25 and its related interpretations, the SARs compensation expense is measured as the excess of the quoted market price of Sony Corporation's common stock over the SARs strike price, which is consistent with the accounting treatment prescribed for SAR plans in FAS No. 123. For the years ended March 31, 2001, 2002 and 2003, Sony recognized a reduction in SARs compensation expense of ¥5,587 million, ¥4,748 million and ¥670 million ($6 million), respectively, due to the decline in Sony's stock price during the years.

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 within the Electronics, Music and Pictures businesses. For the years ended March 31, 2001, 2002 and 2003, Sony recorded total restructuring charges of ¥34,718 million, ¥106,974 million and ¥106,251 million ($885 million), respectively. Significant restructuring charges and asset impairments include the following:

Electronics Segment

In an effort to improve the performance of the Electronics segment, Sony has undergone a number of restructuring efforts to reduce its operating costs. For the years ended March 31, 2001, 2002 and 2003, Sony recorded total restructuring charges of ¥20,620 million, ¥86,852 million and ¥72,473 million ($604 million), respectively, within the Electronics segment. Significant restructuring activities are the following:

Downsizing of computer display CRT operations -

In the year ended March 31, 2002, as flat panel monitors became more popular in the marketplace, the demand for computer display CRTs was drastically reduced. In this situation, Sony decided to abandon certain manufacturing equipments for computer display CRTs mainly in the U.S. in the second quarter of the year ended March 31, 2002. Restructuring charges totaling ¥19,639 million consisted of non-cash equipment write-downs of ¥6,261 million, costs related to the buy-out and cancellation of operating leases totaling ¥11,264 million and other costs related to the disposal of equipment of ¥2,114 million. Of the total restructuring charges recorded, ¥946 million was recorded in cost of sales and ¥18,693 million was included in selling, general and administrative expense in the consolidated statements of income. The restructuring activity was completed in the year ended March 31, 2003, and all reserve balances were fully utilized as of March 31, 2003.

In the year ended March 31, 2003, due to further market shrinkage and demand shift from CRT displays to LCDs, Sony made a decision to discontinue certain computer display CRT manufacturing operations in Japan and Southeast Asia to rationalize production facilities and downsize its business. Restructuring charges totaling ¥6,902 million ($58 million) consisted of personnel related costs of ¥1,208 million ($10 million), non-cash equipment write-downs and disposals of ¥4,010 million ($34 million) and contract termination and other costs of ¥1,684 million ($14 million). Of the total restructuring charges, ¥1,264 million ($11 million) was recorded in cost of sales and ¥5,638 million ($47 million) was included in selling, general and administrative expense in the consolidated statements of income. The remaining reserve balance as of March 31, 2003 was ¥383 million ($3 million) and will be utilized in the year ending March 31, 2004.

Aiwa Co. Ltd. restructuring -

In the year ended March 31, 2002, in response to a decline in performance of Aiwa Co., Ltd., and its subsidiaries ("Aiwa"), Aiwa underwent a drastic restructuring program to eliminate the causes of this downward trend and to return to be profitable. Aiwa recorded restructuring charges totaling ¥25,484 million in the year ended March 31, 2002, which included a reduction of unprofitable product lines, plant closures and a reduction of the work forces. These charges consisted of non-cash equipment write-downs and disposals of ¥10,244 million, personnel related costs of ¥8,209 million, and other costs of ¥7,031 million including the devaluation of inventory. Among these charges ¥5,734 million was recorded in cost of sales and ¥19,750 million was included in selling, general and administrative expense in the consolidated statements of income. Aiwa eliminated its employees from various employee levels, business functions, operating units and geographic regions.

Due to the continued decline in the operating results of Aiwa, the restructuring program that was initiated in the year ended March 31, 2002 was accelerated and additional restructuring charges of ¥23,007 million ($192 million) were recorded in the year ended March 31, 2003. Additional restructuring included further cuts in staffing levels and shutdown of remaining production facilities. These charges consisted of non-cash equipment write-downs and disposals of ¥3,504 million ($29 million), personnel related costs of ¥7,647 million ($64 million), devaluation of inventory of ¥6,144 million ($51 million), operating lease termination costs of ¥3,823 million ($32 million) and other costs of ¥1,889 million ($16 million). Among these charges ¥13,791 million ($115 million) was recorded in cost of sales and ¥9,216 million ($77 million) was included in selling, general and administrative expense in the consolidated statements of income. The restructuring program was completed in the year ended March 31, 2003 and no reserve existed as of March 31, 2003. Aiwa Co., Ltd. was merged into Sony Corporation as of December 1, 2002. No further costs are expected to be incurred for the Aiwa restructuring.

Closing of a semiconductor plant in the U.S. -

Due to a significant decline in the business conditions of the U.S. semiconductor industry, Sony made a decision in the fourth quarter of the year ended March 31, 2003, to close a semiconductor plant in the U.S. The total estimated cost of the restructuring program is ¥8,148 million ($68 million), of which ¥5,856 million ($49 million) was incurred through March 31, 2003. These restructuring charges consisted of accelerated depreciation of equipments of ¥3,128 million ($26 million), personnel related costs of ¥1,329 million ($11 million), the devaluation of inventory and other costs of ¥1,399 million ($12 million). These charges were all recorded in cost of sales in the consolidated statements of income. This restructuring activity is expected to complete in the year ending March 31, 2004. The remaining reserve balance as of March 31, 2003 was ¥1,452 million ($12 million).

Early retirement program in Japan -

In addition to the restructuring efforts disclosed above, Sony has undergone several headcount reduction programs to further reduce operating costs in the Electronics segment. As a result of these programs, Sony recorded restructuring charges totaling ¥14,440 million, ¥12,252 million and ¥10,932 million ($91 million) for the years ended March 31, 2001, 2002 and 2003, respectively, and these charges were included in selling, general and administrative expense in the consolidated statements of income. These staff reductions were achieved through the implementation of early retirement programs in Japan. The remaining reserve balance as of March 31, 2003 was ¥1,009 million ($8 million) and will be utilized through the year ending March 31, 2004.

Music Segment

Due to the continued contraction of the worldwide music market due to slow worldwide economic growth, the saturation of the CD market, the effects of piracy and other illegal duplication, parallel imports, pricing pressures and the diversification of customer preferences, Sony has been actively repositioning the Music segment for the future by looking to create a more effective and profitable business model. As a result, the

Music segment has undergone a worldwide restructuring program to reduce staffing and other costs through the consolidation and rationalization of facilities worldwide. For the years ended March 31, 2001, 2002 and 2003, Sony recorded total restructuring charges of ¥7,908 million, ¥8,599 million and ¥22,350 million ($186 million), respectively, within the Music segment excluding Japan. The total estimated costs of the worldwide restructuring program are ¥43,371 million ($361 million), of which ¥38,857 million ($324 million) was incurred through March 31, 2003. At March 31, 2003, the remaining reserve balance was ¥11,522 million ($96 million). This reserve balance will be utilized over the next two to three years, with most of the payments being made during the year ending March 31, 2004. The worldwide restructuring program is expected to complete by the year ending March 31, 2006. In addition to the above, Sony also recorded restructuring charges of ¥1,519 million ($13 million) in Japan which were personnel related costs included in selling, general and administrative expense in the consolidated statement of income, in the year ended March 31, 2003. Significant restructuring activities included the following:

In the year ended March 31, 2001, the Music segment initiated its worldwide restructuring program with the shutdown of a CD and audio cassette manufacturing plant in the U.S., as part of its effort to consolidate manufacturing operations, and staff reductions in other areas. As a result, Sony recorded restructuring charges totaling ¥7,908 million in the year ended March 31, 2001. The restructuring charges consisted of personnel related costs of ¥3,540 million, non-cash asset write-downs and disposals of ¥3,160 million and other costs of ¥1,208 million including lease termination costs. Of the total restructuring charges, ¥779 million was recorded in cost of sales and ¥7,129 million was included in selling, general and administrative expense in the consolidated statements of income.

In the year ended March 31, 2002, Sony recorded additional restructuring charges totaling ¥8,599 million. Restructuring activities included the rationalization of digital media initiative and portfolio investment businesses in order to focus on core music activities and staff reductions. Charges incurred in the year ended March 31, 2002 consisted of personnel related costs of ¥5,100 million, non-cash asset write-downs and disposals of ¥787 million, and other costs of ¥2,712 million including lease termination costs. These charges were included in selling, general and administrative expense in the consolidated statements of income.

In the year ended March 31, 2003, restructuring charges related to the worldwide restructuring of the Music segment totaled ¥22,350 million ($186 million). Restructuring activities included the further consolidation of operations through the shutdown of a cassette and CD manufacturing and distribution center in Holland and a second CD manufacturing facility in the U.S. as well as further staff reductions in other areas. The restructuring charges consisted of personnel related costs of ¥14,932 million ($124 million), non-cash asset write-downs and disposals of ¥3,256 million ($27 million) and other costs of ¥ 4,162 million ($35 million) including lease termination costs. These charges were included in selling, general and administrative expense in the consolidated statements of income. Employees were eliminated across various employee levels, business functions, operating units, and geographic regions during this phase of the worldwide restructuring program.

Pictures Segment

Due to changes within the television production and distribution business, the competition to obtain customers between the major television networks and other production and distribution companies is becoming more intense. This competitive environment has resulted in fewer opportunities to produce shows for the networks and a shorter lifespan for ordered shows that do not immediately achieve favorable ratings. Consistent with this trend, Sony has seen an increase in the number of new programs being distributed yet canceled in their first or second season and that are generally less profitable, and a decrease in the number of network programs that are able to achieve syndication and that are generally more profitable. As a result, in the year ended March 31, 2002, Sony decided to consolidate its television operations and downsize the network television production business in the Pictures segment. Sony recorded restructuring charges totaling ¥8,452 million which consisted of personnel related costs of ¥1,753 million, non-cash asset write-downs and disposals of ¥1,767 million, and other costs of ¥4,932 million including those relating to the buy-out of term deal commitments. These restructuring charges were all recorded in cost of sales in the consolidated statements of income. In the year ended March 31, 2003, additional restructuring charges totaling ¥480 million ($4 million) were recorded. These costs were included in cost of sales in the consolidated statements of income. The remaining reserve balance as of March 31, 2003 was ¥947 million ($8 million). The restructuring plan is expected to complete by the second quarter of the year ending March 31, 2005 and all reserves will be utilized over the next two years.

The following table displays the balance of the accrued restructuring charges recorded for the years ended March 31, 2001, 2002 and 2003.

	Yen in millions			
	Employee termination benefits	Non-cash write-downs and disposals	Other associated costs	Total
Balance at March 31, 2000	¥58	-	¥2,131	¥2,189
Restructuring costs	19,200	¥14,070	1,448	34,718
Non-cash charges	-	(14,070)	-	(14,070)
Cash payments	(18,142)	-	(2,617)	(20,759)
Adjustments	145	-	126	271
Balance at March 31, 2001	1,261	-	1,088	2,349
Restructuring costs	38,123	39,598	29,253	106,974
Non-cash charges	-	(39,598)	-	(39,598)
Cash payments	(33,291)	-	(16,907)	(50,198)
Adjustments	150	-	203	353
Balance at March 31, 2002	6,243	-	13,637	19,880
Restructuring costs	46,953	42,768	16,530	106,251
Non-cash charges	-	(42,240)	-	(42,240)
Cash payments	(38,548)	-	(23,172)	(61,720)
Adjustments	136	(528)	(1,208)	(1,600)
Balance at March 31, 2003	¥14,784	-	¥5,787	¥20,571

	Dollars in millions			
	Employee termination benefits	Non-cash write-downs and disposal	Other associated costs	Total
Balance at March 31, 2002	$52	-	$113	$165
Restructuring costs	391	$356	138	885
Non-cash charges	-	(352)	-	(352)
Cash payments	(321)	-	(193)	(514)
Adjustments	1	(4)	(10)	(13)
Balance at March 31, 2003	$123	-	$48	$171

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 years ended March 31, 2001, 2002 and 2003 were ¥416,708 million, ¥433,214 million and ¥443,128 million ($3,693 million), respectively.

(2) Advertising costs:

Advertising costs included in selling, general and administrative expenses for the years ended March 31, 2001, 2002 and 2003 were ¥389,359 million, ¥401,960 million and ¥442,741 million ($3,690 million), respectively.

(3) Shipping and handling costs:

Shipping and handling costs for finished goods included in selling, general and administrative expenses for the years ended March 31, 2001, 2002 and 2003 were ¥104,155 million, ¥98,800 million and ¥98,195 million ($818 million), respectively, which included the internal transfer costs of finished goods.

20. Gain on issuances of stock by equity investees

In August 2000, Monex Inc., which provides on-line security trading services in Japan, issued 150,000 shares at ¥41,850 per share valued at ¥6,278 million in connection with its initial public offering. As a result of this issuance, Sony recorded a gain of ¥1,900 million and provided deferred taxes on this gain. This issuance reduced Sony's ownership interest from 36.6% to 32.8%.

In August 2000, Crosswave Communications Inc., which provides high-capacity/high-speed network services in Japan, issued 101,960 shares at ¥304,360 per share valued at ¥28,958 million after the deduction of stock issue costs in connection with its initial public offering. As a result of this issuance, Sony recorded a gain of ¥6,406 million and provided deferred taxes on this gain. This issuance reduced Sony's ownership interest from 30.0% to 23.9%.

In October 2000, SKY Perfect Communications Inc., which provides satellite broadcasting services in Japan, issued 400,000 shares at ¥304,000 per share valued at ¥121,600 million in connection with its initial public offering. In connection with this issuance, Sony recorded a gain of ¥9,551 million and provided deferred taxes on this gain. This issuance reduced Sony's ownership interest from 9.9% to 8.1%. As a result of this transaction, SKY Perfect Communications Inc. is no longer accounted for under the equity method, as Sony no longer has significant influence.

In addition to the above transactions, for the year ended March 31, 2001, Sony recognized ¥173 million of other gains on issuances of stock by equity investees resulting in total gains of ¥18,030 million. Total gains on issuances of stock by equity investees were ¥503 million for the year ended March 31, 2002. There were no gains on issuances of stock for equity investees for the year ended March 31, 2003. These transactions were not part of a broader corporate reorganization and the reacquisition of such shares was not contemplated at the time of issuance.

21. Income taxes

Income before income taxes and income tax expense comprise the following:

	Yen in millions			Dollars in millions
	Year ended March 31			Year ended March 31,
	2001	2002	2003	2003
Income (loss) before income taxes:				
Sony Corporation and subsidiaries in Japan	¥158,987	¥(5,103)	¥(7,998)	$(67)
Foreign subsidiaries	106,881	97,878	255,619	2,131
	¥265,868	¥92,775	¥247,621	$2,064
Income taxes - Current:				
Sony Corporation and subsidiaries in Japan	¥89,708	¥55,641	¥69,311	$578
Foreign subsidiaries	31,405	59,289	109,536	913
	¥121,113	¥114,930	¥178,847	$1,491
Income taxes - Deferred:				
Sony Corporation and subsidiaries in Japan	¥(106)	¥(46,082)	¥(90,016)	$(750)
Foreign subsidiaries	(5,473)	(3,637)	(8,000)	(67)
	¥(5,579)	¥(49,719)	¥(98,016)	$(817)

Sony is subjected to a number of different income taxes. Due to changes in Japanese income tax regulations, a consolidated tax filing system was introduced on April 1, 2002. Sony applied to file its return under the consolidated tax filing system beginning with the year ending March 31, 2004. Under the Japanese consolidated tax filing system, a 2% surtax will be imposed only for the year ending March 31, 2004. As a result, the statutory tax rate will be approximately 44% for the year ending March 31, 2004.

For the year ending March 31, 2005, a corporation size-based enterprise tax will be introduced which will supersede the current enterprise tax. As a result, the statutory tax rate for the year ending March 31, 2005 will be approximately 41% effective April 1, 2004. The respective newly enacted rates were used in calculating the future expected tax effects of temporary differences as of March 31, 2003. The effect of the changes in the tax rates on the balance of deferred tax assets and liabilities was insignificant.

Reconciliation of the differences between the statutory tax rate and the effective income tax rate is as follows:

	Year ended March 31		
	2001	2002	2003
Statutory tax rate	42.0%	42.0%	42.0%
Increase (reduction) in taxes resulting from:			
Income tax credits	(1.7)	(2.1)	(1.9)
Change in valuation allowances	14.2	55.5	5.5
Decrease in deferred tax liabilities on undistributed earnings of foreign subsidiaries	(6.5)	(21.6)	(14.8)
Reversal of foreign tax reserves	-	(6.5)	-
Other	(4.5)	3.0	1.8
Effective income tax rate	43.5%	70.3%	32.6%

The significant components of deferred tax assets and liabilities are as follows:

	Yen in millions		Dollars in millions
	March 31		March 31,
	2002	2003	2003
Deferred tax assets:			
Accrued pension and severance costs	¥125,745	¥213,284	$1,777
Operating loss carryforwards for tax purposes	155,979	130,473	1,087
Warranty reserve and accrued expenses	59,979	64,094	534
Future insurance policy benefits	28,552	34,734	289
Inventory – intercompany profits and write-down	41,294	34,423	287
Film costs	41,917	33,907	283
Tax credit carryforwards	16,004	33,762	281
Accrued bonus	31,060	32,694	272
Reserve for doubtful accounts	16,401	20,256	169
Depreciations	19,067	15,724	131
Other	134,373	119,671	998
Gross deferred tax assets	670,371	733,022	6,108
Less: Valuation allowance	(252,208)	(116,068)	(967)
Total deferred tax assets	418,163	616,954	5,141
Deferred tax liabilities:			
Insurance acquisition costs	(111,570)	(118,689)	(989)
Undistributed earnings of foreign subsidiaries	(72,713)	(46,449)	(387)
Intangible assets acquired through exchange offerings	(40,580)	(38,882)	(324)
Gain on securities contribution to employee retirement benefit trust	(29,313)	(17,438)	(145)
Unrealized gains on securities	(21,487)	(11,672)	(97)
Other	(55,169)	(81,374)	(679)
Gross deferred tax liabilities	(330,832)	(314,504)	(2,621)
Net deferred tax assets	¥87,331	¥302,450	$2,520

The valuation allowance mainly relates to deferred tax assets of Sony Corporation and certain consolidated subsidiaries with operating loss carryforwards and tax credit carryforwards for tax purposes that are not expected to be realized. The net changes in the total valuation allowance were increases of ¥86,422 million and ¥53,595 million for the years ended March 31, 2001 and 2002, respectively, and a decrease of ¥136,140 million ($1,135 million) for the year ended March 31,2003.

As discussed in Note 10, ¥ 33,525 million ($279 million) of the decrease in the valuation allowance relates to the realization of tax benefits from operating loss carryforwards that were acquired in connection with Sony's acquisition of companies within the Electronics, Music and Pictures businesses. The reversal of the valuation allowance upon realization of tax benefit from operating loss carryforwards resulted in the reduction of goodwill.

During the year ended March 31, 2003, approximately ¥19,000 million ($158 million) of tax benefits have been realized through utilization of operating loss carryforwards.

Net deferred tax assets are included in the consolidated balance sheets as follows:

	Yen in millions		Dollars in millions
	March 31		March 31,
	2002	2003	2003
Current assets – Deferred income taxes	¥134,299	¥143,999	$1,200
Other assets – Deferred income taxes	120,168	328,091	2,734
Current liabilities – Other	(7,563)	(10,561)	(88)
Long-term liabilities – Deferred income taxes	(159,573)	(159,079)	(1,326)
Net deferred tax assets	¥87,331	¥302,450	$2,520

At March 31, 2003, no deferred income taxes have been provided on undistributed earnings of foreign subsidiaries not expected to be remitted in the foreseeable future totaling ¥813,923 million ($6,783 million), and on the gain of ¥61,544 million 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, 2003 for such temporary differences amounted to ¥200,103 million ($1,668 million).

Operating loss carryforwards for tax purposes of Sony Corporation and certain consolidated subsidiaries at March 31, 2003 amounted to ¥304,634 million ($2,539 million) and are available as an offset against future taxable income. With the exception of ¥64,315 million ($536 million) with no expiration period, total available operating loss carryforwards expire at various dates primarily up to 6 years. Tax credit carryforwards for tax purposes at March 31, 2003 amounted to ¥33,762 million ($281 million). With the exception of ¥9,969 million ($83 million) with no expiration period, total available tax credit carryforwards expire at various dates primarily up to 10 years. Realization is dependent on such companies generating sufficient taxable income prior to expiration of the loss carryforwards and tax credit carryforwards. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets, less valuation allowance, will be realized. The amount of such net deferred tax assets considered realizable, however, could be changed in the near term if estimates of future taxable income during the carryforward period are changed.

22. Reconciliation of the differences between basic and diluted net income per share ("EPS")

(1) Income before cumulative effect of accounting changes and net income allocated to each class of stock:

	Year ended March 31			Year ended March 31,
	2001	2002	2003	2003
	Yen in millions			Dollars in millions
Income before cumulative effect of accounting changes allocated to the common stock	¥121,227	¥9,381	¥115,648	$964
Income before cumulative effect of accounting changes allocated to the subsidiary tracking stock	–	(49)	(129)	(1)
Income before cumulative effect of accounting changes	¥121,227	¥9,332	¥115,519	$963
Net income allocated to the common stock	¥16,754	¥15,359	¥115,648	$964
Net income allocated to the subsidiary tracking stock	–	(49)	(129)	(1)
Net income	¥16,754	¥15,310	¥115,519	$963

As discussed in Note 2, the earnings allocated to the subsidiary tracking stock are determined based on the subsidiary tracking stock holders' economic interest.

The statutory retained earnings of SCN (the subsidiary tracking stock entity as discussed in Note 16) available for dividends to the shareholders were ¥209 million as of March 31, 2002, which decreased by ¥374 million during the year ended March 31, 2002 after the date of issuance.

The accumulated losses of SCN were ¥779 million ($6 million) as of March 31, 2003. The accumulated losses increased by ¥989 million ($8 million) during the year ended March 31, 2003.

(2) EPS attributable to common stock:

Basic and diluted EPS as well as the number of shares in the following table have been adjusted to reflect the two-for-one stock split that was completed on May 19, 2000. Reconciliation of the differences between basic and diluted EPS for the years ended March 31, 2001, 2002 and 2003 is as follows:

	Year ended March 31			Year ended March 31,
	2001	2002	2003	2003
	Yen in millions			Dollars in millions
Income before cumulative effect of accounting changes allocated to the common stock	¥121,227	¥9,381	¥115,648	$964
Effect of dilutive securities:				
Convertible bonds	2,417	–	2,398	20
Income before cumulative effect of accounting changes allocated to the common stock for diluted EPS computation	¥123,644	¥9,381	¥118,046	$984
	Thousands of shares			
Weighted-average shares	913,932	918,462	919,706	
Effect of dilutive securities:				
Warrants	472	108	12	
Convertible bonds	79,830	2,664	78,873	
Weighted-average shares for diluted EPS computation	994,234	921,234	998,591	
	Yen			Dollars
Basic EPS	¥132.64	¥10.21	¥125.74	$1.05
Diluted EPS	¥124.36	¥10.18	¥118.21	$0.99

In accordance with FAS No. 128, “Earnings per Share”, the computation of diluted EPS for the years ended March 31, 2001 and 2002 uses the same weighted-average shares used for the computation of diluted income before cumulative effect of accounting changes per share, and reflects the effect of assumed conversion of convertible bonds in diluted net income.

For the year ended March 31, 2002, 75,201 thousand shares of potential common stock upon the conversion of convertible bonds were excluded from the computation of diluted EPS due to their antidilutive effect.

Potential common stock upon the exercise of warrants and stock acquisition rights, which were excluded from the computation of diluted EPS since they have an exercise price in excess of the average market value of Sony’s common stock during the fiscal year, were 1,329 thousand shares, 2,665 thousand shares, and 4,141 thousand shares for the years ended March 31, 2001, 2002 and 2003, respectively.

Warrants and stock acquisition rights of subsidiary tracking stock for the years ended March 31, 2002 and 2003, which have a potentially dilutive effect by decreasing net income allocated to common stock, were excluded from the computation of diluted EPS since they did not have a dilutive effect.

Stock options issued by affiliated companies accounted for under the equity method for the years ended March 31, 2001, 2002 and 2003, which have a potentially dilutive effect by decreasing net income allocated to common stock, were excluded from the computation of diluted EPS since such stock option did not have a dilutive effect.

On October 1, 2002, Sony implemented a share exchange as a result of which Aiwa Co., Ltd. became a wholly-owned subsidiary. As a result of this share exchange, Sony issued 2,502 thousand shares. The shares were included in the computation of basic and diluted EPS.

(3) EPS attributable to subsidiary tracking stock:

Weighted-average shares used for computation of EPS attributable to subsidiary tracking stock for the years ended March 31, 2002 and 2003 were 3,072 thousand shares. As discussed in Note 2, there were no potentially dilutive securities for EPS of subsidiary tracking stock outstanding at March 31, 2002 and 2003.

23. Variable Interest Entities

Sony has, from time to time, entered into various arrangements with VIEs. These arrangements consist of facilities which provide for the leasing of certain property, the financing of film production, the development and operation of a multi-use real estate complex and the implementation of a stock option plan for Japanese selected employees. As discussed below, certain of these entities are currently not consolidated by Sony. As described in Note 2, the FASB issued FIN No. 46, which will require the consolidation or disclosure of VIEs.

Although Sony continues to evaluate the impact of FIN No. 46 on Sony's results of operations and financial position, the potential VIEs that may be consolidated or disclosed are described as follows:

Sony leases the headquarters of its U.S. subsidiary from a VIE, which was not consolidated by Sony at March 31, 2002 and 2003. Effective July 1, 2003, Sony will be required to consolidate the VIE. Upon consolidation of the VIE, assets and liabilities are expected to increase by approximately ¥30,600 million ($255 million) and Sony will record a charge of approximately ¥1,800 million ($15 million) as a cumulative effect of accounting change. The impact on net income for the year ending March 31, 2004 will be a decrease of ¥840 million ($7 million). Sony has the option to purchase the building at any time during the lease term which expires in December 2008 for ¥30,600 million ($255 million). 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. If the sales price is less than ¥30,600 million ($255 million), Sony is obligated to make up the lesser of the shortfall or ¥25,727 million ($214 million). At March 31, 2003, the fair value of the building exceeded ¥30,600 million ($255 million).

A subsidiary in the Pictures business entered into a joint venture agreement with a VIE for the purpose of funding the acquisition of certain international film rights. The subsidiary is required to distribute the product internationally, for contractually defined fees determined as percentages of gross receipts, as defined, and is responsible for all distribution and marketing expenses, which are recouped from such distribution fees. The VIE was capitalized with total financing of ¥48,720 million ($406 million). Of this amount, ¥1,320 million ($11 million) was contributed by the subsidiary, ¥11,400 million ($95 million) was provided by unrelated third party investors and the remaining funding is provided through a ¥36,000 million ($300 million) bank credit facility of which ¥1,320 million ($11 million) was outstanding as of March 31, 2003. Effective July 1, 2003, Sony will be required to consolidate this entity. Upon consolidation of the VIE, assets and liabilities are expected to increase by ¥7,080 million ($59 million); however, there will be no impact to net income. Under the agreement, the subsidiary's ¥1,320 million ($11 million) equity investment is the last equity to be repaid. Additionally, it must pay to the third party investors up to ¥2,280 million ($19 million) of any losses out of a portion of its distribution fees. Any losses incurred by the VIE over and above the ¥3,600 million ($30 million) will be shared by the other investors. The subsidiary is obligated to acquire the international distribution rights, as defined, for twelve pictures meeting certain minimum requirements within a 3.5 to 4.5 year period and transfer those rights to the VIE at cost plus a 5 percent fee. If the subsidiary is unable to deliver twelve pictures to the VIE and the bank credit facility or the third party equity investors are not paid in full by March 10, 2008 (or earlier upon the occurrence of certain events), the subsidiary is required to reimburse the VIE to the extent necessary to repay the bank credit facility in full and pay certain minimum returns to the third party equity investors. At March 31, 2003, the maximum exposure amount is ¥30,574 million ($255 million).

Sony has utilized a VIE to erect and operate a multi-use real estate complex in Berlin, Germany, which was accounted for under the equity method by Sony at March 31, 2002 and 2003. Effective July 1, 2003, Sony will be required to consolidate this entity. Upon consolidation of the VIE, assets and liabilities are expected to increase by ¥59,662 million ($497 million). However, there will be no impact to Sony's net income. The VIE was initially capitalized with ¥90,790 million ($757 million) of total funding, ¥32,561 million ($271 million) was provided by the equity investors with the remaining funding of ¥58,229 million ($486 million) being provided through a syndicated bank loan which matures in November 2004. The syndicated bank loan is secured by the multi-use real estate complex. Should the VIE be unable to meet its obligations under the syndicated bank loan, Sony would be exposed to the potential impairment of its investment in the VIE which was ¥12,840 million ($107 million) at March 31, 2003.

Sony has utilized a VIE to implement a stock option plan for Japanese selected employees. The VIE has been consolidated by Sony since its establishment. There will be no impact to Sony's results of operations and financial position upon the adoption of FIN No. 46. Under the terms of the stock option plan, upon exercise, Japanese employees receive cash equal to the amount that the market price of Sony Corporation's common stock exceeds the strike price of the plan. In order to minimize cash flow exposure associated with the plan, Sony holds treasury stock through the VIE. The VIE purchased the common stock with funding provided by the employee's cash contribution and a bank loan which has been guaranteed by Sony Corporation. If the market value of common stock is below the price that Sony acquired the treasury stock for at the time of settlement of stock option plan, Sony is required to reimburse the VIE for repayment of the bank loan. At March 31, 2003, the maximum exposure amount associated with the bank loan is ¥6,938 million ($58 million).

24. Commitments and contingent liabilities

(1) Commitments:

Commitments outstanding at March 31, 2003 amounted to ¥297,768 million ($2,481 million). The major components of the 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, 2003, such commitments outstanding were ¥30,814 million ($257 million).

Certain subsidiaries in the Music business 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 through March 31, 2006. As of March 31, 2003, these subsidiaries were committed to make payments under such long-term contracts of ¥54,508 million ($454 million).

Certain subsidiaries in the Pictures business have entered into agreements under which the subsidiaries acquire completed films, or certain rights therein, from third parties. These agreements cover various periods through March 31, 2005. As of March 31, 2003, these subsidiaries were committed to make payments under such contracts of ¥40,116 million ($334 million).

A subsidiary in the Pictures business has also entered into a distribution agreement with a third party to distribute, in certain markets and territories, all feature length films produced or acquired by the third party during the term of the agreement. The distribution agreement expires on December 31, 2006 if a minimum of 36 films have been delivered as of that date. If 36 films have not been delivered by December 31, 2006, the distribution agreement expires on the earlier of the delivery of the 36th film or May 25, 2007. The subsidiary has the right to distribute the films for 15 years from the initial theatrical release of the film. Under the terms of the distribution agreement, the subsidiary must fund a portion of the production cost and is responsible for all distribution and marketing expenses. As of March 31, 2003, 17 films have been released or funded by the subsidiary. The subsidiary’s estimated commitment to fund the production of the remaining films under this agreement is ¥88,024 million ($734 million).

Aggregate amounts of year-by-year payment schedule of commitments during the next five years and thereafter are as follows:

Year ending March 31	Yen in millions	Dollars in millions
2004	¥140,935	$1,174
2005	70,045	584
2006	51,744	431
2007	8,777	73
2008	9,146	76
Thereafter	17,121	143
Total	¥297,768	$2,481

(2) <u>Contingent liabilities</u>:

Contingent liabilities including guarantees given in the ordinary course of business have a maximum exposure of ¥139,119 million ($1,159 million) at March 31, 2003. The major components of the contingent liabilities are as follows:

Sony has issued loan guarantees to related parties comprised of affiliated companies accounted for under the equity method and unconsolidated subsidiaries. The terms of these guarantees are mainly up to 3 years. Sony would be required to perform under these guarantees upon non-performance of the primary borrowers. The maximum exposure of these guarantees is ¥49,078 million ($409 million) and is not recorded on the consolidated balance sheet as of March 31, 2003.

As discussed in Note 23, in connection with the lease of the headquarters of Sony's U.S. subsidiary, Sony has guaranteed residual value to a VIE. The maximum exposure of the guarantee is ¥25,727 million ($214 million). This guarantee is secured by the underlying leased asset and is not recorded on the consolidated balance sheet as of March 31, 2003.

As discussed in Note 23, a subsidiary in the Pictures business entered into a joint venture agreement with a VIE. At March 31, 2003, the maximum exposure associated with this arrangement is ¥30,574 million ($255 million).

Sony has agreed to indemnify certain third parties against tax losses resulting from transactions entered into in the normal course of business. The maximum amount of potential future payments under these guarantees cannot be estimated at this time. These guarantees are not recorded on the consolidated balance sheet as of March 31, 2003.

Sony Corporation and certain of its subsidiaries are defendants in several pending lawsuits. However, based upon the information currently available to both Sony and its legal counsel, management of Sony believes that damages from such lawsuits, if any, would not have a material effect on Sony's consolidated financial statements.

The changes in product warranty liability for the year ended March 31, 2003 are as follows:

	Yen in millions	Dollars in millions
	Year ended March 31 2003	Year ended March 31 2003
Balance at beginning of year	¥53,671	$447
Provision for warranty reserve	47,260	394
Settlements (in cash or in kind)	(46,628)	(389)
Changes in estimate for pre-existing warranty reserve	(2,032)	(17)
Translation adjustment	(379)	(3)
Balance at end of year	¥51,892	$432

25. Business segment information

Effective for the year ended March 31, 2003, Sony has partly changed its business segment configuration as described below.

Related businesses in the Network Application and Contents Service Sector (“NACS”), established in April 2002 to enhance network businesses, are included in the Other segment. In addition to Sony Communications Network Corporation, which was originally contained in the Other segment, NACS-related businesses include an internal information system related business, and an IC card business formerly contained in the “Other” category of the Electronics segment.

As a result, business segment information for the years ended March 31, 2001 and 2002 have been restated to conform to the presentation for the year ended March 31, 2003.

The Electronics segment designs, develops, manufactures and distributes audio-visual, informational and communicative equipment, instruments and devices throughout the world. The Game segment designs, develops and sells PlayStation and PlayStation 2 game consoles and related software mainly in Japan, the United States of America and Europe, manufactures semiconductors used in the game consoles in Japan, and licenses to third party software developers. The Music segment is mainly engaged worldwide in the development, production, manufacture, and distribution of recorded music, in all commercial formats and musical genres. The Pictures segment develops, produces and manufactures image-based software, including film, video, and television mainly in the United States of America, and markets, distributes and broadcasts in the worldwide market. The Financial Services segment represents the insurance-related underwriting business, primarily individual life insurance and non-life insurance businesses in the Japanese market, leasing and credit financing businesses and bank business in Japan. The Other segment consists of various operating activities, primarily including a business focused on network service business including Internet-related services, advertising agency business in Japan. Sony's products and services are generally unique to a single operating segment.

The operating segments reported 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 executive management in deciding how to allocate resources and in assessing performance.

Business segments -

Sales and operating revenue:

	Yen in millions			Dollars in millions
	Year ended March 31			Year ended March 31,
	2001	2002	2003	2003
Sales and operating revenue:				
Electronics -				
Customers	¥4,982,432	¥4,772,550	¥4,543,313	$37,861
Intersegment	472,082	513,631	397,137	3,309
Total	5,454,514	5,286,181	4,940,450	41,170
Game -				
Customers	646,147	986,529	936,274	7,802
Intersegment	14,769	17,185	18,757	156
Total	660,916	1,003,714	955,031	7,958
Music -				
Customers	571,003	588,191	559,042	4,659
Intersegment	41,110	54,649	77,256	644
Total	612,113	642,840	636,298	5,303
Pictures -				
Customers	555,227	635,841	802,770	6,690
Intersegment	0	0	0	0
Total	555,227	635,841	802,770	6,690
Financial Services -				
Customers	447,147	483,313	512,641	4,272
Intersegment	31,677	28,932	27,878	232
Total	478,824	512,245	540,519	4,504
Other -				
Customers	112,868	111,834	119,593	996
Intersegment	93,942	91,977	130,721	1,090
Total	206,810	203,811	250,314	2,086
Elimination	(653,580)	(706,374)	(651,749)	(5,431)
Consolidated total	¥7,314,824	¥7,578,258	¥7,473,633	$62,280

Electronics intersegment amounts primarily consist of transactions with the Game business. Music intersegment amounts primarily consist of transactions with the Game and Pictures businesses. Other intersegment amounts primarily consist of transactions with the Electronics business.

Segment profit or loss:

	Yen in millions			Dollars in millions
	Year ended March 31			Year ended March 31,
	2001	2002	2003	2003
Operating income (loss):				
Electronics	¥251,146	¥(1,158)	¥41,380	$345
Game	(51,118)	82,915	112,653	939
Music	20,502	20,175	(8,661)	(72)
Pictures	4,315	31,266	58,971	491
Financial Services	17,432	22,134	23,338	194
Other	(13,715)	(16,604)	(31,950)	(266)
Total	228,562	138,728	195,731	1,631
Elimination	13,781	17,148	15,894	132
Unallocated amounts:				
Corporate expenses	(16,997)	(21,245)	(26,185)	(218)
Consolidated operating income	225,346	134,631	185,440	1,545
Other income	167,654	96,328	157,528	1,313
Other expenses	(127,132)	(138,184)	(95,347)	(794)
Consolidated income before income taxes	¥265,868	¥92,775	¥247,621	$2,064

Operating income is sales and operating revenue less costs and operating expenses. Unallocated corporate expenses include stock-based compensation expenses (Note 17).

Assets:

	Yen in millions			Dollars in millions
	March 31			March 31,
	2001	2002	2003	2003
Total assets:				
Electronics	¥3,421,624	¥3,089,791	¥2,848,492	$23,737
Game	690,737	722,021	673,208	5,610
Music	747,360	739,283	668,702	5,573
Pictures	887,806	960,266	868,395	7,237
Financial Services	2,074,234	2,496,052	2,910,434	24,254
Other	255,495	240,329	273,169	2,276
Total	8,077,256	8,247,742	8,242,400	68,687
Elimination	(437,330)	(270,374)	(261,761)	(2,181)
Corporate assets	188,040	208,427	389,906	3,249
Consolidated total	¥7,827,966	¥8,185,795	¥8,370,545	$69,755

Unallocated corporate assets consist primarily of cash and cash equivalents, marketable securities and property, plant and equipment maintained for general corporate purposes.

Other significant items:

	Yen in millions			Dollars in millions
	Year ended March 31			Year ended March 31,
	2001	2002	2003	2003
Depreciation and amortization:				
Electronics	¥209,616	¥211,910	¥190,836	$1,590
Game	37,497	49,655	53,496	446
Music	34,648	34,835	33,650	280
Pictures	11,853	10,619	8,552	71
Financial Services, including deferred insurance acquisition costs	44,995	37,227	52,041	434
Other	6,184	6,568	9,112	76
Total	344,793	350,814	347,687	2,897
Corporate	3,475	3,321	4,238	36
Consolidated total	¥348,268	¥354,135	¥351,925	$2,933
Capital expenditures for segment assets:				
Electronics	¥281,660	¥220,032	¥170,323	$1,419
Game	108,168	47,822	40,986	342
Music	37,776	21,535	21,875	182
Pictures	11,020	11,501	7,138	60
Financial Services	9,341	16,023	3,655	30
Other	13,538	5,208	15,402	128
Total	461,503	322,121	259,379	2,161
Corporate	3,706	4,613	1,862	16
Consolidated total	¥465,209	¥326,734	¥261,241	$2,177

The capital expenditures in the above table represent the additions to fixed assets of each segment.

The following table is a breakdown of Electronics sales and operating revenue to external customers by product category. The Electronics business is managed as a single operating segment by Sony's management. Effective for the year ended March 31, 2003, Sony has partly changed its product category configuration. The main changes are that the projector product group, which includes business projectors and home-use projectors has been moved from "Information and Communications" to "Television", and the server product groups which includes network servers and data storage systems has been moved from "Component" to "Information and Communications". Accordingly, sales and operating revenue for the years ended March 31, 2001 and 2002 have been restated to conform to the presentation for the year ended March 31, 2003.

	Yen in millions			Dollars in millions
	Year ended March 31			Year ended March 31,
	2001	2002	2003	2003
Audio	¥756,393	¥747,469	¥682,517	$5,688
Video	791,465	806,401	823,354	6,861
Televisions	797,618	842,388	846,139	7,051
Information and Communications	1,260,531	1,167,328	958,556	7,988
Semiconductors	237,668	182,276	204,710	1,706
Components	569,478	525,568	537,358	4,478
Other	569,279	501,120	490,679	4,089
Total	¥4,982,432	¥4,772,550	¥4,543,313	$37,861

Geographic information -

Sales and operating revenue which are attributed to countries based on location of customers for the years ended March 31, 2001, 2002 and 2003 and long-lived assets as of March 31, 2001, 2002 and 2003 are as follows:

	Yen in millions			Dollars in millions
	Year ended March 31			Year ended March 31,
	2001	2002	2003	2003
Sales and operating revenue:				
Japan	¥2,400,777	¥2,248,115	¥2,093,880	$17,449
U.S.A.	2,179,833	2,461,523	2,403,946	20,033
Europe	1,473,780	1,609,111	1,665,976	13,883
Other	1,260,434	1,259,509	1,309,831	10,915
Total	¥7,314,824	¥7,578,258	¥7,473,633	$62,280

	Yen in millions			Dollars in millions
	March 31			March 31,
	2001	2002	2003	2003
Long-lived assets:				
Japan	¥1,433,038	¥1,462,709	¥1,365,160	$11,376
U.S.A.	766,148	812,309	713,524	5,946
Europe	188,174	156,560	164,459	1,371
Other	160,249	174,070	148,616	1,238
Total	¥2,547,609	¥2,605,648	¥2,391,759	$19,931

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 or geographic segments are made at arms-length prices.

There are no sales and operating revenue with a single major external customer for the years ended March 31, 2001, 2002 and 2003.

The following information shows sales and operating revenue and operating income by geographic origin for the years ended March 31, 2001, 2002 and 2003. In addition to the disclosure requirements under FAS No. 131, Sony discloses this supplemental information in accordance with disclosure requirements of the Japanese Securities and Exchange Law, to which Sony, as a Japanese public company, is subject.

	Yen in millions			Dollars in millions
	Year ended March 31			Year ended March 31,
	2001	2002	2003	2003
Sales and operating revenue:				
Japan -				
Customers	¥2,753,063	¥2,498,641	¥2,247,030	$18,725
Intersegment	2,322,037	2,312,718	2,433,998	20,283
Total	5,075,100	4,811,359	4,681,028	39,008
U.S.A. -				
Customers	2,315,985	2,637,861	2,632,176	21,935
Intersegment	184,581	184,966	189,502	1,579
Total	2,500,566	2,822,827	2,821,678	23,514
Europe -				
Customers	1,305,013	1,440,281	1,520,930	12,674
Intersegment	48,991	91,329	121,598	1,013
Total	1,354,004	1,531,610	1,642,528	13,687
Other -				
Customers	940,763	1,001,475	1,073,497	8,946
Intersegment	852,648	853,324	789,444	6,579
Total	1,793,411	1,854,799	1,862,941	15,525
Elimination	(3,408,257)	(3,442,337)	(3,534,542)	(29,454)
Consolidated total	¥7,314,824	¥7,578,258	¥7,473,633	$62,280
Operating income:				
Japan	¥155,674	¥36,188	¥11,444	$95
U.S.A.	23,131	30,704	98,762	823
Europe	11,641	24,460	62,206	518
Other	71,059	76,061	63,773	532
Corporate and elimination	(36,159)	(32,782)	(50,745)	(423)
Consolidated total	¥225,346	¥134,631	¥185,440	$1,545

Report of Independent Accountants

PricewaterhouseCoopers
Kasumigaseki Bldg., 32nd Floor
3-2-5, Kasumigaseki, Chiyoda-ku
Tokyo 100-6088, Japan

To the Stockholders and Board of Directors of
Sony Corporation (Sony Kabushiki Kaisha)

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, cash flows and changes in stockholders' equity present fairly, in all material respects, the financial position of Sony Corporation and its consolidated subsidiaries at March 31, 2002 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2003, in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with auditing standards generally accepted in the United States of America which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of film accounting in the year ended March 31, 2001, and its methods of accounting for derivative instruments and hedging activities and for goodwill and other intangible assets in the year ended March 31, 2002.

PricewaterhouseCoopers

May 21, 2003

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Sony Corporation

Consolidated Financial Information 2003 Year Ended March 31, 2003

Printed in Japan