SONY

News & Information

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CONSOLIDATED FINANCIAL RESULTS FOR THE SECOND QUARTER ENDED SEPTEMBER 30, 2001

Tokyo, October 25, 2001 -- Sony Corporation announced today its consolidated results for the second quarter ended September 30, 2001.

Consolidated Results for the Second Quarter

(Millions of yen, millions of U.S. dollars, except per share amounts)

	Second quarter ended September 30			
	2000	**2001**	Change	**2001**
Sales and operating revenue	¥ 1,690,863	**¥ 1,787,009**	+5.7%	**$ 15,016**
Operating income (loss)	53,131	**(3,391)**	—	**(28)**
Income before income taxes	76,863	**610**	-99.2	**5**
Net income (loss)	18,661	**(13,177)**	—	**(111)**
Per share data				
Common stock				
Net income (loss)				
— Basic	¥ 20.43	**¥ (14.34)**	—	**$ (0.12)**
— Diluted	19.38	**(14.34)**	—	**(0.12)**
Subsidiary tracking stock				
Net income (loss)				
— Basic	¥ —	**¥ (0.58)**	—	**$ (0.00)**
— Diluted	—	**(0.58)**	—	**(0.00)**

Regarding the above consolidated results, also refer to “Notes” on pages 16 to 19.

Operating Performance Highlights

Note I: During the second quarter ended September 30, 2001, the average value of the yen was ¥120.7 against the U.S. dollar and ¥106.8 against the euro, which was 11.6% lower against the U.S. dollar and 10.0% lower against the euro, compared with the second quarter of the previous year. Operating results on a constant currency basis described in "Operating Performance" reflect sales and operating revenue (herein referred to as "sales") and operating income (loss) obtained by applying the yen's average monthly exchange rate in the second quarter of the previous year to local currency-denominated monthly sales, cost of sales, and selling, general and administrative expenses, assuming the value of the yen had remained the same. Regarding the U.S.-based Music and Pictures businesses, results of worldwide subsidiaries (in the case of Music, excluding those of Japan) are consolidated on a U.S. dollar basis and translated into yen. Therefore, regarding such businesses, discussion of operating results on a constant currency basis is on a U.S. dollar basis. Constant currency basis results are not reflected in Sony's financial statements and are not measures conforming with Generally Accepted Accounting Principles in the U.S. ("U.S. GAAP"). Also, Sony does not believe that these measures are a substitute for U.S. GAAP measures. However, Sony believes that constant currency basis results provide additional useful information to investors regarding operating performance.

During the second quarter ended September 30, 2001, conditions in the economic environment in which Sony operates became even more difficult. Decreased demand and severe price competition became more prevalent, reflecting further economic slowdowns in all major regions including the U.S., Europe, Japan, and Asia. Moreover, after the tragic terrorist attacks in the U.S. in September 2001, the worldwide economic outlook became increasingly uncertain. In this environment, Sony's results on a constant currency basis (refer to Note I above) during the quarter were weak, especially in the Electronics business. Consolidated sales decreased approximately 2% compared with the second quarter of the previous year, due to sales decreases in the Electronics and Music businesses, although sales increased in the Game, Pictures, Financial Services, and Other businesses. In terms of profit performance, an operating loss was recorded on a constant currency basis, compared with an operating profit in the second quarter of the previous year. This was primarily due to the fact that, although the profit performance improved in the Pictures business, which recorded an operating profit, the profit performance deteriorated significantly in the Electronics business, which recorded an operating loss.

In Sony's financial statements, which, in accordance with U.S. GAAP, reflect the impact of the translation of financial results and conditions into yen, the currency in which the financial statements are prepared, sales increased 5.7% to ¥1,787.0 billion ($15,016 million) compared with the second quarter of the previous year, reflecting the positive impact of the yen's depreciation against the U.S. dollar and the euro. However, an operating loss of ¥3.4 billion ($28 million) was recorded compared with an operating profit of ¥53.1 billion recorded in the second quarter of the previous year. Regarding results by segment, sales increased in the Game, Music, and Pictures businesses, although sales were almost flat in the Electronics, Financial Services, and Other businesses. Profit performance deteriorated significantly in the Electronics business, which recorded an operating loss, although profit performance improved in the Game and Pictures businesses, which recorded operating profits.

The ratio of cost of sales to sales during the quarter increased significantly, primarily because product prices continued to fall due to intensifying competition. Selling, general, and administrative expenses during the quarter increased primarily due to an approximately ¥11.7 billion ($98 million) charge for the impairment of certain facilities in San Diego in the U.S., which had been used for manufacturing CRTs for displays. Primarily due to this charge, loss on sale, disposal or impairment of long-lived assets, net, which are both recorded in selling, general and administrative expenses, totaled approximately ¥17.7 billion ($149 million), as compared with approximately ¥6.2 billion in the second quarter of the previous year. Selling, general and administrative expenses during the quarter included approximately ¥9.0 billion ($76 million) of severance-related expenses recorded primarily at electronics and music subsidiaries in the U.S. and at Aiwa Co., Ltd. These expenses were partially offset by an approximately ¥4.2 billion ($35 million) reversal of a stock-price-linked incentive compensation charge formerly incurred, as compared to a ¥2.5 billion charge recorded in the second quarter of the previous year. As a result of these factors, consolidated operating profit performance during the quarter deteriorated significantly.

Results during the quarter included positive effects from Statement of Financial Accounting Standards No.142, "Goodwill and Other Intangible Assets", which Sony adopted in the first quarter ended June 30, 2001 (refer to Note 8 on pages 18 to 19). The effects of this change were an approximately ¥4.7 billion ($39 million) positive impact on operating loss and income before income taxes, and an approximately ¥4.4 billion ($37 million) positive impact on net loss. The positive effects on operating loss by segment were approximately ¥0.7 billion ($6 million) in the Electronics business, approximately ¥2.6 billion ($22 million) in the Game business, approximately ¥0.8 billion ($7 million) in the Music business, and approximately ¥0.5 billion ($4 million) in the Pictures business.

Operating Performance Highlights by Business Segment

Note II: The following discussion is based on segment information. Sales and operating revenue in each business segment include intersegment transactions (refer to "Business Segment Information" on pages 9 to 10). In the Electronics business, sales and operating revenue by product category represent sales to customers, which do not include intersegment transactions (refer to "Electronics Sales and Operating Revenue to Customers by Product Category" on page 11).

Electronics

{Slowdown in OEM and Semiconductor Businesses, Consumer AV Business Healthy}

During the second quarter ended September 30, 2001, on a constant currency basis (refer to Note I on page 2), sales in the Electronics business decreased approximately 7% compared with the second quarter of the previous year. Correspondingly, an operating loss was recorded, compared with an operating profit in the second quarter of the previous year. (Sales to customers, which exclude intersegment sales to the Game business, decreased approximately 13% compared with the second quarter of the previous year, on a constant currency basis.) The significant deterioration in profit performance was primarily due to continued falling product prices reflecting intensified competition in Sony's major markets, including the U.S., Europe, Japan, and Asia. Also, profit performance was hurt by the aforementioned charge for the impairment of facilities used for manufacturing CRTs for displays, charges primarily for impairment of mobile phone inventories that took place before Sony's mobile phone business was transferred to the joint venture between Sony and Ericsson, and severance-related expenses recorded at a subsidiary in the U.S. and at Aiwa Co., Ltd.

Regarding sales by product on a constant currency basis, sales of many products, including televisions, PCs, displays, video cameras, and semiconductors decreased, although sales of certain other products including mobile phones increased.

Regarding sales by geographic segment on a constant currency basis, sales decreased in all geographic segments. In Japan, although sales of mobile phones increased, sales of PCs, televisions, and semiconductors decreased. In the U.S., sales of displays, televisions, and video cameras decreased. In Europe, sales of video cameras, displays, and PCs decreased. In Other areas, sales of CD-R/RW drives, televisions, and semiconductors decreased.

On a U.S. GAAP basis, due to the aforementioned factors and the positive impact of the yen's depreciation, sales were almost flat at ¥1,283.9 billion ($10,789 million) compared with the second quarter of the previous year. However, an operating loss of ¥24.9 billion ($209 million) was recorded compared with an operating profit of ¥69.8 billion recorded in the second quarter of the previous year.

Regarding "Electronics Sales and Operating Revenue to Customers by Product Category" (refer to page 11), "Audio" sales increased 4.6% to ¥191.8 billion ($1,612 million) primarily due to higher sales of portable audio. "Video" sales decreased 3.7% to ¥200.7 billion ($1,687 million) primarily due to lower sales of video cameras. "Televisions" sales decreased 5.9% to ¥167.1 billion ($1,404 million) primarily due to lower sales of CRT-based televisions. "Information and Communications" sales increased 1.6% to ¥301.3 billion ($2,532 million) primarily due to higher sales of mobile phones, personal digital assistants, and printing paper, offset to a certain extent by lower sales of displays and PCs. "Semiconductors" sales decreased 25.0% to ¥45.1 billion ($379 million) due to lower sales of most semiconductors. "Components" sales decreased 8.0% to ¥137.3 billion ($1,154 million) primarily due to lower sales of CD-R/RW drives and CRTs for displays. "Other" sales decreased 20.8% to ¥106.2 billion ($892 million) primarily due to lower sales at Aiwa Co., Ltd.

Regarding profit performance by product, a large loss was recorded in mobile phones and a smaller loss was recorded in certain other products including CRTs for displays. However, profit was recorded in some products including video cameras, digital still cameras, televisions, and portable audio. Compared with the second quarter of the previous year, profit performance deteriorated in such products as mobile phones, semiconductors, CRTs for displays, and video cameras. Furthermore, loss increased at Aiwa Co., Ltd.

Inventories as of September 30, 2001 in the Electronics business were approximately ¥772.4 billion ($6,491 million), a decrease of approximately ¥109.7 billion compared with those as of June 30, 2001. The decrease was primarily because Sony strengthened its ability to control procurement, manufacturing, and inventory in response to changes in demand, through the design and manufacturing platform companies established in April 2001.

Game

{Turn to Black from Sales Growth of PlayStation 2 Hardware and Software}

During the second quarter ended September 30, 2001, on a constant currency basis (refer to Note I on page 2), sales in the Game business increased approximately 83% compared with the second quarter of the previous year. However, operating loss increased compared with the second quarter of the previous year. The operating loss was primarily due to a strategic reduction in the price of PlayStation 2 hardware in Europe and corresponding inventory price adjustments. On a U.S. GAAP basis, sales increased 98.2% to ¥242.8 billion ($2,040 million) compared with the second quarter of the previous year. Correspondingly, operating income of ¥4.1 billion ($34 million) was recorded compared with an operating loss of ¥2.9 billion recorded in the second quarter of the previous year. This was primarily due to further cost reductions in producing PlayStation 2 hardware, favorable sales of PlayStation 2 software, and the positive impact of the yen's depreciation, although profit performance was hurt by the aforementioned factors.

Regarding sales by geographic segment on a constant currency basis, overall sales in Japan decreased due to lower sales of PS one hardware and software, although sales of PlayStation 2 hardware and software increased. Overall sales in the U.S. increased significantly due to contributions from PlayStation 2 hardware and software, although sales of PS one hardware and software decreased. Overall sales in Europe increased significantly due to contributions from PlayStation 2 hardware and software as well as PS one hardware, although sales of PS one software decreased.

Total worldwide production shipments of PlayStation and PS one hardware were 2.82 million units for the quarter compared with 2.37 million units for the second quarter of the previous year, resulting in cumulative shipments of 88.26 million units as of September 30, 2001. Worldwide production shipments of PlayStation 2 hardware were 4.62 million units for the quarter compared with 0.98 million units for the second quarter of the previous year, resulting in cumulative shipments of 19.57 million units as of September 30, 2001. Worldwide production shipments of PlayStation software (including those from both Sony and third parties under Sony licenses) were 19 million units for the quarter compared with 40 million units for the second quarter of the previous year, resulting in cumulative shipments of 802 million units as of September 30, 2001. Worldwide production shipments of PlayStation 2 software (including those from both Sony and third parties under Sony licenses) were 22.7 million units for the quarter compared with 3.4 million units for the second quarter of the previous year, resulting in cumulative shipments of 72.5 million units as of September 30, 2001.

Inventories as of September 30, 2001 in the Game business were approximately ¥191.7 billion ($1,611 million), an increase of approximately ¥2.8 billion compared with those as of June 30, 2001.

Music

{Worldwide Slowdown of Market, Restructuring Underway}

During the second quarter ended September 30, 2001, on a constant currency basis (refer to Note I on page 2), sales in the Music business decreased approximately 4% and operating loss increased 37%, compared with the second quarter of the previous year.

Regarding the results of Sony Music Entertainment Inc. (herein referred to as "SMEI"), the U.S.-based operation, on a constant currency basis, sales decreased compared with the second quarter of the previous year and an operating loss was recorded, although the amount of loss was smaller than that in the second quarter of the previous year. Results in the second quarter were negatively impacted primarily by a slowdown in sales resulting from weak industry conditions worldwide, escalating digital piracy, and the negative market impact following the terrorist attacks in the U.S. Additionally, results were hurt by the strengthening of the U.S. dollar against foreign currencies, costs associated with restructuring activities such as reduction in the number of employees, losses derived from digital media investments, and various legal expenses. However, due to the benefit of continuing global cost reduction initiatives, the amount of loss decreased compared with the second quarter of the previous year. Best sellers during the quarter included Macy Gray's *The Id*, Jamiroquai's *A Funk Odyssey*, and Maxwell's *Now*.

In Japan, regarding the results of Sony Music Entertainment (Japan) Inc. (herein referred to as "SMEJ") and its subsidiaries, sales decreased compared with the second quarter of the previous year and an operating loss was recorded, compared with an operating profit in the second quarter of the previous year. The weak results were primarily due to lower than expected sales of several albums at SMEJ. Best sellers during the quarter included Ken Hirai's *gaining through losing* and Shogo Hamada's *SAVE OUR SHIP*.

On a U.S. GAAP basis, due to the aforementioned factors and the positive impact of the yen's depreciation, sales increased 4.7% to ¥140.1 billion ($1,177 million) compared with the second quarter of the previous year. However, operating loss increased from ¥3.5 billion in the second quarter of the previous year to ¥5.3 billion ($44 million).

Pictures

{Home Video/DVD Software Business Strong}

During the second quarter ended September 30, 2001, on a constant currency basis (refer to Note I on page 2), sales in the Pictures business increased approximately 14% compared with the second quarter of the previous year and substantial operating income was recognized compared with an operating loss in the second quarter of the previous year. The results in the Pictures business consist of the results of Sony Pictures Entertainment (herein referred to as "SPE"), the U.S.-based operation.

The sales increase was primarily due to the strong motion picture performance of *America's Sweethearts* as well as strong carryover performance of prior year films including *The Wedding Planner*, *Vertical Limit*, *Snatch*, and *Crouching Tiger, Hidden Dragon*. Higher third party home entertainment sales, including continued growth in the worldwide DVD market, also contributed to the sales increase. The significant improvement in profit performance over the second quarter of the previous year was primarily due to the improved motion picture and home entertainment performance noted above, the recording of an insurance recovery primarily for losses on previous years' released films, and television revenues from the initial syndication run of *Just Shoot Me*.

On a U.S. GAAP basis, due to the aforementioned factors and the positive impact of the yen's depreciation, sales increased 29.3% to ¥146.7 billion ($1,233 million) compared with the second quarter of the previous year. Correspondingly, operating income of ¥22.1 billion ($186 million) was recognized compared with an operating loss of ¥7.2 billion recorded in the second quarter of the previous year.

Financial Services

{Revenue Increase in Life/Non-Life Insurance Businesses, Devaluation of Securities in Life Insurance Recorded}

Financial Services revenue was almost flat at ¥109.8 billion ($923 million) compared with the second quarter of the previous year. However, an operating loss of ¥0.3 billion ($3 million) was recorded compared with an operating profit of ¥3.3 billion recorded in the second quarter of the previous year. The decline in profit performance during the quarter was primarily due to the impact of Statement of Financial Accounting Standards No.133, "Accounting for Derivative Instruments and Hedging Activities", which Sony adopted in the first quarter ended June 30, 2001.

During the second quarter ended September 30, 2001, regarding the results of Sony Life Insurance Co., Ltd., revenue and profit decreased compared with the second quarter of the previous year. These decreases resulted from reductions in the valuation of conversion rights for convertible bonds that were recorded in the first quarter ended June 30, 2001, reflecting the weak Japanese stock market during the quarter. This reduction was recorded based on the aforementioned accounting standards. Results in the life insurance business were positively impacted to a certain extent, however, by a net increase in life insurance-in-force from individual life insurance products such as term-life and medical expense coverage. Regarding the results of Sony Assurance Inc., revenue increased due to a net increase in automobile insurance-in-force. However, loss was recorded primarily because costs, such as advertising expenses and payments for insurance benefits, were higher than revenue. This loss decreased compared with the loss recorded in the second quarter of the previous year primarily due to the aforementioned revenue increase. Regarding the results of Sony Finance International, Inc., revenue and profit increased due to higher leasing and credit financing revenues. Sony Bank Inc., which started operation in June 2001, recorded loss due to start-up expenses.

Other

Sales in the Other business increased 1.1% to ¥36.9 billion ($310 million) compared with the second quarter of the previous year. However, operating loss increased from ¥1.1 billion in the second quarter of the previous year to ¥1.9 billion ($17 million).

The sales increase was primarily due to higher sales at Sony Communication Network Corporation (“SCN”), although sales of an advertising agency business subsidiary in Japan and location-based entertainment businesses in Japan and the U.S. decreased. The operating loss was due to losses at SCN, the advertising agency business subsidiary in Japan, and the location-based entertainment businesses in Japan and the U.S.

Consolidated Income before Income Taxes and Net Income (Loss)

Regarding other income and expenses in consolidated results, other income decreased 46.5% to ¥26.2 billion ($220 million) and other expenses decreased 12.1% to ¥22.2 billion ($187 million), compared with the second quarter of the previous year. As a result of the decrease in other income and the operating factors discussed above, income before income taxes decreased 99.2% to ¥0.6 billion ($5 million), compared with the second quarter of the previous year.

Other income decreased primarily because, in the second quarter of the previous year a ¥8.4 billion gain on issuances of stock by Crosswave Communications Inc. and Monex, Inc, and a ¥7.4 billion gain on sales of securities investments and other, net, primarily from the sale of a small portion of the equity of a subsidiary engaged in a television channel operation in India and the sale of a subsidiary engaged in in-flight entertainment business, were recorded, while a small loss on sales of securities investments and other, net, was recorded in other expenses-other in the current quarter. However, foreign exchange gain, net, increased from ¥3.2 billion in the second quarter of the previous year to ¥4.4 billion ($37 million) in the current quarter.

Income taxes decreased from ¥38.0 billion in the second quarter of the previous year to ¥14.8 billion ($124 million), primarily due to the decrease of income before income taxes. However, the ratio of income taxes to income before income taxes increased significantly, primarily because losses at Aiwa Co., Ltd. and certain subsidiaries in the U.S. and Europe did not have the effect of reducing income taxes. Minority interest of consolidated subsidiaries changed from a loss of ¥4.3 billion in the second quarter of the previous year to a loss of ¥5.7 billion ($47 million), primarily because the loss increased at Aiwa Co., Ltd. Equity in net losses of affiliated companies decreased from ¥24.5 billion in the second quarter of the previous year to ¥4.7 billion ($39 million) (refer to “**Results of Affiliated Companies Accounted for under the Equity Method**” below). As a result, a net loss of ¥13.2 billion ($111 million) was recorded compared with net income of ¥18.7 billion recorded in the second quarter of the previous year.

Regarding Sony’s common stock, during the quarter, basic net loss per share was ¥14.34 ($0.12) compared with net income per share of ¥20.43 in the second quarter of the previous year, and diluted net loss per share was ¥14.34 ($0.12) compared with net income per share of ¥19.38 in the second quarter of the previous year. Regarding Sony’s subsidiary tracking stock, during the quarter, basic and diluted net loss per share was ¥0.58 ($0.00) (refer to Note 3 on page 16).

Results of Affiliated Companies Accounted for under the Equity Method

Equity affiliates included i) in the Electronics business - S.T. Liquid Crystal Display Corp. ("ST-LCD"), an LCD joint venture in Japan; Crosswave Communications Inc. ("CWC"), a high-capacity/high-speed network services provider in Japan; American Video Glass Company ("AVGC"), a joint venture for CRT glass material in the U.S.; ii) in the Music business - The Columbia House Company ("CHC"), a direct marketer of music and videos, iii) in the Pictures business - Telemundo Communications Group, Inc. ("Telemundo"), a U.S.-based Spanish language television network and station group, and iv) in the Other business - a commercial- and other- use facility businesses in Germany and broadcasting-related businesses in Japan.

Equity in net losses of affiliated companies decreased from ¥24.5 billion in the second quarter of the previous year to ¥4.7 billion ($39 million). Equity in net losses during the quarter was primarily due to losses at CHC, AVGC, CWC, and Telemundo. (See note (iii) under "**Outlook**" below regarding Telemundo.) However, compared with the second quarter of the previous year, the amount of equity in net losses decreased significantly, primarily because no further net losses pertaining to Loews Cineplex Entertainment Corporation ("Loews"), a theatrical exhibition company, will be reflected because Sony wrote off the entire carrying value of its investment in Loews in the previous fiscal year. (In the second quarter of the previous year, approximately ¥19.3 billion equity in net loss was recorded regarding Loews.)

Cash Flows

During the six months ended September 30, 2001, regarding cash flows from operating activities, Sony used ¥120.0 billion ($1,008 million), compared to the ¥44.3 billion it generated in the six months of the previous year. Regarding cash flows from investing activities, Sony used ¥403.7 billion ($3,393 million), an increase of ¥108.6 billion compared with the six months of the previous year. Regarding cash flows from financing activities, Sony generated ¥666.2 billion ($5,599 million), an increase of ¥417.8 billion compared with the six months of the previous year. As a result, cash and cash equivalents as of September 30, 2001 was ¥741.6 billion ($6,232 million), an increase of ¥118.4 billion compared with September 30, 2000.

During the six months, cash flow from operating activities was used, while cash flow from operating activities was generated in the six months of the previous year. This change was primarily because notes and accounts payable and accrued income and other taxes decreased, although Sony reduced the rate of increase in inventories, and notes and accounts receivable decreased compared with the six months of the previous year. Compared with the six months of the previous year, net loss during the six months decreased, primarily due to adoptions of new accounting standards which do not impact cash flows. In the six months of the previous year, a non-cash ¥104.5 billion loss (net-of-tax) derived from one-time cumulative effect adjustments for changes in accounting principles, caused by the adoptions of the film accounting standard and the accounting standard regarding revenue recognition, decreased net income by the same amount, while in the six months of the current year, a non-cash ¥6.0 billion ($50 million) profit (net-of-tax) derived from a one-time cumulative effect adjustment for a change in accounting principle, caused by the adoption of the accounting standard regarding derivative instruments and hedging activities, decreased net loss by the same amount (refer to Note 8 on pages 17 to 19). Regarding cash flows from operating activities during the six months, a ¥43.3 billion ($363 million) net loss was recorded. Among adjustments to net loss, depreciation and amortization, including amortization of deferred insurance acquisition costs, was ¥167.6 billion ($1,408 million), primarily in the Electronics and Game businesses. Amortization of film costs was ¥102.7 billion ($863 million). Loss on sale, disposal or impairment of long-lived assets, net was ¥16.9 billion ($142 million). Regarding changes in assets and liabilities, notes and accounts receivable decreased by ¥84.4 billion ($709 million), reflecting collections of account receivables primarily in the Electronics business. Future insurance policy benefits and other increased by ¥129.1 billion ($1,084 million), primarily due to an increase in policy reserves for future insurance payments, reflecting a higher net increase in life insurance-in-force in the Insurance business. On the other hand, inventories increased by ¥77.3 billion ($649 million) primarily in the Electronics and Game businesses. Notes and accounts payable decreased by ¥131.3 billion ($1,103 million), reflecting reductions in production primarily in the Electronics business. Accrued income and other taxes decreased by ¥42.1 billion ($354 million), primarily because payments of income taxes increased during the six months, reflecting a high level of income before income taxes in the previous year.

The increase in net cash flows used in investing activities during the six months compared with the six months of the previous year was principally because, primarily at life insurance and banking businesses in the Financial Services business, payments for investment and advances were higher than proceeds from sales of securities investments and other and collections of advances, although payments for purchases of fixed assets and payments for investments and advances (other than Financial Services business) decreased. Regarding cash flows from investing activities during the six months, ¥220.2 billion ($1,850 million) of payments for purchases of fixed assets were recorded, primarily in the Electronics and Game businesses. Payments for investments and advances (other than Financial Services business) were ¥35.3 billion ($296 million), consisting of approximately ¥15.2 billion ($128 million) for investments and approximately ¥20.1 billion ($169 million) for advances. Payments for investments included additional investment in Telemundo and investment in "pressplay" (a joint venture between SMEI and Universal Music Group, a unit of Vivendi Universal of France) to start a digital music distribution business. On the other hand, proceeds from sales of securities investments and other and collections of advances (other than Financial Services business) were ¥10.8 billion ($91 million). In the Financial Services business, reflecting increased investment assets in the life insurance and banking businesses, Sony used ¥275.7 billion ($2,317 million) for payments for investments and advances. Also, proceeds from sales of securities investments and other and collections of advances by Financial Services business were ¥85.2 billion ($716 million).

The significant increase in net cash flows provided by financing activities during the six months compared with the six months of the previous year was primarily due to increased short-term borrowings. Regarding cash flows from financing activities during the six months, short-term borrowings increased by ¥582.9 billion ($4,898 million). The increase in short-term borrowings was primarily due to higher short-term borrowings by financial subsidiaries in the U.S. and Europe, in order to fund cash requirements, primarily for working capital, and to secure sufficient cash for crisis management purposes during the financial turbulence that occurred in the U.S. after the terrorist attacks in September 2001. Payments of long-term debt were ¥120.9 billion ($1,016 million), while proceeds from issuance of long-term debt were ¥154.3 billion ($1,297 million). This was primarily because Sony Corporation redeemed ¥80.0 billion ($672 million) of bonds due in September 2001, while it newly issued ¥150.0 billion ($1,261 million) of bonds.

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Business Segment Information

(Millions of yen, millions of U.S. dollars)

Sales and operating revenue	Three months ended September 30 2000	2001	Change	2001
Electronics				
Customers	¥ 1,209,360	¥ **1,149,551**	-4.9%	$ **9,660**
Intersegment	74,444	**134,313**		**1,129**
Total	1,283,804	**1,283,864**	+0.0	**10,789**
Game				
Customers	119,684	**239,152**	+99.8	**2,010**
Intersegment	2,799	**3,643**		**30**
Total	122,483	**242,795**	+98.2	**2,040**
Music				
Customers	123,644	**127,189**	+2.9	**1,069**
Intersegment	10,240	**12,931**		**108**
Total	133,884	**140,120**	+4.7	**1,177**
Pictures				
Customers	113,416	**146,690**	+29.3	**1,233**
Intersegment	0	**0**		**0**
Total	113,416	**146,690**	+29.3	**1,233**
Financial Services				
Customers	102,174	**102,627**	+0.4	**862**
Intersegment	7,013	**7,210**		**61**
Total	109,187	**109,837**	+0.6	**923**
Other				
Customers	22,585	**21,800**	-3.5	**182**
Intersegment	13,961	**15,146**		**128**
Total	36,546	**36,946**	+1.1	**310**
Elimination	(108,457)	**(173,243)**	—	**(1,456)**
Consolidated total	¥ 1,690,863	¥ **1,787,009**	+5.7%	$ **15,016**

Electronics intersegment amounts primarily consist of transactions with the Game business.
Other intersegment amounts primarily consist of transactions with the Electronics business.

Operating income (loss)	2000	2001	Change	2001
Electronics	¥ 69,835	¥ **(24,909)**	—	$ **(209)**
Game	(2,935)	**4,074**	—	**34**
Music	(3,472)	**(5,256)**	—	**(44)**
Pictures	(7,187)	**22,078**	—	**186**
Financial Services	3,349	**(339)**	—	**(3)**
Other	(1,080)	**(1,929)**	—	**(17)**
Total	58,510	**(6,281)**	—	**(53)**
Corporate and elimination	(5,379)	**2,890**	—	**25**
Consolidated total	¥ 53,131	¥ **(3,391)**	—	$ **(28)**

Commencing with the first quarter ended June 30, 2001, Sony has partly realigned its business segment configuration. In accordance with this change, results of the previous year have been reclassified to conform to the presentation for the quarter ended September 30, 2001.

(Millions of yen, millions of U.S. dollars)

Sales and operating revenue	Six months ended September 30 2000	**2001**	Change	**2001**
Electronics				
Customers	¥ 2,297,025	**¥ 2,224,359**	-3.2%	**$ 18,692**
Intersegment	146,855	**286,778**		**2,410**
Total	2,443,880	**2,511,137**	+2.8	**21,102**
Game				
Customers	228,664	**390,042**	+70.6	**3,278**
Intersegment	5,613	**7,694**		**64**
Total	234,277	**397,736**	+69.8	**3,342**
Music				
Customers	245,717	**262,744**	+6.9	**2,208**
Intersegment	18,825	**24,649**		**207**
Total	264,542	**287,393**	+8.6	**2,415**
Pictures				
Customers	221,968	**283,010**	+27.5	**2,378**
Intersegment	0	**0**		**0**
Total	221,968	**283,010**	+27.5	**2,378**
Financial Services				
Customers	209,863	**222,227**	+5.9	**1,867**
Intersegment	13,704	**14,183**		**120**
Total	223,567	**236,410**	+5.7	**1,987**
Other				
Customers	52,756	**42,406**	-19.6	**356**
Intersegment	25,122	**28,540**		**240**
Total	77,878	**70,946**	-8.9	**596**
Elimination	(210,119)	**(361,844)**	—	**(3,041)**
Consolidated total	¥ 3,255,993	**¥ 3,424,788**	+5.2%	**$ 28,779**

Electronics intersegment amounts primarily consist of transactions with the Game business.
Other intersegment amounts primarily consist of transactions with the Electronics business.

Operating income (loss)	2000	**2001**	Change	**2001**
Electronics	¥ 123,186	**¥ (25,716)**	—	**$ (216)**
Game	(20,940)	**947**	—	**8**
Music	(8,489)	**(864)**	—	**(7)**
Pictures	(12,764)	**19,368**	—	**163**
Financial Services	10,371	**9,283**	-10.5%	**78**
Other	(3,092)	**(3,738)**	—	**(32)**
Total	88,272	**(720)**	—	**(6)**
Corporate and elimination	(4,552)	**332**	—	**3**
Consolidated total	¥ 83,720	**¥ (388)**	—	**$ (3)**

Commencing with the first quarter ended June 30, 2001, Sony has partly realigned its business segment configuration. In accordance with this change, results of the previous year have been reclassified to conform to the presentation for the six months ended September 30, 2001.

Electronics Sales and Operating Revenue to Customers by Product Category

(Millions of yen, millions of U.S. dollars)

Sales and operating revenue	Three months ended September 30			
	2000	**2001**	Change	**2001**
Audio	¥ 183,364	**¥ 191,796**	+4.6%	**$ 1,612**
Video	208,345	**200,701**	-3.7	**1,687**
Televisions	177,446	**167,057**	-5.9	**1,404**
Information and Communications	296,714	**301,343**	+1.6	**2,532**
Semiconductors	60,184	**45,118**	-25.0	**379**
Components	149,247	**137,323**	-8.0	**1,154**
Other	134,060	**106,213**	-20.8	**892**
Total	¥ 1,209,360	**¥ 1,149,551**	-4.9%	**$ 9,660**

Sales and operating revenue	Six months ended September 30			
	2000	**2001**	Change	**2001**
Audio	¥ 345,180	**¥ 361,866**	+4.8%	**$ 3,041**
Video	390,892	**401,996**	+2.8	**3,378**
Televisions	316,110	**299,465**	-5.3	**2,516**
Information and Communications	578,239	**578,771**	+0.1	**4,864**
Semiconductors	111,258	**97,372**	-12.5	**818**
Components	285,867	**269,762**	-5.6	**2,267**
Other	269,479	**215,127**	-20.2	**1,808**
Total	¥ 2,297,025	**¥ 2,224,359**	-3.2%	**$ 18,692**

The above table is a breakdown of Electronics sales and operating revenue to customers in the Business Segment Information on pages 9 and 10. 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, 2001, 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 presentation for the current quarter.

Geographic Segment Information

(Millions of yen, millions of U.S. dollars)

Sales and operating revenue	Three months ended September 30			
	2000	**2001**	Change	**2001**
Japan	¥ 557,978	**¥ 522,336**	-6.4%	**$ 4,389**
United States	519,537	**615,178**	+18.4	**5,169**
Europe	304,662	**351,616**	+15.4	**2,955**
Other Areas	308,686	**297,879**	-3.5	**2,503**
Total	¥ 1,690,863	**¥ 1,787,009**	+5.7%	**$ 15,016**

Sales and operating revenue	Six months ended September 30			
	2000	**2001**	Change	**2001**
Japan	¥ 1,116,269	**¥ 1,055,093**	-5.5%	**$ 8,866**
United States	946,100	**1,122,519**	+18.6	**9,433**
Europe	615,269	**661,809**	+7.6	**5,561**
Other Areas	578,355	**585,367**	+1.2	**4,919**
Total	¥ 3,255,993	**¥ 3,424,788**	+5.2%	**$ 28,779**

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

Consolidated Statements of Income (Unaudited)

(Millions of yen, millions of U.S. dollars, except per share amounts)

	Three months ended September 30			
	2000	**2001**	Change	**2001**
			%	
Sales and operating revenue:				
Net sales	¥ 1,578,539	**¥ 1,674,975**		**$ 14,075**
Financial service revenue	102,174	**102,627**		**862**
Other operating revenue	10,150	**9,407**		**79**
	1,690,863	**1,787,009**	+5.7	**15,016**
Costs and expenses:				
Cost of sales	1,141,412	**1,263,204**		**10,615**
Selling, general and administrative	397,495	**424,231**		**3,564**
Financial service expenses	98,825	**102,965**		**865**
	1,637,732	**1,790,400**		**15,044**
Operating income (loss)	53,131	**(3,391)**	—	**(28)**
Other income:				
Interest and dividends	6,564	**3,544**		**30**
Royalty income	11,225	**8,718**		**73**
Foreign exchange gain, net	3,209	**4,408**		**37**
Gain on sales of securities investments and other, net	7,372	**—**		**—**
Gain on issuances of stock by equity investees	8,436	**—**		**—**
Other	12,145	**9,506**		**80**
	48,951	**26,176**		**220**
Other expenses:				
Interest	11,095	**10,615**		**89**
Loss on devaluation of securities investments	2,427	**2,023**		**17**
Other	11,697	**9,537**		**81**
	25,219	**22,175**		**187**
Income before income taxes	76,863	**610**	-99.2	**5**
Income taxes	38,048	**14,814**		**124**
Income (loss) before minority interest and equity in net losses of affiliated companies	38,815	**(14,204)**		**(119)**
Minority interest in income (loss) of consolidated subsidiaries	(4,327)	**(5,715)**		**(47)**
Equity in net losses of affiliated companies	24,481	**4,688**		**39**
Net income (loss)	¥ 18,661	**¥ (13,177)**	—	**$ (111)**
Per share data				
Common stock				
Net income (loss)				
— Basic	¥ 20.43	**¥ (14.34)**	—	**$ (0.12)**
— Diluted	19.38	**(14.34)**	—	**(0.12)**
Subsidiary tracking stock				
Net income (loss)				
— Basic	—	**(0.58)**	—	**(0.00)**
— Diluted	—	**(0.58)**	—	**(0.00)**

Consolidated Statements of Income and Retained Earnings (Unaudited)

(Millions of yen, millions of U.S. dollars, except per share amounts)

	Six months ended September 30			
	2000	**2001**	Change	**2001**
Sales and operating revenue:			%	
Net sales	¥ 3,025,088	**¥ 3,185,650**		**$ 26,770**
Financial service revenue	209,863	**222,227**		**1,867**
Other operating revenue	21,042	**16,911**		**142**
	3,255,993	**3,424,788**	+5.2	**28,779**
Costs and expenses:				
Cost of sales	2,219,591	**2,375,860**		**19,965**
Selling, general and administrative	753,190	**836,373**		**7,028**
Financial service expenses	199,492	**212,943**		**1,789**
	3,172,273	**3,425,176**		**28,782**
Operating income (loss)	83,720	**(388)**	—	**(3)**
Other income:				
Interest and dividends	10,972	**7,645**		**64**
Royalty income	14,393	**13,894**		**117**
Foreign exchange gain, net	1,854	**—**		**—**
Gain on sales of securities investments and other, net	22,499	**—**		**—**
Gain on issuances of stock by equity investees	8,436	**416**		**3**
Other	20,874	**20,819**		**175**
	79,028	**42,774**		**359**
Other expenses:				
Interest	20,571	**22,697**		**191**
Loss on devaluation of securities investments	2,430	**10,826**		**91**
Foreign exchange loss, net	—	**215**		**2**
Other	26,013	**22,365**		**187**
	49,014	**56,103**		**471**
Income (loss) before income taxes	113,734	**(13,717)**	—	**(115)**
Income taxes	55,276	**35,081**		**295**
Income (loss) before minority interest, equity in net losses of affiliated companies and cumulative effect of an accounting changes	58,458	**(48,798)**		**(410)**
Minority interest in income (loss) of consolidated subsidiaries	(3,875)	**(8,929)**		**(76)**
Equity in net losses of affiliated companies	31,641	**9,364**		**79**
Income (loss) before cumulative effect of accounting changes	30,692	**(49,233)**	—	**(413)**
Cumulative effect of accounting changes (2000:Including ¥491million income tax expense 2001:Net of income taxes of ¥2,975million)	(104,473)	**5,978**		**50**
Net income (loss)	¥ (73,781)	**¥ (43,255)**	—	**$ (363)**
Retained earnings:				
Balance, beginning of year	1,223,761	**1,217,110**		**10,228**
Cash dividends	(11,444)	**(11,496)**		**(97)**
Stock issue costs	(413)	**(162)**		**(1)**
Balance, as of September 30	¥ 1,138,123	**¥ 1,162,197**		**$ 9,767**
Per share data				
Common stock				
Income (loss) before cumulative effect of accounting changes				
— Basic	¥ 33.65	**¥ (53.60)**	—	**$ (0.45)**
— Diluted	32.09	**(53.60)**	—	**(0.45)**
Net income (loss)				
— Basic	(80.89)	**(47.09)**	—	**(0.40)**
— Diluted	(72.98)	**(47.09)**	—	**(0.40)**
Subsidiary tracking stock				
Net income (loss)				
— Basic	—	**(0.84)**	—	**(0.01)**
— Diluted	—	**(0.84)**	—	**(0.01)**

Condensed Consolidated Balance Sheets (Unaudited)

(Millions of yen, millions of U.S. dollars)

ASSETS	September 30 2000	March 31 2001	**September 30 2001**	**September 30 2001**
Current assets:				
Cash and time deposits	¥ 630,068	¥ 613,154	**¥ 746,616**	**$ 6,274**
Marketable securities	142,156	90,094	**157,003**	**1,320**
Notes and accounts receivable, less allowances	1,067,237	1,295,304	**1,188,235**	**9,985**
Inventories	1,016,190	942,876	**1,007,580**	**8,467**
Other	485,563	536,046	**555,006**	**4,664**
Total current assets	3,341,214	3,477,474	**3,654,440**	**30,710**
Film costs	254,110	297,617	**316,546**	**2,660**
Investments and advances	1,156,011	1,388,988	**1,499,655**	**12,602**
Property, plant and equipment, less depreciation	1,276,083	1,434,299	**1,417,713**	**11,914**
Other assets:				
Intangibles	207,745	221,289	**223,860**	**1,881**
Goodwill	289,265	305,159	**300,107**	**2,522**
Deferred insurance acquisition costs	252,810	270,022	**286,947**	**2,411**
Other	388,288	433,118	**450,745**	**3,788**
Total other assets	1,138,108	1,229,588	**1,261,659**	**10,602**
	¥ 7,165,526	¥ 7,827,966	**¥ 8,150,013**	**$ 68,488**

LIABILITIES AND STOCKHOLDERS' EQUITY	September 30 2000	March 31 2001	**September 30 2001**	**September 30 2001**
Current liabilities:				
Short-term debt	¥ 408,466	¥ 356,373	**¥ 816,899**	**$ 6,865**
Notes and accounts payable, trade	899,642	925,021	**788,583**	**6,627**
Accounts payable, other and accrued expenses	698,093	807,532	**745,413**	**6,264**
Accrued income and other taxes	105,364	133,031	**94,079**	**791**
Other	320,241	424,783	**398,602**	**3,349**
Total current liabilities	2,431,806	2,646,740	**2,843,576**	**23,896**
Long-term liabilities:				
Long-term debt	856,480	843,687	**955,839**	**8,032**
Accrued pension and severance costs	142,815	220,787	**223,632**	**1,879**
Deferred income taxes	187,908	175,148	**161,896**	**1,360**
Future insurance policy benefits and other	1,239,832	1,366,013	**1,495,064**	**12,564**
Other	183,317	241,101	**235,551**	**1,980**
Total long-term liabilities	2,610,352	2,846,736	**3,071,982**	**25,815**
Minority interest in consolidated subsidiaries	30,137	19,037	**33,020**	**277**
Stockholders' equity:				
Capital stock	465,322	472,002	**476,028**	**4,000**
Additional paid-in capital	955,681	962,401	**968,144**	**8,136**
Retained earnings	1,138,123	1,217,110	**1,162,197**	**9,766**
Accumulated other comprehensive income	(458,250)	(328,567)	**(397,510)**	**(3,340)**
Treasury stock, at cost	(7,645)	(7,493)	**(7,424)**	**(62)**
Total stockholders' equity	2,093,231	2,315,453	**2,201,435**	**18,500**
	¥ 7,165,526	¥ 7,827,966	**¥ 8,150,013**	**$ 68,488**

Consolidated Statements of Cash Flows (Unaudited)

(Millions of yen, millions of U.S.dollars)

	Six months ended September 30		
	2000	**2001**	**2001**
Cash flows from operating activities:			
Net income (loss)	¥ (73,781)	**¥ (43,255)**	**$ (363)**
Adjustments to reconcile net loss to			
net cash provided by (used in) operating activities -			
Depreciation and amortization, including amortization of			
deferred insurance acquisition costs	162,861	**167,576**	**1,408**
Amortization of film costs	101,669	**102,717**	**863**
Accrual for pension and severance costs, less payments	13,348	**3,661**	**31**
Gain or loss on sale, disposal or impairment of long-lived assets, net	7,033	**16,865**	**142**
Deferred income taxes	(17,076)	**(16,400)**	**(138)**
Equity in net losses of affiliated companies, net of dividends	33,307	**9,505**	**80**
Cumulative effect of accounting changes	104,473	**(5,978)**	**(50)**
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable	(47,925)	**84,389**	**709**
Increase in inventories	(238,690)	**(77,261)**	**(649)**
Increase in film costs			
(after adjusted cumulative effect of an accounting change)	(120,040)	**(132,907)**	**(1,117)**
Increase (decrease) in notes and accounts payable	88,565	**(131,272)**	**(1,103)**
Increase (decrease) in accrued income and other taxes	18,403	**(42,113)**	**(354)**
Increase in future insurance policy benefits and other	114,959	**129,051**	**1,084**
Increase in deferred insurance acquisition costs	(32,916)	**(35,097)**	**(295)**
Changes in other current assets and liabilities, net	(3,025)	**(83,503)**	**(702)**
Other	(66,838)	**(65,948)**	**(554)**
Net cash provided by (used in) operating activities	44,327	**(119,970)**	**(1,008)**
Cash flows from investing activities:			
Payments for purchases of fixed assets	(196,350)	**(220,180)**	**(1,850)**
Proceeds from sales of fixed assets	10,391	**22,904**	**192**
Payments for investments and advances by financial service business	(146,758)	**(275,653)**	**(2,317)**
Payments for investments and advances (other than financial service business)	(54,544)	**(35,253)**	**(296)**
Proceeds from sales of securities investment and other			
and collections of advances by financial service business	42,561	**85,248**	**716**
Proceeds from sales of securities investment and other			
and collections of advances (other than financial service business)	37,395	**10,805**	**91**
Payments for purchases of marketable securities	(4,379)	**(455)**	**(4)**
Proceeds from sales of marketable securities	17,365	**8,058**	**68**
(Increase) decrease in time deposits	(768)	**795**	**7**
Net cash used in investing activities	(295,087)	**(403,731)**	**(3,393)**
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	177,136	**154,340**	**1,297**
Payments of long-term debt	(66,517)	**(120,885)**	**(1,016)**
Increase in short-term borrowings	148,840	**582,853**	**4,898**
Proceeding from issuance of subsidiary tracking stocks	—	**9,529**	**80**
Dividends paid	(11,354)	**(11,514)**	**(96)**
Other	337	**51,926**	**436**
Net cash provided by financing activities	248,442	**666,249**	**5,599**
Effect of exchange rate changes on cash and cash equivalents	(613)	**(8,230)**	**(69)**
Net increase (decrease) in cash and cash equivalents	(2,931)	**134,318**	**1,129**
Cash and cash equivalents at beginning of year	626,064	**607,245**	**5,103**
Cash and cash equivalents at end of the second quarter	¥ 623,133	**¥ 741,563**	**$ 6,232**
Supplemental data:			
Cash paid during six months ended September 30 for -			
Income taxes	¥ 57,155	**¥ 94,069**	**$ 790**
Interest	¥ 23,202	**¥ 39,937**	**$ 336**
Non-cash investing and financing activities -			
Conversions of convertible debt into common stock and additional			
paid-in capital	¥ 27,059	**¥ 203**	**$ 2**

(Notes)

1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥119=U.S.$1, the approximate Tokyo foreign exchange market rate as of September 28, 2001.

2. As of September 30, 2001, Sony had 1,071 consolidated subsidiaries. It has applied the equity accounting method in respect to its 100 affiliated companies.

3. 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. Sony calculates and presents per share data separately for Sony's Common stock and for Subsidiary tracking stock, based on Statement of Financial Accounting Standards ("FAS") No.128, "Earnings per Share." Holders of 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 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 Subsidiary tracking stock are determined by the portion of SCN's earnings available for dividends from the date of issuance attributable to Subsidiary tracking stock holders. The earnings allocated to Common stock are calculated by subtracting the earnings allocated to Subsidiary tracking stock from Sony's net income for the period.

   Weighted-average shares used for computation of earnings per share of Common stock are as follows. The dilutive effect mainly resulted from convertible bonds. In accordance with FAS No.128, the computation of diluted net loss per share for the six months ended September 30, 2000 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. No additional shares were included in the computation of diluted loss before cumulative effect of accounting changes per share and in the computation of diluted net loss per share for the three months and six months ended September 30, 2001 because to do so would have been antidilutive.

Weighted-average shares		(Thousands of shares)
	Three months ended September 30	
	2000	**2001**
Net income (loss)		
— Basic	913,351	**918,464**
— Diluted	994,251	**918,464**

Weighted-average shares		(Thousands of shares)
	Six months ended September 30	
	2000	**2001**
Income (loss) before cumulative effect of accounting changes and Net income (loss)		
— Basic	912,120	**918,439**
— Diluted	994,368	**918,439**

   Weighted-average shares used for computation of earnings per share of Subsidiary tracking stock are as follows. There were no potentially dilutive securities outstanding at September 30, 2001.

Weighted-average shares		(Thousands of shares)
	Three months ended September 30	
	2000	**2001**
Net income (loss)		
— Basic	—	**3,072**
— Diluted	—	**3,072**

Weighted-average shares		(Thousands of shares)
	Six months ended September 30	
	2000	**2001**
Net income (loss)		
— Basic	—	**3,072**
— Diluted	—	**3,072**

4. Sony's comprehensive income comprises net income and other comprehensive income. Other comprehensive income includes changes in unrealized gains or losses on securities, unrealized gains or losses on derivative instruments, minimum pension liability adjustment and foreign currency translation adjustments. The net income, other comprehensive income and comprehensive income for the three months and the six months ended September 30, 2000 and 2001 were as follows;

(Millions of yen, millions of U.S. dollars)

	Three months ended September 30			Six months ended September 30		
	2000	**2001**	**2001**	2000	**2001**	**2001**
Net income (loss)	¥ 18,661	¥ **(13,177)**	$ **(111)**	¥ (73,781)	¥ **(43,255)**	$ **(363)**
Other comprehensive income (loss)	(12,383)	**(60,550)**	**(509)**	(32,934)	**(68,943)**	**(579)**
Unrealized gains (losses) on securities	(15,195)	**(18,596)**	**(156)**	(21,972)	**(26,662)**	**(224)**
Unrealized gains on derivative instruments	—	**284**	**2**	—	**1,734**	**15**
Foreign currency translation adjustments	2,812	**(42,238)**	**(355)**	(10,962)	**(44,015)**	**(370)**
Comprehensive income (loss)	¥ 6,278	¥ **(73,727)**	$ **(620)**	¥ (106,715)	¥ **(112,198)**	$ **(942)**

5. In the fourth quarter ended March 31, 2001, Sony adopted Staff Accounting Bulletin ("SAB") No.101, "Revenue Recognition in Financial Statements" issued by the Securities and Exchange Commission, effective as of April 1, 2000. As a result, in the six months ended September 30, 2000, a one-time non-cash cumulative effect adjustment of ¥2,821 million was recorded in the income statement directly above the caption of "net income (loss)" for a change in accounting principle, which resulted in a decrease of net income in the six months ended September 30, 2000, by the same amount. Sony has restated its consolidated financial statements for the three months and six months ended September 30, 2000. The accounting change did not have a material effect on Sony's consolidated financial statements.

6. Effective with the fourth quarter ended March 31, 2001, gain or loss on sale, disposal or impairment of long-lived assets, net which were previously included in other income/expenses are included in selling, general and administrative expenses. Such amounts for the three months and six months ended September 30, 2000 have been reclassified to conform to the presentation for this year.

7. In the first quarter ended June 30, 2000, Sony adopted Statement of Position 00-2, "Accounting by Producers or Distributors of Films" issued by the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants. As a result, in the first quarter ended June 30, 2000, a ¥101,653 million loss derived from a one-time non-cash cumulative effect adjustment was recorded in the income statement directly above the caption of "Net income (loss)" for a change in accounting principle.

8. Adoption of New Accounting Standards

<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 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 instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity. On April 1, 2001, as a result of the adoption of the new standard, Sony recorded a one-time non-cash after-tax unrealized gain of ¥1,089 million ($9 million) in accumulated other comprehensive income in the consolidated balance sheet, as well as an after-tax gain of ¥5,978 million ($50 million) in the cumulative effect of an accounting change in the consolidated statement of income. In addition, the embedded derivative instruments contained in debt securities investments, which had been accounted for as a part of available-for-sale securities, are separated from the host contract and accounted for as derivative instruments. This accounting change negatively affected Sony's Operating loss and Income (loss) before income taxes for the three months and six months ended September 30, 2001 by ¥4,959 million ($42 million) and ¥4,923 million ($41 million), respectively. Loss before cumulative effect of accounting changes as well as Net loss for the three months and six months ended September 30, 2001 increased by ¥3,167 million ($27 million) and ¥3,144 million ($26 million), respectively.

Accounting for Business Combinations and Goodwill and Other Intangible Assets

In July 2001, the Financial Accounting Standards Board issued FAS No.141 "Business Combinations" and FAS No.142 "Goodwill and Other Intangible Assets". FAS No.141 supersedes Accounting Principles Board Opinion ("APB") No.16 "Business Combinations" and FAS No.38 "Accounting for Preacquisition Contingencies of Purchased Enterprises". Under FAS No.141, all business combinations are required to be accounted for under a single method, the purchase method. This new statement prohibits the use of the pooling-of-interests method, which was previously permitted under APB No.16, for business combinations initiated after June 30, 2001.

FAS No.142 supersedes APB No.17 "Intangible Assets". This new statement addresses the accounting for acquired goodwill and other intangible assets. FAS No.142 is effective for fiscal years beginning after December 15, 2001, but allows for early adoption for those companies with fiscal years beginning after March 15, 2001. As FAS No.142 is now considered the preferable basis of accounting for goodwill and intangible assets, Sony decided to early adopt this new accounting standard retroactive to the beginning of the fiscal year.

Under FAS No.142, goodwill and certain other intangible assets that are determined to have an indefinite life will no longer be amortized, but rather will be 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. Upon the adoption of this new 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 ($639 million). In the first quarter ended June 30, 2001, Sony completed the transitional impairment test for these intangible assets and determined that the fair value of these assets is in excess of the current carrying amount. Accordingly, no impairment loss was recorded for intangible assets upon the adoption of FAS No.142. During the second quarter ended September 30, 2001, Sony has also completed the transitional impairment test for existing goodwill as required by FAS No.142. Sony has determined that the fair value of each reporting unit which includes goodwill is in excess of the carrying amount. Accordingly, no impairment loss was recorded for goodwill upon the adoption of FAS No.142.

As a result of the adoption of FAS No.142, Sony's Operating loss and Income (loss) before income taxes for the three months and six months ended September 30, 2001 positively impacted by ¥4,679 million ($39 million) and ¥9,790 million ($82 million), respectively. Loss before cumulative effect of accounting changes as well as Net loss for the three months and six months ended September 30, 2001 decreased by ¥4,385 million ($37 million) and ¥9,188 million ($77 million), respectively.

Amounts previously reported for Income before cumulative effect of accounting changes, Net income (loss) and basic and diluted earnings per share (EPS) for the three months and six months ended September 30, 2000 are reconciled to amounts adjusted to exclude the amortization expense related to goodwill and indefinite-lived intangible assets as follows:

(Millions of yen, except per share amounts)

	Three months ended September 30, 2000	Six months ended September 30, 2000
Reported Income before cumulative effect of accounting changes		¥ 30,692
Add back:		
Goodwill amortization		7,149
Intangible asset amortization		1,174
Adjusted Income before cumulative effect of accounting changes		¥ 39,015
Reported Net income (loss)	¥ 18,661	¥ (73,781)
Add back:		
Goodwill amortization	3,380	7,149
Intangible asset amortization	586	1,174
Adjusted Net income (loss)	¥ 22,627	¥ (65,458)

Per share data:		
Income before cumulative effect of accounting changes		
Reported Basic EPS		¥ 33.65
Add back:		
Goodwill amortization		7.84
Intangible asset amortization		1.28
Adjusted Basic EPS		¥ 42.77
Reported Diluted EPS		¥ 32.09
Add back:		
Goodwill amortization		7.19
Intangible asset amortization		1.18
Adjusted Diluted EPS		¥ 40.46
Net income (loss)		
Reported Basic EPS	¥ 20.43	¥ (80.89)
Add back:		
Goodwill amortization	3.70	7.84
Intangible asset amortization	0.64	1.28
Adjusted Dilutecl EPS	¥ 24.77	¥ (71.77)
Reported Diluted EPS	¥ 19.38	¥ (72.98)
Add back:		
Goodwill amortization	3.40	7.19
Intangible asset amortization	0.59	1.18
Adjusted Diluted EPS	¥ 23.37	¥ (64.61)

Other Consolidated Financial Data

(Millions of yen, millions of U.S. dollars)

	Three months ended September 30			
	2000	**2001**	Change	**2001**
Capital expenditures (additions to fixed assets)	¥ 88,160	**¥ 93,340**	+5.9%	**$ 784**
Depreciation and amortization*	83,045	**87,531**	+5.4	**736**
(Depreciation of tangible assets)	64,913	**72,534**	+11.7	**610**
R&D expenses	108,099	**123,215**	+14.0	**1,035**

	Six months ended September 30			
	2000	**2001**	Change	**2001**
Capital expenditures (additions to fixed assets)	¥ 169,776	**¥ 179,434**	+5.7%	**$ 1,508**
Depreciation and amortization*	162,861	**167,576**	+2.9	**1,408**
(Depreciation of tangible assets)	124,173	**138,074**	+11.2	**1,160**
R&D expenses	198,436	**226,365**	+14.1	**1,902**

* Including amortization of deferred insurance acquisition costs

Outlook

Regarding the forecast of Sony's consolidated results for the fiscal year ending March 31, 2002, Sony maintains its forecast announced on September 28, 2001. Sony intends to continue to proceed with realignment of unprofitable businesses, streamlining of manufacturing facilities, cost reductions, careful selection of investments, and reductions in inventories.

		Change from previous year
Sales and operating revenue	¥7,500 billion	+ 3%
Operating income	¥120 billion	- 47%
Income before income taxes	¥ 70 billion	- 74%
Net income	¥ 10 billion	- 40%
Capital expenditures (additions to fixed assets)	¥350 billion	- 25%
Depreciation and amortization*	¥390 billion	+ 12%
(Depreciation expenses for tangible assets)	(¥330 billion)	(+ 22%)

* Including amortization of intangible assets and amortization of deferred insurance acquisition costs

Notes:

i) The above forecast includes a preliminary estimate by management of the effects of the terrorist attacks in the U.S. in September 2001. However, further ramifications of these events remain uncertain, and it is difficult for Sony to estimate the overall impact of these events at this time.

ii) In October 2001, after having obtained all applicable regulatory approvals, Sony and Ericsson established "Sony Ericsson Mobile Communications AB", an equally owned joint venture company focused on mobile phone handsets. The joint venture will be accounted for as an equity affiliate of Sony from the third quarter ending December 31, 2001. The above forecast reflects these factors.

iii) In October 2001, SPE and other companies which own Telemundo reached an agreement with National Broadcasting Company, Inc., a media company owned by General Electric Company, to sell 100% of the equity of Telemundo. When this acquisition closes, Sony expects to realize proceeds/gains in proportion to the ratio of its equity investment in Telemundo, and Telemundo will no longer be accounted for as an equity affiliate of Sony. However, completion of the transaction is subject to conditions including regulatory approvals in the U.S. and abroad. Accordingly, in light of the uncertain timing of the transaction, Sony does not reflect such effects in the above forecast.

Cautionary Statement

Statements made in this release with respect to Sony's current plans, estimates, strategies and beliefs and other statements that are not historical facts are forward-looking statements about the future performance of Sony. Forward-looking statements include but are not limited to those 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 or financial performance. 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) general 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 dominated; (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 (particularly in the Electronics business), and subjective and changing consumer preferences (particularly in the Game, Music, and Pictures businesses), (iv) Sony's ability to implement successfully the restructuring of its Electronics business and its network strategy for its Electronics business; (v) Sony's ability to compete and develop and implement successful sales and distribution strategies in light of Internet and other technological developments in its Music and Pictures businesses; (vi) Sony's continued ability to devote sufficient resources to research and development and capital expenditures; (vii) the success of Sony's joint ventures and alliances; and (viii) the outcome of contingencies. Risks and uncertainties also include the impact of the terrorist attacks of September 11, 2001 and any future events with material unforeseen impacts.