SONY CORP
Form 20-F
September 02, 2003
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended March 31, 2003

Commission file number 1-6439

Sony Kabushiki Kaisha

(Exact name of Registrant as specified in its charter)

Sony Corporation

(Translation of Registrant s name into English)

Japan

(Jurisdiction of incorporation or organization)

7-35, Kitashinagawa 6-Chome, Shinagawa-ku, Tokyo 141-0001, Japan

(Address of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act.

Title of each class	**Name of each exchange on which registered**
American Depositary Shares*	New York Stock Exchange Pacific Stock Exchange Chicago Stock Exchange
Common Stock**	New York Stock Exchange Pacific Stock Exchange Chicago Stock Exchange

* American Depositary Shares evidenced by American Depositary Receipts. Each American Depositary Share represents one share of Common Stock.
** No par value per share. Not for trading, but only in connection with the listing of American Depositary Shares pursuant to the requirements of the relevant exchanges.

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

None

(Title of Class)

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

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

	Outstanding as of	
Title of Class	**March 31, 2003 (Tokyo Time)**	**March 28, 2003 (New York Time)**
Common Stock	925,457,176	
American Depositary Shares		62,890,786

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17. ¨ Item 18. x

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

The noon buying rate for yen in New York City as certified for customs purposes by the Federal Reserve Bank of New York on August 25, 2003 was 117.43 yen = 1 U.S. dollar.

As of March 31, 2003, Sony Corporation had 1,035 consolidated subsidiaries. It has applied the equity accounting method in respect to its 84 affiliated companies.

Table of Contents

Cautionary Statement

Statements made in this annual report with respect to Sony s current plans, estimates, strategies and beliefs and other statements that are not historical facts are forward-looking statements about the future performance of Sony. Forward-looking statements include, but are not limited to, those statements using words such as believe, expect, plans, strategy, prospects, forecast, estimate, project, anticipate, may or 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.

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

Table of Contents

Table of Contents

Table of Contents

Item 1. ***Identity of Directors, Senior Management and Advisors***

Not Applicable

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

Not Applicable

Item 3. ***Key Information***

Selected Financial Data

	Year ended March 31				
	1999	2000	2001	2002	2003
	(Yen in millions, Yen per share amounts)				
Income Statement Data:					
Sales and operating revenue	6,804,182	6,686,661	7,314,824	7,578,258	7,473,633
Operating income	338,061	223,204	225,346	134,631	185,440
Income before income taxes	377,691	264,310	265,868	92,775	247,621
Income taxes	176,973	94,644	115,534	65,211	80,831
Income before cumulative effect of accounting changes	179,004	121,835	121,227	9,332	115,519
Net income	179,004	121,835	16,754	15,310	115,519
Per Share Data of Common Stock*:					
Income before cumulative effect of accounting changes					
Basic	218.43	144.58	132.64	10.21	125.74
Diluted	195.51	131.70	124.36	10.18	118.21
Net income					
Basic	218.43	144.58	18.33	16.72	125.74
Diluted	195.51	131.70	19.28	16.67	118.21
Cash dividends declared					
Interim	12.50	12.50	12.50	12.50	12.50
	(10.13 cents)	(12.01 cents)	(11.15 cents)	(10.07 cents)	(10.50 cents)
Year-end	12.50	12.50	12.50	12.50	12.50
	(10.25 cents)	(11.58 cents)	(10.01 cents)	(9.78 cents)	(10.53 cents)
Depreciation and amortization:**	307,173	306,505	348,268	354,135	351,925
Capital expenditures (additions to fixed assets):	353,730	435,887	465,209	326,734	261,241
Research and development expenses:	375,314	394,479	416,708	433,214	443,128

Table of Contents

	March 31				
	1999	2000	2001	2002	2003
	(Yen in millions, Yen per share amounts)				
Balance Sheet Data:					
Net working capital	1,030,463	861,674	830,734	778,716	719,166
Long-term debt	1,037,460	813,828	843,687	838,617	807,439
Stockholders equity	1,823,665	2,182,906	2,315,453	2,370,410	2,280,895
Total assets	6,299,053	6,807,197	7,827,966	8,185,795	8,370,545
Number of shares issued at year-end (thousands of shares of common stock)	410,439	453,639	919,617	919,744	922,385
Stockholders equity per share of common stock*:	2,224.35	2,409.36	2,521.19	2,570.31	2,466.81

	Average***	High	Low	Period-End
	(Yen)			
Yen Exchange Rates per U.S. Dollar:				
Year ended March 31				
1999	128.10	108.83	147.14	118.43
2000	110.02	101.53	124.45	102.73
2001	111.65	104.19	125.54	125.54
2002	125.64	115.89	134.77	132.70
2003	121.10	115.71	133.40	118.07
2002				
December		118.38	124.99	118.75
2003				
January		117.80	120.18	119.96
February		117.14	121.30	118.22
March		116.47	121.42	118.07
April		118.25	120.55	119.07
May		115.94	119.50	119.50
June		117.46	119.87	119.87
July		117.69	120.55	120.42
August (through August 25)		117.43	120.47	117.43

The noon buying rate for yen in New York City as certified for customs purposes by the Federal Reserve Bank of New York on August 25, 2003 was 117.43 yen = U.S. 1 dollar.

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* Per share data of common stock have been adjusted for all years to reflect the two-for-one stock split that was completed on May 19, 2000. However, no adjustment to reflect such stock split has been made to the number of shares issued in prior years.

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

*** The average yen exchange rates represent average noon buying rates on the last business day of each month during the respective period.

Table of Contents

Notes to Selected Financial Data:

1. Cash dividends per share of common stock for the year ended March 31, 2003 include a dividend which was approved at the General Meeting of Shareholders which was held on June 20, 2003.

2. On April 1, 2001, Sony adopted the Financial Accounting Standards (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 the Financial Accounting Standard Board (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 yen, 3.4 billion yen and 2.2 billion yen, respectively. Additionally, Sony recorded a one-time non-cash after-tax unrealized gain of 1.1 billion yen in accumulated other comprehensive income in the consolidated balance sheet, as well as an after-tax gain of 6.0 billion yen in the cumulative effect of accounting changes in the consolidated statement of income.

3. 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 yen 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 yen.

4. 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 yen, primarily to reduce the carrying value of its film inventory.

5. 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 yen was recorded in the income statement directly above the caption of net income for a change in accounting principle.

Capitalization and Indebtedness

Not Applicable

Reasons for the Offer

Not Applicable

Risk Factors

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

Sony may not be successful in implementing its broadband network strategy.

Sony believes that the utilization of broadband networks to facilitate integration of hardware and content is essential to differentiating itself in the marketplace. Sony also believes that this strategy will eventually lead to consistent revenue streams. However, this strategy relies on the development (both inside and outside of Sony) of certain network technologies, coordination among Sony s various business units, and the standardization of technological and interface specifications across business units and within industries. If Sony is not successful in implementing this strategy, it could adversely affect Sony s mid- to long-term competitiveness.

Table of Contents

Sony must produce products at competitive prices that appeal to consumers.

Sony s Electronics and Game segments produce consumer products that compete on factors including price against products sold by an increasing number of competitors. In order to produce products that appeal to changing and increasingly diverse customer preferences, Sony s Electronics and Game segments must develop superior technology, anticipate consumer tastes and rapidly develop attractive products. In the Electronics segment, in the face of increasingly intense pricing pressure from Korean and Chinese competitors in such product areas as home audio and portable audio, CRT televisions and video decks, Sony is focusing its resources on developing, manufacturing and marketing higher value added products. Examples include flat displays, secured media distribution services, optical media devices, and new microprocessor and system LSI for the next generation computer entertainment system, digital consumer electronics products and broadband network products. Sony s sales and operating income are dependent on its ability to continue to develop and offer products that meet consumer preferences at competitive prices. Moreover, Sony s Electronics and Game segments, in particular, face a market in which a relatively high percentage of consumers already possess products similar to those that Sony offers.

Sony s sales are sensitive to economic trends in Sony s major markets, which have been and may continue to be negative.

Purchases of products from Sony s Electronics, Game, Music and Pictures segments are to a very significant extent discretionary. Accordingly, weakening economic conditions or outlook can reduce consumption in any of Sony s major markets causing material declines in Sony s sales and operating income. In the year ended March 31, 2003 approximately 28.0 percent, 32.2 percent and 22.3 percent of Sony s sales and operating revenue were attributable to Japan, the U.S. and Europe, respectively. If the current unfavorable economic climate in Japan continues, if the U.S. and European economies decline, if the effects of international political and military instability depress consumer confidence, or if other negative economic trends continue or accelerate in any of Sony s major markets, Sony s short to mid-term profitability may be significantly adversely affected.

Foreign exchange fluctuations can affect Sony s results reported in yen due to currency translation.

Sony s consolidated statements of income are prepared from the local currency-denominated financial results of each of Sony s subsidiaries around the world which are translated into yen at the average market rate during each financial period. Sony s consolidated balance sheets are prepared using local currency-denominated assets and liabilities and stockholders equity which are translated into yen at the market rate at the end of each financial period. Accordingly, Sony s consolidated results, assets and liabilities and stockholders equity in Sony s businesses that operate internationally, principally in its Electronics, Game, Music and Pictures segments, may be materially affected by foreign exchange fluctuations. In the years ended March 31, 2001, 2002 and 2003 Sony s consolidated operating income prepared on the basis of Generally Accepted Accounting Principles in the U.S. (U.S. GAAP) in yen changed from the preceding year by 1.0 percent, -40.3 percent and 37.3 percent, respectively; however, if Sony s consolidated operating income had been prepared on a local currency basis, it would have changed in such years by 47.5 percent, -126.7 percent and -4.9 percent, respectively (refer to Item 5. *Operating and Financial Review and Prospects*). Operating results on a local currency basis described herein reflect sales and operating revenue and operating income obtained by applying the yen s average exchange rate in the previous fiscal year to local currency-denominated monthly sales, cost of sales, and selling, general and administrative expenses in the current fiscal year. While foreign exchange fluctuations for the last two fiscal years impacted Sony s operating results positively, they may have negative impact on its results in the future, especially if the yen strengthens significantly against the U.S. dollar or euro.

Foreign exchange fluctuations can affect Sony s results of operations due to sales and expenses in different currencies.

Short-term exchange rate fluctuations affect Sony s operating profitability because many of Sony s products are sold in countries other than the ones in which they were manufactured. The Electronics and Game segments

8

Table of Contents

are especially sensitive to the yen s appreciation because research and development, production activities and administrative functions are largely located in Japan so that the ratio of yen-denominated costs to total costs is higher than the ratio of yen-denominated revenue to total revenue. Although Sony Corporation and its subsidiaries hedge the net foreign currency exposure resulting from import and export transactions shortly before they are projected to occur, such hedging activity cannot entirely remove the effect of exchange rate fluctuations.

Mid- to long-term volatile changes of exchange rate levels, such as the decade-long strengthening of the yen against major currencies between 1985 and 1995 when it strengthened against the U.S. dollar from over 260 yen to less than 80 yen, may interfere with Sony s global allocation of resources and hinder Sony s ability to execute procurement, production, logistics, and sales activities in a manner that is profitable after the effect of such exchange rate changes. Refer to *Item 11. Quantitative and Qualitative Disclosure about Market Risk* and *Item 5. Operating and Financial Review and Prospects* for more information regarding Sony s market risk management including currency risk hedging activities.

Sony must continually develop new products reflecting technological advances.

Sony s businesses, particularly the Electronics and Game segments and certain Internet-related businesses in the Other business segment, compete in product markets characterized by rapid technological innovation and rapidly changing consumer demand. In order to compete in such markets Sony must continually innovate and adopt new technology in order to produce new products. Technologies that are significant for Sony s future growth include new microprocessor and other system LSIs for the next generation of computer entertainment system, digital consumer electronics and broadband network products and display technologies for organic electro-luminescent displays, field emission displays, LCDs and imaging devices. Sony has incurred and may continue to incur significant expenditures in research and development and other expenses to develop and acquire technology, and if Sony is not successful in such efforts there may be an adverse affect on Sony s reputation as a technological innovator and on Sony s sales.

Sony s business reorganization efforts are costly and may not attain their objectives.

In order to allocate managerial resources properly into core areas and improve operating efficiency and profitability, Sony is concentrating its resources in profitable businesses by withdrawing from or downsizing under-performing businesses. In the last three fiscal years, significant restructuring activities include, in the Electronics segment, the exit from certain computer display CRT manufacturing activities, the restructuring of, acquisition of the third-party minority interest in, and subsequent merger with Aiwa Co., Ltd. and its subsidiaries (Aiwa) and the decision to close a semiconductor plant in the U.S., and, in the Music segment, the shutdown of a cassette and CD assembly and distribution center in Holland and a CD manufacturing facility in the U.S., and the downsizing of and withdrawal from a number of businesses designed to capitalize on the growth of the Internet through strategic investments. Sony is proceeding to reduce the number of its employees around the world, and personnel reductions have been carried out in the Electronics and Music segments. Restructuring has also been carried out in the Pictures segment, including the consolidation of its television operations and downsizing of the network television production business. Restructuring charges recorded for all segments combined were 35 billion yen, 107 billion yen and 106 billion yen for the years ended March 31, 2001, 2002 and 2003, respectively.

Sony is planning to incur costs totaling approximately 300 billion yen in restructuring charges over the next three years. Reorganization expenses incurred in connection with these actions are recorded in cost of sales or selling, general and administrative expense, and thus decrease Sony s consolidated net income. Moreover, due to factors including regional labor regulations and union contracts, it may not be possible to execute such reorganizations as planned. Therefore such reorganizations may not result in reductions in expenses, improved efficiency, increased ability to respond to market changes or reallocation of resources to more profitable activities. Inability to fully implement successfully these planned restructuring initiatives may cause Sony to have insufficient financial resources to carry out its research and development plans and invest in targeted

Table of Contents

growing business areas. Without such investment, Sony may not be able to develop advanced digital technology and create new types of products and business platforms that combine media content distribution services and broadband-ready digital technology products.

Sony must manage its supply of parts and inventory based on demand forecasts.

Particularly in the Electronics and Game segments Sony places orders for components, determines production and plans inventory in advance based on its forecast of consumer demand, which is highly volatile and difficult to predict. In the past Sony has experienced both a shortage of semiconductors that caused Sony to be unable to meet demand for its personal computers and AV products as well as a surplus in certain semiconductors that resulted in losses when semiconductor prices fell. Restructuring and other changes in the semiconductor industry may cause a shortage of supply of semiconductors and affect Sony s production and/or the cost of goods sold because Sony consumes a tremendous volume of semiconductor parts and components for its products. Sony s profitability may be adversely affected by supply or inventory shortages, delays in cost reductions or inventory adjustments that, as a result of efforts to reduce inventory by temporarily halting production or by reducing the retail price of goods, will lead to an increase in the ratio of cost of sales to sales and a resultant decrease in profitability. Sony writes down the value of its inventory when components or products have become obsolete, exceed the amount expected to be used or are otherwise recorded at more than net realizable value. Such inventory adjustments have had, and if Sony is not successful in managing its inventory may in the future have, a material adverse affect on Sony s operating income and profitability.

Sony s Game and Electronics segments sales display year-end holiday seasonal variation.

Since the Game segment offers a relatively small range of products (PS one hardware, PlayStation 2 hardware and related software) and is dependent upon year-end holiday season demand, it is particularly susceptible to weak sales and supply shortages that prevent it from meeting demand for its products during this season.

The Electronics segment is also dependent upon year-end holiday season demand and, to a lesser extent, is susceptible to weak sales and supply shortages that prevent it from meeting demand for its products during this season.

Sony s Music and Pictures segments are subject to digital piracy, and this risk grows more acute as new technologies develop.

In Sony s Music and Pictures segments, technological developments have created new risks with respect to Sony s ability to protect its intellectual property. Advances in technology that allow for the transfer and downloading of digital music and AV files from the Internet without authorization from the owners of rights to such content have threatened the conventional copyright-based business model by making it easier to create and redistribute unauthorized music and AV files. Such unauthorized distribution has adversely affected sales and operating results within the Music segment and threatens to adversely affect sales and operating income in the Pictures segment. These technological advances include new digital devices such as analog recorders, personal video recorders, CD and DVD burners and peer-to-peer digital distribution services. As a result, Sony has incurred and may continue to incur expenses to develop new services for the authorized digital distribution of music, movies and television programs and to combat unauthorized digital distribution of its intellectual property. These initiatives will increase Sony s near-term expenses and may not achieve their intended result.

Sony s Music segment is dependent on establishing new artists, and Sony s Music and Pictures segments are subject to higher prices for talent.

Sony s Music segment is highly dependent on establishing artists that appeal to customers, and the competition with other entertainment companies for such talent is intense. Therefore, if the Music segment is

10

Table of Contents

unable to find and establish new talented artists, it may adversely affect this segment s sales and operating income. In addition, with respect to both the Music and Pictures segments, Sony has experienced and may continue to experience significant increases in talent-related spending.

Sony s Pictures segment is subject to labor interruption.

The Pictures segment is directly or indirectly dependent upon highly specialized union members who are essential to the production of motion pictures and television programs. A strike by one or more of these unions could delay or halt production activities. Such a delay or halt, depending on the length of time involved, could cause delay or interruption in the release of new motion pictures and television programs and thereby could adversely affect revenues and cash flows in the Pictures segment.

Sony s Financial Services segment is subject to variability in claims, valuation losses, shifts in customers demand, prudent and foresightful ALM and mandatory contributions to a policy holder insurance fund.

Sony s Financial Services segment faces unpredictable increases in insurance claims and shifts in customers demand from more profitable products such as life guarantees to less profitable products such as annuities. This segment also may incur valuation losses if the value of securities purchased for investment purposes continues to decrease. In addition if it failed to conduct Asset Liability Management (ALM) in a prudent and foresightful manner to pursue optimal combination of possible risks and expected returns on investment assets and underwriting risks on insurance policy benefit, Sony s Financial Services segment may not be able to keep providing competitive products and services to customers on a long-term basis. Sony s Financial Services segment is also subject to mandatory contributed reserves for the Life Insurance Policyholders Protection Corporation of Japan (PPC). The PPC was established in 1998 to provide financial support to insolvent life insurance companies, and all life insurers in Japan, including Sony Life Insurance Co., Ltd. (Sony Life), are members of the PPC and are subject to assessment by the PPC based on their respective share of insurance industry premiums and policy reserves. Since some life insurers have become insolvent since 1998, the PPC s financial resources have already been reduced in providing financial support to those companies. If there are further bankruptcies of life insurers, solvent life insurers including Sony Life may be required to contribute additional financial resources. Sony Life s estimated future contribution to be required based on the assessments made by the PPC is incorporated in other expenses in Sony Life s income statements and long-term liabilities in its balance sheet.

Sony s cooperation and alliances with, and strategic investments in, third parties may not produce successful results.

Sony increasingly relies on alliances, joint ventures and strategic investments, including investments in such joint ventures as Sony Ericsson Mobile Communications, AB (SEMC), S.T. Liquid Crystal Display Corporation (ST-LCD) and other companies, in order to develop and introduce promising new products and services, such as information and communication equipment and digital network technologies. In addition, Sony may make substantial investments in other entities in order to develop broadband network businesses in the future. However, because some of these companies are new ventures and the results from these activities are largely dependent on business trends as well as the financial condition of partner companies, weak trends or disappointing performance of such partners may adversely affect the success of these activities. Sony s equity in net losses of affiliated companies was approximately 44.5 billion yen, 34.5 billion yen and 44.7 billion yen for the years ended March 31, 2001, 2002 and 2003 respectively. In addition, the success of these activities may be adversely affected by the inability of Sony and its partners to successfully define and reach their common objectives. In recent years, Sony has recorded substantial losses and writedowns in some of its equity affiliates (refer to Note 5 of Notes to Consolidated Financial Statements). Similar losses and writedowns may occur in the future.

Table of Contents

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

Sony headquarters, part of Sony s major data centers and many of Sony s most advanced device manufacturing facilities, including those for semiconductors, are located in Japan, where the possibility of disaster or damage from earthquake is generally higher than in other parts of the world. In addition, Sony s facilities and offices, including those for research and development, material procurement, manufacturing, logistics, sales, and services are located throughout the world and are subject to the possibility of disaster or outage or similar disruption as a result of any of a number of events. As the role of information systems becomes more important in Sony s operating activities, such issues as shutdowns of information systems due to the aforementioned disasters, software/hardware defects, and computer viruses, as well as misappropriation, leakage, falsification, and disappearance of internal databases, including information of customers or vendors, pose increasing risks. Despite backup and other redundancies for major data centers, Sony may be unable to avoid or prevent such events, and if any such event occurs, it may impair Sony s operational activities, generate expenses relating to physical or personal damage, or hurt Sony s brand image.

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

Sony products, such as software (including software for mobile phone handsets) and electronic devices including semiconductors, are becoming increasingly sophisticated and complicated as rapid advancements in technologies occur and demand increases for digital equipment. At the same time, since technological life cycles are becoming shorter, Sony is required to introduce new products and services in a shorter period of time. Handling these changes is particularly important for Sony because technological and product leadership is a factor in its competitive success. At the same time product quality and liability issues present greater risks. In the first half of the fiscal year ended March 31, 2002, Sony recalled products in the mobile phone handset business for quality reasons, which resulted in increased after-sales service expenses of 18.6 billion yen. Sony s efforts to manage change and control product quality may not be successful and if they are not, Sony may incur expenses such as those for product recalls, service and lawsuits and Sony s brand image and reputation for quality products may suffer.

Sony may be adversely affected by its employee benefit obligations.

Sony recognizes an unfunded pension obligation (in an amount equal to (i) its Projected Benefit Obligation or PBO less (ii) the fair value of plan assets and accrued pension and severance costs) as a pension cost in a systematic and gradual manner over employees average remaining service periods as required under FAS No. 87, Employers Accounting for Pensions . Any decrease of pension asset value due to low return from investments or increase of PBO due to a lower discount rate may increase unfunded pension obligations, resulting in an increase in pension expenses recorded as cost of goods sold or as a selling, general and administrative expense. Refer to Note 14 of Notes to Consolidated Financial Statements for more information regarding Sony s pension and severance plans.

Most pension assets and liabilities recognized on Sony s consolidated balance sheets relate to Japanese plans, which are subject to the Japanese Welfare Pension Insurance Law pursuant to which Sony is required to meet certain financial criteria including periodic actuarial revaluation and annual settlement of gain or loss of the plan. In case of a plan deficit, that is in excess of the actuarial reserve required by the law over the fair value of pension assets, Sony may be required to make an additional contribution to the plan, which would reduce consolidated cash flow.

Sony may be accused of infringing on others intellectual property rights and may not be able to continue to obtain necessary licenses.

Sony s products incorporate a wide variety of technologies. Claims could be asserted against Sony that such technology infringes intellectual property owned by others, and the outcome of any such claim would be uncertain. In addition, many of Sony s products are designed to include intellectual property licensed from third parties. Based upon past experience and industry practice, Sony believes that it will be able to obtain or renew licenses relating to various intellectual properties useful in its business that it needs in the future; however, such licenses may not be available at all or on acceptable terms.

Increased reliance on external suppliers may increase financial, reputational and other risks to Sony.

With the increasing necessity of pursuing quick business development and operating efficiency with limited managerial resources, Sony increasingly procures from third-party suppliers components, such as plasma panels and LCD panels for televisions, and technologies, such as wireless technologies for mobile handsets and operating software for Sony s PCs and for personal digital assistants. In addition, it consigns to external suppliers extensive activities including procurement, manufacturing, logistics, sales and other services. Reliance on outside sources increases the chances that Sony will be unable to prevent products from incorporating defective or inferior third-party technology or components. Products with such defects can adversely affect Sony s consolidated sales and its reputation for quality products. This reliance on external suppliers may also expose Sony to the effects of suppliers insufficient compliance with applicable regulations or third-party intellectual property rights.

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

Sony is subject to environmental and occupational health and safety regulations relating to matters such as reductions in the use of harmful substances, comprehensive risk management in manufacturing activities and final products, the use of lead-free soldering, decreases in the level of standby power, and the recycling of products and packaging materials. For example, in October 2001, Sony Computer Entertainment Europe Limited temporarily halted shipments of the PS one game console destined for the European market after Dutch authorities determined levels of cadmium were above the limits allowed under Dutch regulations. PS one shipments were resumed after confirming that there was no health risk to users during use, and Sony worked closely with Dutch authorities to replace non-compliant components to meet their standards. Moreover, on February 13, 2003 the European Parliament and the Counsel of the European Union published directives on waste electrical and electronic equipment and on the restriction of the use of certain hazardous substances in electrical and electronic equipment. These directives will generally require electronics producers after August 2005 to bear the cost of collection, treatment, recovery and safe disposal of past and future products from end-users and to ensure after June 2006 that new electrical and electronic equipment does not contain specified hazardous substances. While the cost of these directives to Sony cannot be determined before regulations are adopted in individual member states, it may be substantial. Sony may not comply in all cases with applicable environmental and other regulations, and if it does not, Sony may incur remediation cost or sustain injury to its brand image. Sony s activities may be limited if Sony is unable to comply with such regulations, which could adversely affect Sony s results.

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

A substantial portion of Sony s activities are conducted outside Japan, including in developing and emerging markets. Sony operates its manufacturing subsidiaries in 16 countries and its sales subsidiaries in 43 countries. Countries where Sony manufactures its principal products are Japan, Malaysia, China, the U.S., the U.K., Spain and Mexico. Sony seeks advantages from international operations, such as low-cost production and mid- to long-term potential of consumer markets in China, particularly in the Electronics and Game segments, and the potential prolonging of product life cycles in the current hardware business through sales to markets in Eastern Europe, the Middle East and East Asia (excluding Japan) in the Game segment.

However, international operations bring challenges. Production in China and other Asian countries of Electronics products increases the time necessary to supply products to Europe and the U.S., which can make it more difficult to meet changing customer demand and preferences.

Concentration of production of personal

Table of Contents

computer components in China and Taiwan could lead to production interruptions if another catastrophe or widespread contagion, similar to the spread of Severe Acute Respiratory Syndrome SARS , occurred there. Further, Sony may encounter difficulty in planning and managing operations due to unfavorable political or economic factors, such as the suspension of trading of the peso and resulting disorder in Argentina, cultural and religious conflicts or unexpected legal or regulatory changes such as import or export controls, nationalization or restrictions on repatriation of returns from foreign investments.

Sony is subject to competition from firms that may be more specialized.

Sony s businesses face a broad range of competitors, from large international companies to an increasing number of relatively small, rapidly growing, and highly specialized organizations. Sony has a portfolio of businesses in different industries while many of its competitors specialize in one or more of these business areas. As a result, Sony may not fund or invest in certain of its businesses to the same degree that its competitors do, and these companies may have greater financial, technical, and marketing resources available to them than the businesses of Sony against which they compete.

American Depositary Share (ADS) holders have fewer rights than shareholders and may not be able to enforce judgments based on U.S. securities laws.

The rights of shareholders under Japanese law to take actions, including voting their shares, receiving dividends and distributions, bringing derivative actions, examining Sony s accounting books and records and exercising appraisal rights are available only to shareholders of record. Because the depositary, through its custodian agents, is the record holder of the shares underlying the ADSs, only the depositary can exercise those rights in connection with the deposited shares. The depositary will make efforts to vote the shares underlying ADSs in accordance with the instructions of ADS holders and will pay the dividends and distributions collected from Sony. However, ADS holders will not be able to bring a derivative action, examine Sony s accounting books and records, or exercise appraisal rights through the depositary.

Sony is incorporated in Japan with limited liability. A substantial portion of the assets of Sony are located outside the U.S. As a result, it may be more difficult for investors to enforce against Sony judgments obtained in U.S. courts predicated upon the civil liability provisions of the Federal securities laws of the U.S. or judgments obtained in other courts outside Japan. There is doubt as to the enforceability in Japanese courts, in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated solely upon the Federal securities laws of the U.S.

Item 4. *Information on the Company*

History and Development of the Company

Sony Corporation, the ultimate parent company of the Sony Group, was established in Japan in May 1946 as Tokyo Tsushin Kogyo Kabushiki Kaisha, a joint stock company (*Kabushiki Kaisha*) under the Japanese Commercial Code. In January 1958, it changed its name to Sony Kabushiki Kaisha (Sony Corporation in English). In December 1958, Sony Corporation was listed on the Tokyo Stock Exchange (the TSE). In June 1961, Sony Corporation issued American Depositary Receipts (ADRs) in the U.S. In March 1968, Sony Corporation established in Japan CBS/Sony Records Inc., currently Sony Music Entertainment (Japan) Inc. (SMEJ), as a 50:50 joint venture company between Sony Corporation and CBS Inc. in the U.S. In January 1988, SMEJ became a wholly-owned subsidiary of Sony Corporation. In September 1970, Sony

Corporation was listed on the New York Stock Exchange (the NYSE). In August 1979, Sony Corporation established in Japan Sony Prudential Life Insurance Co., Ltd., currently Sony Life Insurance Co., Ltd. (Sony Life), as a 50:50 joint venture company between Sony Corporation and The Prudential Insurance Company of America. In March 1996, Sony Life became a wholly-owned subsidiary of Sony Corporation. In July 1984, Sony Magnescale Inc., a subsidiary of Sony Corporation and currently Sony Precision Technology Inc., listed on the Second Section of the TSE. In July 1987, Sony Chemicals Corporation, a subsidiary of Sony Corporation, listed on the Second Section of the TSE. In January 1988, Sony Corporation acquired CBS Records Inc., a music business division of

Table of Contents

CBS Inc. in the U.S. In January 1991, CBS Records Inc. changed its name to Sony Music Entertainment Inc. (SMEI). In November 1989, Sony Corporation acquired Columbia Pictures Entertainment, Inc. in the U.S. In August 1991, Columbia Pictures Entertainment, Inc. changed its name to Sony Pictures Entertainment Inc. (SPE). In November 1991, SMEJ was listed on the Second Section of the TSE. In November 1993, Sony established Sony Computer Entertainment Inc. (SCEI) in Japan. In January 2000, acquisition transactions by way of exchanges of stock, whereby SMEJ, Sony Chemicals Corporation, and Sony Precision Technology Inc. became wholly-owned subsidiaries of Sony Corporation, were completed. In June 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). In October 2002, Sony Corporation established Sony Ericsson Mobile Communications, AB (SEMC), as a 50:50 joint venture company between Sony Corporation and Ericsson of Sweden. In October 2002, Aiwa Co., Ltd. (Aiwa) became a wholly-owned subsidiary of Sony Corporation. In December 2002, Sony Corporation merged with Aiwa. In June 2003, Sony Corporation adopted the Company with Committees system in line with the revised Japanese Commercial Code (refer to Board Practices in *Item 6. Directors, Senior Management and Employees*).

Sony Corporation s registered office is located at 7-35, Kitashinagawa 6-chome, Shinagawa-ku, Tokyo 141-0001, Japan, telephone +81-3-5448-2111.

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

Principal Capital Investments

In the fiscal years ended March 31, 2001, 2002 and 2003, Sony s capital expenditures (additions to fixed assets on the balance sheets) were 465.2 billion yen, 326.7 billion yen and 261.2 billion yen, respectively. Regarding a breakdown of principal capital expenditures and divestitures (including interests in other companies), refer to *Item 5. Operating and Financial Review and Prospects* . Sony invested 40.5 billion yen in the semiconductor business during the fiscal year ended March 31, 2003. For the three fiscal years commencing April 2003, Sony plans to invest approximately 500 billion yen in semiconductors for next-generation computer entertainment systems and consumer electronics as well as imaging devices for which Sony foresees major growth prospects; approximately 175 billion yen of this total will be invested in the fiscal year ending March 31, 2004. The funding requirements of such various capital expenditures are expected to be financed by cash provided by operating and financing activities or cash and cash equivalents.

Business Overview and Organizational Structure

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

Name of company	Country of incorporation	Percentage owned
Sony EMCS Corporation	Japan	100.0
Sony Computer Entertainment Inc.	Japan	99.7
Sony Life Insurance Co., Ltd.	Japan	100.0
Sony Americas Holding Inc.	U.S.A.	100.0
Sony Computer Entertainment America Inc.	U.S.A.	99.7

Sony Pictures Entertainment Inc.	U.S.A.	100.0
Sony Global Treasury Services Plc.	U.K.	100.0
Sony Computer Entertainment Europe Ltd.	U.K.	99.7
Sony Holding (Asia) B.V.	Holland	100.0

Table of Contents

In the Electronics segment, Sony is engaged in the development, design, manufacture, and sale of various kinds of electronic equipment, instruments, and devices for consumer and professional markets. Sony s principal manufacturing facilities are located in Japan, Malaysia, China, the U.S., the U.K., Spain and Mexico, and its products are marketed by sales subsidiaries and unaffiliated local distributors as well as direct sales via the Internet, throughout the world. In addition to internationalizing its production operations, Sony has been promoting the transfer of research and development activities and management functions overseas to bring its overseas operations into closer proximity to local communities and markets.

In the Game segment, Sony develops, produces, manufactures, markets, distributes, licenses and publishes home-use entertainment hardware and related software. This business is principally conducted through SCEI in Japan. Sony Computer Entertainment America Inc. (*SCEA*) in the U.S. and Sony Computer Entertainment Europe Limited (*SCEE*) in Europe are both wholly-owned subsidiaries of SCEI.

In the Music segment, Sony is engaged in the development, production, manufacture, marketing and distribution of recorded music in a variety of commercial formats and across all musical genres, for the world outside of Japan through SMEI and in Japan through SMEJ.

In the Pictures segment, Sony is engaged in the development, production, marketing, distribution, and broadcasting of image-based software, including film, video, television, and new digital entertainment technologies, principally through SPE.

In the Financial Services segment, Sony conducts insurance operations primarily through Sony Life, a Japanese life insurance subsidiary, and Sony Assurance Inc. (*Sony Assurance*), a Japanese non-life insurance subsidiary. Sony is engaged in a leasing and credit financing business in Japan through Sony Finance International Inc. (*Sony Finance*). Sony also conducts an Internet-based banking business in Japan through Sony Bank Inc. (*Sony Bank*), which is an 80 percent directly owned subsidiary of Sony Corporation.

In the Other segment, Sony is engaged in an Internet-related service business mainly in Japan, an in-house oriented information system service business in Japan, an Integrated Circuit (IC) card business in Japan, and an advertising agency business in Japan.

On April 1, 2003, in order to strengthen group governance through the promotion of integrated and decentralized management, Sony reorganized its business operations into eight business units. Included in this framework are four network companies, all in the Electronics segment, and three business groups that cover the Game, Music and Pictures segments and personal solutions including finance. The eighth unit is SEMC. The objective of this reorganization is to increase the delegation of authority to these units allowing them to formulate independent strategies to achieve mid- to long-term goals. In conjunction with this reorganization, Sony named chief financial officers for each of the network companies, while retaining a chief financial officer for the entire group.

The four new network companies are: the Home Network Company, which focuses on creating a new home environment with networked electronic devices centered on next-generation TV; the IT & Mobile Solutions Network Company, which focuses on creating a connected world with PC and mobile devices and strengthening business-to-business solutions; the Broadband Network Company, which focuses on the development of next-generation electronics devices and linkages to game devices; and the Microsystems Network Company, which focuses on enhancing key devices and core component modules. The three new business groups are: the Game Business Group, which promotes Game businesses for the broadband era; the Entertainment Business Group, which develops businesses based on pictures and music content and develops a new business model for the network era; and the Personal Solutions Business Group, which focuses on providing services based on direct contact with customers (finance, retail, and other services).

In addition, the Network Application and Content Service Sector (NACS) which was founded in April 2002, has the mission of developing the technology necessary to drive network-based business solutions, and to co-ordinate the application of such technology in each of the above eight business groups.

Table of Contents

Products and Services

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. Results of related businesses in the NACS are included in the Other segment. In addition to SCN, which was originally in the Other segment, NACS-related businesses include an in-house oriented information system service business and an IC card business formerly contained in the Other category of the Electronics segment.

The following table sets forth Sony s sales and operating revenue by operating segments and product categories. Figures in parentheses indicate percentage of sales and operating revenue.

	Year ended March 31		
	2001	**2002**	**2003**
		(Yen in millions)	
Electronics	4,982,432	4,772,550	4,543,313
	(68.1)	(63.0)	(60.8)
Audio	756,393	747,469	682,517
	(10.3)	(9.9)	(9.2)
Video	791,465	806,401	823,354
	(10.8)	(10.7)	(11.0)
Televisions	797,618	842,388	846,139
	(10.9)	(11.1)	(11.3)
Information and Communications	1,260,531	1,167,328	958,556
	(17.2)	(15.4)	(12.8)
Semiconductors	237,668	182,276	204,710
	(3.2)	(2.4)	(2.7)
Components	569,478	525,568	537,358
	(7.9)	(6.9)	(7.2)
Other	569,279	501,120	490,679
	(7.8)	(6.6)	(6.6)
Game	646,147	986,529	936,274
	(8.8)	(13.0)	(12.5)
Music	571,003	588,191	559,042
	(7.8)	(7.8)	(7.5)
Pictures	555,227	635,841	802,770
	(7.6)	(8.4)	(10.7)
Financial Services	447,147	483,313	512,641
	(6.1)	(6.4)	(6.9)
Other	112,868	111,834	119,593
	(1.6)	(1.5)	(1.6)

Sales and operating revenue	7,314,824	7,578,258	7,473,633

Note:

The Electronics segment is managed as a single operating segment by Sony s management. However, Sony believes that the product category information in the Electronics segment is useful to investors in understanding the sales contributions of the products in this business segment.

Table of Contents

Electronics

Audio:

Audio includes home audio, portable audio, car audio and car navigation systems.

Video:

Video includes video cameras, digital still cameras, video decks, and DVD-Video players/recorders.

Televisions:

Televisions includes televisions incorporating cathode ray tubes (*CRTs*), projection televisions, and set-top boxes such as digital broadcasting reception systems and Internet terminals.

Information and Communications:

Information and Communications includes PCs, computer displays, printer systems, personal digital assistants, and broadcast- and professional-use audio, video and monitors and other professional-use equipment.

This category contained the results of Sony s mobile phone handset business until the end of September 2001. On October 1, 2001, the mobile handset business was transferred to SEMC, leaving only sales of mobile handsets manufactured by Sony on consignment from SEMC to appear in the Other category of Electronics. Sales figures for past fiscal years have not been restated in either category.

Semiconductors:

Semiconductors includes liquid crystal displays (*LCD*), charge coupled devices (*CCD*) and other semiconductors.

Components:

Components includes optical pickups, batteries, CRTs, audio/video/data recording media, and data recording systems.

Other:

Other includes Aiwa which was merged into Sony Corporation as of December 1, 2002, Sony Trading International Corporation, and products and services which are not included in the above categories.

Sales of mobile phone handsets manufactured on consignment from SEMC have been recorded in this category since October 1, 2001. Sales of this category for past fiscal years have not been restated.

Game

SCEI, SCEA, and SCEE develop, produce, manufacture, market and distribute PlayStation, PS one, PlayStation 2 and next-generation entertainment hardware and related software, primarily in Japan, the U.S., and Europe and enter into licenses with third-party software developers.

Music

SMEI and SMEJ produce recorded music and video through contracts with many artists worldwide in all musical genres. SMEI and SMEJ produce, manufacture, market and distribute CDs, MDs, DVDs, Super Audio CDs, and pre-recorded audio and video cassettes and produce and manufacture CD-ROMs and DVD-ROMs.

Table of Contents

The Music segment has an extensive and geographically diversified software manufacturing capacity, with plants in the U.S., Austria, Japan, Brazil, Australia, India, Canada, Hong Kong, and Mexico. Software is manufactured for the Music segment, the Game segment, the Pictures segment and third parties.

Pictures

Global operations in the Pictures segment encompass motion picture production, acquisition and distribution; television production, acquisition and distribution; home entertainment acquisition and distribution; television broadcasting; digital production, online distribution and broadband services; and operation of studio facilities.

SPE s motion picture arm, the Columbia TriStar Motion Picture Group, includes SPE s principal motion picture production organizations, Columbia Pictures, Screen Gems and Sony Pictures Classics as well as Columbia TriStar Home Entertainment, Sony Pictures Releasing and Columbia TriStar Film Distributors International. SPE is an equity investor in Revolution Studios and has the rights to market and distribute its motion picture product throughout most of the world. Upon delivery of Revolution Studios films, SPE advances a portion of the production cost and then incurs distribution and marketing costs in those markets where SPE distributes. SPE retains a fee for its distribution services in addition to its participation in Revolution Studios profits and losses as a result of its equity ownership stake.

SPE s Television Group is primarily comprised of Sony Pictures Television and Sony Pictures Television International with various broadcast channel investments. SPE develops and produces network television series, first-run syndication programming, made-for-cable programming, daytime serials, syndicated games shows, animated series, made for television movies, miniseries and other television programming and distributes such programs to the networks, syndication and cable markets.

Sony Pictures Digital operates SPE s digital production, online distribution, and broadband services including Sony Online Entertainment, Sony Pictures Imageworks, Sony Pictures Animation and Sony Pictures Digital Networks.

SPE also manages two studio facilities, Sony Pictures Studios, which includes post production facilities, and The Culver Studios, both of which are located at SPE s world headquarters in Culver City, California.

Financial Services

The Financial Services segment includes: Sony Life, which underwrites insurance policies, primarily for individual life insurance products in Japan, and sells non-life insurance products provided by Sony Assurance; Sony Assurance, which conducts an individual automobile and medical insurance business in Japan; Sony Bank, which conducts an Internet-based banking business, including personal loans, mortage loans, investment trusts, and deposits, for individual customers in Japan; and Sony Finance, which conducts a leasing and credit financing business in Japan, focusing on a new credit card business utilizing a non-contact IC card technology developed independently by Sony for Internet shopping.

Other

The Other segment is mainly comprised of NACS, which includes SCN, an Internet-related service business subsidiary mainly in Japan, an in-house oriented information system service business and an IC card business, and an advertising agency business in Japan.

Table of Contents

Sales and Distribution

The following table shows Sony s sales in each of its major markets for the periods indicated. Figures in parentheses indicate percentage of sales and operating revenue.

	Year ended March 31		
	2001	2002	2003
		(Yen in millions)	
Japan	2,400,777	2,248,115	2,093,880
	(32.8)	(29.7)	(28.0)
United States	2,179,833	2,461,523	2,403,946
	(29.8)	(32.5)	(32.2)
Europe	1,473,780	1,609,111	1,665,976
	(20.2)	(21.2)	(22.3)
Other Areas	1,260,434	1,259,509	1,309,831
	(17.2)	(16.6)	(17.5)
Sales and operating revenue	7,314,824	7,578,258	7,473,633

Electronics

Sony s electronics products and services are marketed throughout the world under the trademark *Sony* , which has been registered in 204 countries and territories.

In most cases, sales of Sony s electronics products are made to sales subsidiaries of Sony Corporation located or responsible for sales in the countries and territories where Sony s products and services are marketed, and these subsidiaries sell products to local distributors and dealers. In some regions, sales of certain products and services are made directly to local distributors by Sony Corporation.

Sales in the Electronics segment are particularly dependent on seasonality, in addition to the timing of new product introductions and economic conditions of each country. Sales for the third quarter ending December 31 of each fiscal year are generally higher than other quarters of the same fiscal year due to demand in the year-end holiday season.

Japan:

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

United States:

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

Europe:

In Europe, Sony s consumer electronics products and services are marketed through sales subsidiaries including Sony United Kingdom Limited, Sony Deutschland G.m.b.H., and Sony France S.A. Sales of professional electronics products, electronic components, and services are made through several divisions, differentiated by product, covering all of Europe.

Table of Contents

Other Areas:

In overseas areas other than the U.S. and Europe, Sony s electronics products and services are marketed through sales subsidiaries including Sony Corporation of Hong Kong Limited, Sony Gulf FZE in the United Arab Emirates, Sony Electrónicos de México, S.A. de C.V., Sony of Canada Ltd., and Sony Australia Limited.

Game

SCEI, SCEA, and SCEE market and distribute PlayStation, PS one, and PlayStation 2 entertainment hardware and related software.

Sales in the Game segment are particularly dependent on holiday season demand, in addition to the timing of the introduction of attractive software.

Music

SMEI and SMEJ produce, manufacture, market, and distribute CDs, MDs, DVDs, Super Audio CDs, and pre-recorded audio and video software.

SMEI and its affiliates conduct business in countries other than Japan under *Columbia Records Group* , *Epic Records Group* , *Sony Classical* , and other labels. In June 2002, Sony and AOL Time Warner sold most of their interest in Columbia House, a direct marketer of music and home video products, to Blackstone Capital Partners III LP, an affiliate of The Blackstone Group, an investment bank.

SMEJ conducts business in Japan under *Sony Records* , *Epic Records* , *Ki/oon Records* , *SMEJ Associated Records* , *Defstar Records* , and other labels.

Pictures

SPE, with global operations in 67 countries, generally retains all rights relating to the worldwide distribution of its internally produced motion pictures, including rights for theatrical exhibition, videocassette and DVD distribution, pay and free television exhibition and other markets. SPE also acquires distribution rights to motion pictures produced by other companies or jointly produces films with other studios or production companies, and these rights may be limited to particular geographic regions or specific forms of media. SPE uses its own distribution service business, Sony Pictures Releasing, for the U.S. theatrical release of its films and those acquired from and produced by others.

Outside the U.S., SPE generally distributes and markets its films through one of its Columbia TriStar Film Distributors International subsidiaries. However, in certain countries, SPE has joint distribution arrangements with other studios or arrangements with independent local distributors.

SPE s theatrical releasing strategy focuses on offering a diverse slate of films with a mix of genres, talent and budgets. For the fiscal year ending March 31, 2004, 36 films are currently slated for release by SPE, including eight films under the Columbia banner, four films under the Screen Gems banner, 15 Sony Pictures Classics releases and nine Revolution Studios releases. SPE has a motion picture library of over 3,500 feature films, including 12 with Best Picture Academy Awards®. Currently, SPE is converting its library to a digital format and to date nearly 1,200 titles (including motion picture, television and acquired product) have been converted. In addition, SPE and four other motion picture studios are equal investors in Movielink, an online movie download service offering feature films on a pay-per-view basis.

The worldwide home entertainment distribution of motion pictures and television programming of SPE (and those acquired or licensed from others) is handled through Columbia TriStar Home Entertainment, except in certain countries where SPE has joint distribution arrangements with other studios or arrangements with independent local distributors. Product is distributed on both videocassette and DVD formats.

SPE produces original programming in eight different languages around the world in conjunction with local partners. This programming, along with SPE s library of television programming and motion pictures, is licensed to affiliated and independent stations in the U.S., and to international television stations and other broadcasters throughout the world. In the U.S., SPE, jointly with Liberty Media Corporation, owns and operates the cable channel, Game Show Network. SPE also has worldwide broadcasting investments in 30 international channels.

Financial Services

Sony Life conducts a life insurance business primarily in Japan, using Lifeplanner financial consultants to serve individual customers. As of March 31, 2003, Sony Life employed 4,266 such consultants. Sony Life maintains an extensive service network including 85 Lifeplanner branch offices, 31 regional sales offices, and 2,004 independent agencies in Japan. In addition, aiming to apply Sony Life s insurance expertise in countries other than Japan, Sony Life Insurance (Philippines) Corporation has operated in the Philippines since November 1999.

Sony Assurance has conducted a non-life insurance business since October 1999. Using a direct marketing model that Sony believes is tailored to today s networked society, the company is working to build a new type of relationship between an insurer and its customers. Sony Assurance principally sells automobile and medical insurance directly to individuals by telephone and over the Internet.

Sony Finance International conducts a leasing business for corporations, and a consumer financing business including *My Sony Card* , a credit card for individual customers, through Sony s electronic retailers and other affiliated partners. Sales staff are posted at ten main branch offices and three customer centers in Japan.

Sony Bank has conducted banking operations since June 2001 in Japan, and provides its services via the Internet 24 hours a day and 365 days a year as a general rule. By using the MONEYKit tool, account holders can invest and manage assets according to their life plans over the Internet.

Overseas Operations

Sony has pursued a long-term strategy of actively expanding its production capabilities in each region following a general policy of seeking to manufacture its products in the markets in which they are sold. As of March 31, 2003, Sony operated 22 manufacturing facilities in Japan, six in the U.S., seven in Europe, and 20 in other areas outside Japan in the Electronics segment. In addition, Sony operated two CD manufacturing facilities in Japan, three in the U.S., one in Europe, and seven in other areas outside Japan in the Music segment. One of the three manufacturing facilities in the U.S. ceased its manufacturing operations in April 2003.

In order to be less susceptible to the impact of foreign exchange rate fluctuations and to reduce inventory and cost, Sony seeks to localize its overseas production, research and development, design, materials and parts procurement, and management.

Sources of Supply

Sony pursues procurement of raw materials, parts and components to be used in the production of its products on a global basis on the most favorable terms that it can achieve. These items are purchased from various suppliers around the world. Generally, Sony maintains multiple suppliers for most significant categories of parts and components.

However, the recent political instability of the Middle East after the war in Iraq in spring 2003 may increase the volatility of petroleum prices, and this volatility may affect Sony s cost of goods sold because Sony consumes a tremendous volume of plastic raw materials as parts and components for its products. In addition, the restructuring and other movement in the semiconductor industry may cause a shortage of supply for semiconductors and affect Sony s production and/or the cost of goods sold because Sony consumes a significant

Table of Contents

volume of semiconductor parts and components for its products. Finally, the spread of Severe Acute Respiratory Syndrome (SARS) in Asia, particularly in China, may affect the stable procurement of parts and components for Sony s products.

After-Sales Service

In the Electronics and Game segments, Sony provides repair and servicing functions in the areas where its products are sold. Sony provides these services through its own service centers, factories, authorized independent service centers, authorized servicing dealers, and its subsidiaries.

In line with the industry practice of the electronics and game businesses, almost all of Sony s products sold in Japan carry a warranty, generally for a period of one year from the date of purchase, for repairs, free of charge, for malfunctions occurring in the course of ordinary use. In the case of broadcast- and professional-use products, Sony maintains support contracts with customers in addition to warranties. Overseas warranties are generally provided for various periods of time depending on the product and the area where it is marketed.

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

Patents and Licenses

Sony has a number of Japanese and foreign patents relating to its products. Sony is licensed to use a number of patents owned by others, covering a wide range of products. Certain licenses are important to Sony s business, such as that for optical disc related products. Sony products that employ DVD-Video Player functions, including PlayStation 2 hardware, are substantially dependent upon certain patents licensed by MPEG LA LLC, Dolby Laboratories Licensing Corporation and Nissim Corp., which cover technologies essential to DVD specification. Sony considers its overall license position beneficial to its operations. While Sony believes that its various proprietary intellectual property rights are important to its success, it believes that neither its business as a whole nor any business segment is materially dependent on any particular patent or license, or any particular group of patents or licenses, except as set forth above.

Competition

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

In the Electronics segment, Sony believes that its attractive product planning, the high quality of its products, its record of innovative product introductions and product improvements, and its extensive marketing and servicing efforts are important factors in maintaining its competitive position.

The Game segment is in a historically volatile and highly dynamic industry and Sony s competitive position is affected by changing technology and product introductions, limited platform life cycles, popularity of software titles, seasonality, consumer spending and other economic trends. To be successful in the game industry, it is important to win customer acceptance of Sony s format.

Success in the Music segment is dependent to a large extent upon the artistic and creative abilities of employees and outside talent and is subject to the vagaries of public taste. Sony s future competitive position depends on its continuing ability to attract and develop talent that can achieve a high degree of public acceptance. In terms of music distribution, it is important to make appropriate investments in new technologies for high-quality and secure music distribution while maintaining customer convenience.

Table of Contents

In the Pictures segment, SPE faces intense competition from other major motion picture studios and, to a lesser extent, from independent production companies, to attract the attention of the movie-going public worldwide and to obtain exhibition outlets and optimal release dates for its products. SPE must also compete to obtain story rights and talent, including writers, actors, directors and producers, which are essential to the success of SPE s products. Competition in television production, distribution, and syndication is also intense because available broadcast time is limited and the audience is increasingly fragmented among broadcast networks, cable, and other independent television stations both in the U.S. and internationally. Furthermore, broadcast networks are increasingly producing their own shows internally. This competitive environment has resulted in fewer opportunities to produce shows for networks and a shorter lifespan for ordered shows that do not immediately achieve favorable ratings.

In the Financial Services segment, it is critical for Sony Life, Sony Assurance and Sony Bank to maintain customer confidence because some financial institutions in Japan have become insolvent in recent years. To be credible and competitive in the financial services market, it is important to offer attractive rates of return on customer investments. In addition, in order to meet diversifying customer demand, it is critical to provide attractive services to customers through unique marketing channels, such as Lifeplanner financial consultants in Sony Life, direct communications by telephone and over the Internet in Sony Assurance and Sony Bank. Sony Finance faces competitive pressure to achieve a leading position in the new arena of secured payment system on the Internet by utilizing new technology.

In the Internet-related business, SCN faces competition in Japan from many existing, large companies and new entrants to the market. Telecommunication companies that possess a large Internet-ready infrastructure and other entrants that compete solely with respect to price have created a market in which competitive price reductions are the norm. Rapid technological advancement has created many new opportunities but has also increased the rate at which new and more efficient services must be brought to market to earn customer approval. Customer price elasticity is high, and users are able to change Internet service providers with increasing ease. The penetration of mobile Internet services solely provided by telecommunication companies poses an alternative to the home-centric Internet service provided by SCN.

Government Regulations

Sony s business activities are subject to various governmental regulations in countries in which it operates, including regulations relating to business/investment approvals, export regulations including those related to national security considerations, tariffs, antitrust, intellectual property, consumer and business taxation, exchange controls, and environmental and recycling requirements. In Japan, insurance, banking and other financing businesses are subject to approvals from the Financial Services Agency. In addition, satellite broadcasting and telecommunication businesses are subject to approvals from the Ministry of Public Management, Home Affairs, Posts and Telecommunications. Sony is also subject to environmental and occupational health and safety regulations in the jurisdictions in which it operates, particularly those in which it has manufacturing, research, or similar operations in its Electronics and Game businesses. Refer to *Risk Factors* in *Item 3. Key Information* .

In October 2001, SCEE temporarily halted shipments of the PS one game consoles destined for the European market after Dutch authorities determined levels of cadmium were above the limits allowed under Dutch regulations. PS one shipments were resumed after confirming that there was no health risk to users during use and Sony worked closely with Dutch authorities to replace non-compliant components to meet their standards. Sony addressed this issue in PS one by initiating its own program to inspect all Sony products and thereby discovered a limited number of other occurrences of substances. In order to prevent problems occurring with cadmium and similar chemical substances in the future, Sony initiated a comprehensive program that includes revisions to specific Sony policies and standards such as its Management Regulations for the Environment-related Substances to be Controlled which are included in Parts and Materials , and tightening its management and control systems including the Green Partner Environmental Quality Approval Program which identifies specific requirements to Sony s suppliers. On a consolidated basis, Sony recorded an aggregate of

24

Table of Contents

approximately 10 billion yen in expenses, including costs of rework and other, investments in equipment, costs of revising and managing policies and programs including the above mentioned policy and program, for the two fiscal years ended March 31, 2002 and March 31, 2003.

Property, Plant and Equipment

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

The following table sets forth information as of March 31, 2003 with respect to plants for the manufacturing of products for the Electronics segment and entertainment hardware for the Game segment with floor space of more than 500,000 square feet:

Location	Approximate Floor space (square feet)	Principal products manufactured
In Japan:		
Nagasaki (Sony Semiconductor Kyushu Corporation Nagasaki TEC and SCE)	2,232,000	Semiconductors
Miyagi (Sony Corporation and Sony Miyagi Corporation)	1,682,000	Magnetic and optical storage media and electronic components
Kagoshima (Sony Semiconductor Kyushu Corporation Kokubu TEC)	1,112,000	Semiconductors
Fukushima (Sony Fukushima Corporation)	994,000	Batteries and electronic components
Kumamoto (Sony Semiconductor Kyushu Corporation Kumamoto TEC)	980,000	Semiconductors
Aichi (Sony EMCS Corporation Inazawa TEC)	865,000	CRTs
Aichi (Sony EMCS Corporation Kohda TEC)	854,000	Video cameras, digital still cameras, PCs, and entertainment hardware
Tochigi (Sony Chemicals Corporation)	824,000	Magnetic tapes, adhesives, and electronic components
Aichi	809,000	Televisions

(Sony EMCS Corporation Ichinomiya TEC)		
Tochigi	609,000	
(Sony Tochigi Corporation)		Magnetic and optical storage media and batteries
Chiba	510,000	
(Sony EMCS Corporation Kisarazu TEC)		DVD-Video players and entertainment hardware
Shizuoka	528,000	
(Sony EMCS Corporation Kosai TEC)		Broadcast- and professional-use video equipment and projectors
Gifu	520,000	
(Sony EMCS Corporation Minokamo TEC)		Video cameras, digital still cameras, mobile phones, and entertainment hardware

Table of Contents

Location	Approximate Floor space (square feet)	Principal products manufactured
Overseas:		
Pittsburgh, Pennsylvania, U.S.A. (Sony Electronics Inc.)	2,800,000	Televisions and CRTs
San Diego, California, U.S.A. (Sony Electronics Inc.)	1,643,000	CRTs
Penang, Malaysia (Sony Electronics (Malaysia) Sdn. Bhd.)	988,000	Audio equipment and data storage systems
Tijuana, Mexico (Sony de Tijuana Este, S.A. de C.V.)	935,000	Televisions and computer displays
Dothan, Alabama, U.S.A. (Sony Magnetic Products Inc. of America)	809,000	Magnetic storage media
Bangi, Malaysia (Sony Technology Malaysia Sdn. Bhd.)	797,000	DVD-Video players, VTRs, and televisions
Jurong, Singapore (Sony Electronics (Singapore) Pte. Ltd.)	786,000	CRTs
Bridgend, Wales, U.K. (Sony United Kingdom Limited)	732,000	CRTs
Pencoed, Wales, U.K. (Sony United Kingdom Limited)	707,000	Televisions and computer displays
Nuevo Laredo, Mexico (Sony Nuevo Laredo, S.A. de C.V.)	608,000	Magnetic storage media
Barcelona, Spain (Sony Espana, S.A.)	566,000	Televisions

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

The following table sets forth information as of March 31, 2003 with respect to principal plants for the manufacturing of software for the Music and Game segments with floor space of more than 500,000 square feet:

Location	Approximate Floor space	Principal products manufactured
	(square feet)	
Shizuoka, Japan	736,000	CDs, CD-ROMs, DVDs, MDs and DVD-ROMs
(Sony Music Entertainment (Japan) Inc.)		
Terre Haute, Indiana, U.S.A.	655,000	CDs, CD-ROMs, DVDs and DVD-ROMs
(Digital Audio Disc Corporation)		
Pitman, New Jersey, U.S.A.	568,000	CDs and CD-ROMs
(Sony Music Entertainment Inc.)		

In addition to the above, SMEI and its affiliates have several plants in various parts of the world and lease their corporate headquarters located in New York City from Sony Corporation of America (SCA). Most of SMEJ s offices, including leased premises, are located in Tokyo, Japan.

SPE s corporate offices and motion picture and television production facilities are headquartered in Culver City, California, where it owns and operates two studio facilities, Sony Pictures Studios and The Culver Studios. SPE also leases office space and motion picture and television support facilities from affiliates of Sony Corporation and other third parties. Its film and videotape storage operations are located in various locations in the U.S. and Europe, where SPE also leases space.

In December 2001, SCA entered into a lease for its corporate headquarters. The aggregate floor space of this building is approximately 723,000 square feet. Refer to the *Other Financing Arrangements* section in *Item 5. Operating and Financial Review of Prospects* for more information on this lease.

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

OPERATING RESULTS

Operating Results for the Fiscal Year Ended March 31, 2003 compared with the Fiscal Year Ended March 31, 2002

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 (regarding references to results of operations expressed 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.

Table of Contents

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

Table of Contents

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 17 of Notes to Consolidated Financial Statements.

The table below 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	23.9 billion yen	Remaining reserve balance of 11.5 billion yen at March 31, 2003 to be used by March 31, 2006.

manufacturing facility in U.S., and others	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.

29

Table of Contents

Operating Performance

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

Table of Contents

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 24 of Notes to Consolidated Financial Statements.

Business Segment Information

	Year ended March 31		
Sales and Operating revenue	**2002**	**2003**	**Percent change**
	(Yen in billions)		
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

31

Table of Contents

Operating income (loss)	Year ended March 31 2002	2003	Percent change
	(Yen in billions)		
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 17 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.

Table of Contents

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 24 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

34

Table of Contents

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.

Table of Contents

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:

	Year ended March 31		Cumulative as of March 31, 2003
	2002	2003	
	(million units)		
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.

Table of Contents

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.

Table of Contents

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.

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* 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.

	Financial Services		**All other segments excluding Financial Services**		**Consolidated**	
Year ended March 31	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**
			(Yen in millions)			
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.

Table of Contents

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

40

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 Communications Inc., 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 Communications Inc. Sony

41

Table of Contents

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 21 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 in Overview and Operating Performance 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

42

Table of Contents

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.

Operating Results for the Fiscal Year Ended March 31, 2002 compared with the Fiscal Year Ended March 31, 2001

Overview

During the fiscal year ended March 31, 2002, worldwide economic conditions turned poor as countries in Europe and Asia, including Japan, experienced deterioration in their economies following a worsening of economic conditions in the U.S., particularly in the information technology sector. The atmosphere of global recession grew after the terrorist attacks in the U.S. on September 11, 2001, causing the economic outlook to become even more uncertain. While the deterioration of the Japanese, U.S. and European economies showed signs of bottoming out in the early months of calendar year 2002, the fiscal year ended on March 31, 2002 without a strong sense of recovery. Under such difficult market conditions, Sony s sales for the fiscal year ended March 31, 2002, which are stated in yen, increased 3.6 percent compared with the previous fiscal year, due to the positive impact of the depreciation of the yen and a significant increase in sales in the Game segment. Although profitability of the Game and Pictures segments improved significantly, operating income decreased 40.3 percent compared with the previous fiscal year, primarily reflecting the operating loss recorded in the Electronics segment due to poor worldwide market conditions and the recording of restructuring charges.

On a local currency basis (regarding references to results of operations expressed on a local currency basis, refer to *Operating Results for the Fiscal Year Ended March 31, 2003 Compared with the Fiscal Year Ended March 31, 2002, Foreign Exchange Fluctuations and Risk Hedging* above), Sony s sales for the fiscal year ended March 31, 2002 decreased approximately 4 percent compared with the previous fiscal year, and an operating loss was recorded compared to operating income recorded in the previous fiscal year.

Table of Contents

Restructuring

Restructuring expenses (including the severance-related charges mentioned above) for the fiscal year ended March 31, 2002 amounted to 107.0 billion yen, compared to 34.7 billion yen in the previous fiscal year. The primary restructuring activities were in the Electronics, Music and Pictures segments.

Electronics

Restructuring charges in the Electronics segment were approximately 86.9 billion yen, compared to 20.6 billion yen in the previous fiscal year.

In the year ended March 31, 2002, a decision was made to reduce production capacity at computer display CRT manufacturing facilities, mainly in the U.S., in response to market contraction resulting from the demand shift from CRT displays to flat panel displays. The resulting charges totaled 19.6 billion yen, of which 0.9 billion yen was recorded in cost of sales, and 18.7 billion yen was recorded in selling, general and administrative expenses.

A drastic restructuring program was implemented at Aiwa to reverse a decline in profit performance. Although Aiwa products include television and video, the majority of Aiwa s sales are derived from audio products. After sales reached a peak in the fiscal year ended March 31, 1998, Aiwa s performance deteriorated in the following two fiscal years as Aiwa s product development did not keep pace with changing market conditions and changing consumer preferences. Further, the worldwide market for home audio products, which had accounted for up to 70 percent of Aiwa s sales, declined. In the fiscal year ended March 31, 2000 Aiwa recorded an operating loss of 6.7 billion yen, followed by an operating loss of 13.3 billion yen in the fiscal year ended March 31, 2001. Therefore a restructuring program was implemented which included a reduction of unprofitable product lines, plant closures, and headcount reductions. The resulting restructuring charges totaled 25.5 billion yen, of which 5.7 billion yen was recorded in cost of sales, and 19.8 billion yen was recorded in selling, general and administrative expenses.

In addition to the restructuring activities described above, Sony has reduced headcount through the implementation of several early retirement programs to further reduce costs in the Electronics segment. The resulting charges totaled 12.3 billion yen, compared to 14.4 billion yen in the previous fiscal year. These charges were recorded in selling, general and administrative expenses.

Music

As a result of 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 year ended March 31, 2001 to reduce staffing and other costs through the consolidation and rationalization of facilities worldwide. Restructuring charges in the Music segment were approximately 8.6 billion yen, compared to 7.9 billion yen in the previous fiscal year which were included in selling, general and administrative expenses. SMEI recorded restructuring charges of 68 million U.S. dollars.

Restructuring activities included staff reductions and the downsizing of and withdrawal from a number of businesses designed to capitalize on the growth of the Internet through strategic investments. These restructuring and cost reduction initiatives resulted in the termination of approximately 750 employees, or 6.3 percent of the workforce.

Table of Contents

Pictures

Due to changes within the television production and distribution business, the competition between network-owned production companies and other production and distribution companies to license product to the major televisions networks 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. This trend has resulted in an increase in the number of new programs being distributed yet canceled in their first or second season, which are generally less profitable, and a decrease in the number of network programs that are able to achieve syndication, which are generally more profitable. As a result, in the fiscal year ended March 31, 2002, Sony decided to consolidate its television operations and downsize the network television production business in the Pictures segment. Restructuring charges incurred in connection with this restructuring activity were approximately 8.5 billion yen which were included in the cost of sales. No significant restructuring activity was carried out in the previous fiscal year in the Pictures segment.

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 17 of Notes to Consolidated Financial Statements.

The table below summarizes major restructuring activities for which charges of over 5 billion yen were recorded during the fiscal year ended March 31, 2002.

Segment	Nature of Restructuring	Costs incurred in fiscal year ended March 31, 2002	Additional Information
Electronics	Discontinuation of CRT manufacturing facilities in U.S.	19.6 billion yen	Restructuring completed in fiscal year ended March 31, 2003.
	Personnel reductions and closure of manufacturing facilities, rationalization of product lines at Aiwa	25.5 billion yen	Additional restructuring continued in next year. Refer to table for year ended March 31, 2003.
	Early retirement program	12.3 billion yen	Early retirement program continued in next year. Refer to table for year ended March 31, 2003.
Music	Rationalizations of non-core businesses, headcount reductions	8.6 billion yen	Refer to table for year ended March 31, 2003 for details of long term restructuring plan.
Pictures	Consolidation and downsizing of network television production business	8.5 billion yen	Restructuring to be completed in fiscal year ending March 31, 2005.

Operating Performance

Sales

Sales for the fiscal year ended March 31, 2002 increased by 263.4 billion yen, or 3.6 percent, to 7,578.3 billion yen compared with the previous fiscal year. A further breakdown of sales figures is presented below.

Cost of Sales and Selling, General and Administrative Expenses

Cost of sales for the fiscal year ended March 31, 2002 increased by 192.9 billion yen, or 3.8 percent, to 5,239.6 billion yen compared with the previous fiscal year and, as a percentage of sales, increased from 73.9 percent to 74.2 percent. Year on year, the cost of sales ratio increased from 77.6 percent to 80.5 percent in the Electronics segment, and from 56.0 percent to 57.6 percent in the Music segment. The cost of sales ratio decreased from 87.1 percent to 74.7 percent in the Game segment and from 65.9 percent to 62.0 percent in the

Table of Contents

Pictures segment. The cost of sales ratio in the Electronics segment deteriorated due to increases in manufacturing expenses. 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. The cost of sales ratio in the Game segment improved due to increased revenues from the expansion of the PlayStation 2 business, although the absolute amount of cost of sales, including research and development expenses, increased significantly. The cost of sales ratio in the Pictures segment improved due to increased home entertainment revenue from prior year releases, and increased theatrical and home entertainment revenue from current year releases. Research and development expenses during the fiscal year increased by 16.5 billion yen, or 4.0 percent, to 433.2 billion yen compared with the previous fiscal year, with much of this increase in the Game segment. However, the ratio of research and development expenses to sales was 6.1 percent, which approximated that of the previous fiscal year.

Selling, general and administrative expenses for the fiscal year ended March 31, 2002 increased by 129.8 billion yen, or 8.0 percent, to 1,742.9 billion yen compared with the previous fiscal year. The ratio of selling, general and administrative expenses to sales increased from 23.5 percent to 24.6 percent. Year on year, the ratio of selling, general and administrative expenses to sales increased from 18.0 percent to 19.9 percent in the Electronics segment, but decreased from 20.6 percent to 17.1 percent in the Game segment, from 40.7 percent to 39.3 percent in the Music segment, and from 33.3 percent to 33.1 percent in the Pictures segment.

The increase in expenses was due to the depreciation of the yen; a total of approximately 40.0 billion yen in severance-related charges due to restructuring initiatives primarily in the Electronics segment, including Aiwa, and the Music segment; an increase of 25.6 billion yen in loss on sales, disposal or impairment of long-lived assets, net, primarily in the Electronics segment; and an increase of 18.6 billion yen in after-sales service expenses including those relating to the mobile phone business. However, advertising expenses decreased 23.9 billion yen, mainly in the Electronics and Music segments, partially offset by an increase in the Game segment.

Partially offsetting the increase in cost of sales and selling, general and administrative expenses was a cessation of amortization in accordance with a change in the accounting standard regarding goodwill and other intangible assets adopted in the first quarter of the fiscal year (refer to Notes 2 and 9 of Notes to Consolidated Financial Statements). The adoption of this new accounting standard resulted in a 20.1 billion yen decrease in expenses. By segment, this change in accounting standard positively affected the Electronics segment by 3.0 billion yen, the Game segment by 10.5 billion yen, the Music segment by 3.4 billion yen, and the Pictures segment by 3.2 billion yen.

The aforementioned analysis of cost of sales and selling, general and administrative expenses does not include an analysis of the Financial Services segment. Therefore, Financial Services revenue is excluded from sales in the ratio of selling, general and administrative expenses to sales.

Operating Income

As a result of the factors discussed above, operating income for the fiscal year ended March 31, 2002 decreased by 90.7 billion yen, or 40.3 percent, to 134.6 billion yen compared with the previous fiscal year. Operating income margin decreased from 3.1 percent to 1.8 percent. This year on year decrease in overall profitability was due to a decrease in the operating income of the Electronics segment, although the Game segment recorded a significant increase in profitability.

Table of Contents

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 24 of Notes to Consolidated Financial Statements.

Business Segment Information

	Year ended March 31		
Sales and Operating revenue	**2001**	**2002**	**Percent change**
	(Yen in billions)		
Electronics	5,454.5	**5,286.2**	-3.1%
Game	660.9	**1,003.7**	+51.9
Music	612.1	**642.8**	+5.0
Pictures	555.2	**635.8**	+14.5
Financial Services	478.8	**512.2**	+7.0
Other	206.8	**203.8**	-1.5
Elimination	(653.6)	**(706.4)**	
Consolidated	7,314.8	**7,578.3**	+3.6

	Year ended March 31		
Operating income (loss)	**2001**	**2002**	**Percent change**
	(Yen in billions)		
Electronics	251.1	**(1.2)**	
Game	(51.1)	**82.9**	
Music	20.5	**20.2**	-1.6%
Pictures	4.3	**31.3**	+624.6
Financial Services	17.4	**22.1**	+27.0
Other	(13.7)	**(16.6)**	
Elimination and unallocated corporate expenses	(3.2)	**(4.1)**	
Consolidated	225.3	**134.6**	-40.3

Sony s mobile handset business, previously included in the Electronics segment, has been moved to SEMC, a mobile handset joint venture which began operations in October 2001, and has become an affiliated company accounted for under the equity method.

Realignment of the Business Segment Configuration

Commencing with the first quarter ended June 30, 2001, Sony partly realigned its business segment configuration, used for disclosing the breakdown of operating results, and its product category configuration in the Electronics segment, used for disclosing the breakdown of sales and operating revenue, as described below. Results for the previous fiscal year have been reclassified to conform to the presentations for the current year.

Changes in the Business Segment Configuration

Sony renamed the former *Insurance* segment the *Financial Services* segment. The *Financial Services* segment includes results of Sony Life Insurance Co., Ltd. and Sony Assurance Inc., previously included in the former *Insurance* segment. The *Financial Services* segment also includes the results of Sony Finance International, Inc., a subsidiary focused on leasing and credit financing and moved from the *Other* segment to the *Financial Services* segment, and the results of Sony Bank Inc., which started operations in June 2001.

Results of Sony Communication Network Corporation, a subsidiary focused on Internet-related services, have been moved from the *Electronics* segment to the *Other* segment.

Table of Contents

Results of Sony Trading International Corporation (now Sony Supply Chain Solutions Inc.), a subsidiary focused on parts trading services within the Sony Group, have been moved from the *Other* segment to the *Electronics* segment.

Changes in the Product Category Configuration in the Electronics segment

Sony divided the former *Electronic components and other* category into the *Semiconductors,* *Components,* and *Other* categories. The *Components* category includes sales of optical pickups, batteries, and cathode ray tubes (*CRTs*). The category also includes sales of audio recording media, previously included in the *Audio* category; video recording media, previously included in the *Video* category; and data recording media/data recording systems, previously included in the Information and Communications category.

Sales of Aiwa Co., Ltd., previously included in the *Audio,* *Video,* *Televisions,* *Information and Communications,* and *Electronic components and other* categories by the nature of products, have been integrated into the *Other* category.

Sales of broadcast- and professional-use audio equipment, previously included in the *Audio* category; sales of broadcast- and professional-use video equipment, previously included in the *Video* category; sales of broadcast- and professional-use monitors, previously included in the *Televisions* category; and sales of other professional-use equipment, previously included in the *Electronic components and other* category, have been integrated into the *Information and Communications* category.

Sales of computer projectors, previously included in the *Televisions* category, are now included in the *Information and Communications* category.

Sales of car navigation systems and home telephones, previously included in the *Information and Communications* category, are now included in the *Audio* category.

Sales of set-top boxes such as broadcasting reception systems and Internet terminals, previously included in the *Information and Communications* category, are now included in the *Televisions* category.

Sales of mobile handsets, previously included in the *Information and Communications* category, were included in the *Other* category from the second half of the fiscal year ended March 31, 2002, because SEMC entrusted only their manufacture to Sony after the entire mobile phone handset business was transferred to SEMC in October 2001. Since this is a change in business structure, Sony has not restated sales figures for the past fiscal years.

New Business Segment Configuration

Electronics	Electronics business composed of *Audio,* *Video,* *Televisions,* *Information and Communications,* *Semiconductors,* *Components,* and *Other* categories
Game	Home entertainment system business run by Sony Computer Entertainment, Inc.
Music	Music business run by Sony Music Entertainment Inc., based in the U.S. and Sony Music Entertainment (Japan) Inc.
Pictures	Motion picture and television business, as well as digital entertainment business including digital production, online distribution, and broadband services, run by Sony Pictures Entertainment

Financial Services	Life insurance business run by Sony Life Insurance Co., Ltd., non-life insurance business run by Sony Assurance Inc., leasing and credit financing business run by Sony Finance International, Inc., and banking business run by Sony Bank Inc.
Other	Internet-related services business run by Sony Communication Network Corporation and advertising agency business in Japan

Table of Contents

New Product Categories Configuration in the Electronics Segment

Audio	Home audio, portable audio, car audio, car navigation systems, and home telephones
Video	Video cameras, digital still cameras, video decks, and DVD-Video players/recorders
Televisions	CRT-based televisions, projection televisions, and set-top boxes such as digital broadcasting reception systems and Internet terminals
Information and Communications	PCs, computer displays, computer projectors, printer systems, personal assistants, and broadcast- and professional-use audio/video/monitors and other professional-use equipment (sales of mobile phone handsets made prior to October 2001 are also contained here)
Semiconductors	LCDs, CCDs, and other semiconductors
Components	Optical pickups, batteries, CRTs, audio/video/data recording media, and data recording systems
Other	Sony Trading International Corporation (now Sony Supply Chain Solutions), Aiwa brand products, and products and services which are not included in the above categories (sales of mobile phone handsets to SEMC from October 2001 onward are also contained here)

Electronics

Sales for the fiscal year ended March 31, 2002 were 5,286.2 billion yen, a decrease of 168.3 billion yen, or 3.1 percent, compared with the previous fiscal year. An operating loss of 1.2 billion yen was recorded compared to operating income of 251.1 billion yen in the previous fiscal year. The significant deterioration of results was due to a worsening of worldwide market conditions, intensified price competition, and restructuring expenses.

Regarding sales by geographic area, sales increased slightly in the U.S., primarily because of, in descending order of financial impact, the especially strong performance of desktop PCs, projection televisions, personal digital assistants, set-top boxes, CRT televisions and digital still cameras. Products with decreased sales in the U.S. included computer displays and broadcast- and professional-use products. Sales in the U.S were positively affected by the depreciation of the yen. The sales decrease in Japan accounted for almost the entire decrease in sales of the Electronics segment. This decrease in sales in Japan resulted from a significant decline in sales of mobile phones due to quality issues in the first half of the fiscal year ended March 31, 2002 (before that business was transferred to SEMC, which started operations in October 2001). The decrease in sales also resulted from a decrease in sales of semiconductors, computer displays, CRT televisions, home-use video cameras and set-top boxes. In Europe, sales decreased slightly reflecting the economic downswing and severe pricing pressure, although sales were positively impacted by the appreciation of the euro against the yen. Sales of computer displays, notebook PCs, analog home-use video cameras and home audio decreased while sales of CRT televisions showed strong growth. The transfer of Sony s mobile phone business to SEMC also had a negative impact on the sales. In Other Areas, sales were flat compared with the previous fiscal year. CD-R/RW drive sales decreased because of the declining PC market and sales of semiconductors, CRTs and analog home-use video cameras also decreased, although digital home-use video cameras, projection televisions and PCs recorded increases in sales.

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 24 of Notes to Consolidated Financial Statements.

Audio sales decreased by 8.9 billion yen, or 1.2 percent, to 747.5 billion yen. While sales of CD/MD format headphone stereos increased in Western Europe, withdrawal from the home telephone business in the U.S.

and Japan, decreased sales of radio-cassette recorders and home audio in most geographic areas, and decreased sales of car audio in Japan, the U.S., and Europe brought about the overall decrease in sales for the category.

Video sales increased by 14.9 billion yen, or 1.9 percent, to 806.4 billion yen. Sales of digital home-use video cameras, digital still cameras and DVD-Video players increased in most geographic areas as a result of the positive impact of the depreciation of the yen and increased demand. Worldwide shipments of digital home-use video cameras decreased slightly by approximately 100,000 units to approximately 5,400,000 units. Worldwide shipments of digital still cameras increased by approximately 800,000 units to approximately 3,400,000 units. However, in the intensely competitive Japanese market, sales of digital home-use video cameras and DVD-Video players decreased. In addition, sales of analog home-use video cameras and home-use VHS video decks decreased in most geographic areas as a result of lower demand and declining prices.

Televisions sales increased by 44.8 billion yen, or 5.6 percent, to 842.4 billion yen. The increase was primarily due to higher sales of large-screen projection televisions in the U.S. and China. Sales of set-top boxes also increased due to increased sales in the U.S., brought on by the introduction of digital cable-TV set-top boxes, partially offset by a decrease in sales in Japan where, in the previous fiscal year, the merger of two satellite broadcasting companies had created a temporary increase in demand. On the other hand, sales of CRT televisions decreased slightly as a result of a large decline in sales in Japan, despite an increase in sales of CRT televisions in Europe and the U.S. due to the positive impact of the depreciation of the yen. Worldwide shipments of CRT televisions decreased by approximately 130,000 units to approximately 10,000,000 units.

Information and Communications sales decreased by 93.2 billion yen, or 7.4 percent, to 1,167.3 billion yen. Sales of mobile phones, with their primary market in Japan and Europe, decreased as a result of quality issues that arose in Japan in the first half of the fiscal year, as well as due to the fact that sales of all mobile phone handsets were recorded in the Other category from the second half of the fiscal year as a result of their becoming consignment sales to SEMC. Sales of CRT computer displays decreased significantly in the primary markets of Europe and the U.S. due to deterioration of the PC market. In addition sales of broadcast- and professional-use products in the U.S. decreased due to a weakened broadcasting industry. Partially offsetting the decline in sales of the category was an increase in sales in the U.S. of desktop PCs. Worldwide shipments of PCs (desktop and notebook) increased by approximately 1,000,000 units to approximately 3,500,000 units. Sales of personal digital assistants also increased.

Semiconductors sales decreased by 55.4 billion yen, or 23.3 percent, to 182.3 billion yen. The decrease was due to significant decreases in sales of LSI for AV devices in Japan and significant decreases in sales of memory chips in Europe and the U.S. The drop in sales reflected a drop in demand across all electronics products including AV devices and PC related devices that were due to the weakening of the global information and communications industry.

Components sales decreased by 43.9 billion yen, or 7.7 percent, to 525.6 billion yen. The decrease was due to significant decreases in sales of CD-R/RW drives and CRTs for computer displays in Asia, the primary base for PC manufacturers. On the other hand, sales of Memory Stick increased in most areas, especially in the U.S., reflecting the increase in the variety of products that are compatible with the Memory Stick format, such as strong selling digital still cameras. Worldwide shipments of memory stick increased by approximately 4,000,000 units to approximately 11,000,000 units.

Other sales decreased by 68.2 billion yen, or 12.0 percent, to 501.1 billion yen. The decrease was due to a large decline in the sales of Aiwa products in almost all geographic areas because of a slowdown in the market and a drop in the competitiveness of audio products.

Cost of sales in the Electronics segment increased by 18.4 billion yen, or 0.4 percent to 4,237.7 billion yen compared with the previous fiscal year. This increase was due to the effect of the depreciation of the yen on raw materials costs, which was partially offset by a decrease in personnel and other expenses included in the cost of sales. Research and development expenses were 383.4 billion yen, almost flat year on year. The ratio of cost of sales to sales increased from 77.6 percent to 80.5 percent.

Selling, general and administrative expenses increased by 65.6 billion yen, or 6.7 percent, to 1,049.7 billion yen as losses on the sale, disposal and impairment of long-lived assets, net and personnel expenses, including severance-related expenses, both increased. These increases resulted from the consolidation of manufacturing facilities and the reduction in personnel that took place in accordance with the implementation of restructuring efforts. Also contributing to the increase in selling, general and administrative expenses was an increase in after-sales service expenses caused by a recall of products for quality reasons in the mobile phone business during the first half of the fiscal year. Partially offsetting the increase in selling, general and administrative expenses was a decrease in advertising expenses due to a reevaluation of the effectiveness of these expenses. As a result of the decrease in sales, the ratio of cost of sales to sales and the ratio of selling, general and administrative expenses to sales increased from 18.0 percent to 19.9 percent.

Regarding profit performance compared to the previous fiscal year, operating income decreased due to the decrease in sales, partially offset by the positive impact of the yen s depreciation. Specifically, operating income decreased in semiconductors due to the market slowdown, in mobile phones because of the quality issues that arose in the first half of the fiscal year, in CRT computer displays due to declining demand and an impairment charge for manufacturing facilities in response to this decline, and in notebook PCs due to an increase in key component prices at a time when end-user prices fell. Operating income from OEM products, including PC peripherals, also decreased due to strategic decisions to reduce the scale of OEM production. Operating losses in the fiscal year were recorded in the mobile phone business, for the reasons mentioned above, and in the set-top box business, which was unable to generate sufficient sales to cover development costs, and at Aiwa, a consolidated subsidiary; where the 38 billion yen operating loss included 25.5 billion yen in restructuring expenses. Excluding Aiwa, restructuring expenses of approximately 61.4 billion yen were recorded.

Partially offsetting the decrease in profitability was the impact of the depreciation of the yen and gains due to the increased sales of AV products. The largest gains were recorded by digital home-use video cameras, projection televisions, digital still cameras and portable audio products.

Manufacturing by Geographic Area

Regarding the geographic breakdown of total annual production in the Electronics segment (including Aiwa and the assembly of PlayStation 2 for the Game segment) and the final destination of such production, less than 50 percent of total production was in Japan. Less than 50 percent of such production was destined for other regions. More than 15 percent was produced in Asia, here excluding Japan and China, 75 percent of which was destined for Japan, the U.S. and Europe. China accounted for more than 10 percent of total production, most of which was destined for Asia, Japan, and the U.S. Approximately 25 percent was in the Americas and Europe combined, most of which was sold in the area where it was produced. By cutting back on excess production capacity to meet changes in market conditions, Sony is working to improve its break-even point through a reduction in fixed costs.

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

Results in the Electronics segment were positively impacted by the appreciation of the U.S. dollar and the euro against the yen. On a local currency basis, sales for the fiscal year ended March 31, 2002 decreased approximately 10 percent compared with the previous fiscal year and an operating loss was recorded where operating income had been recorded in the previous fiscal year.

Due to the appreciation of the U.S. dollar against the yen, year on year increases in U.S. product sales were generally larger, and decreases generally smaller, when stated in yen than when stated in U.S. dollars. Regarding

Table of Contents

significant differences between results on a yen basis and results on a U.S. dollar basis, CRT televisions, desktop PCs, digital still cameras, home-use video cameras, recording media, projectors and DVD-Video players recorded an increase in sales on a yen basis but a decrease in sales on a U.S. dollar basis.

Likewise, sales in Europe were positively affected by the currency fluctuation. Year on year increases in product sales in Europe were generally larger, and decreases generally smaller, when stated in yen than when stated in local currency. Regarding significant differences between results on a yen basis and results on a local currency basis, sales of CRT televisions, portable audio, DVD-Video players and recording media increased on a yen basis but showed a decrease on a local currency basis. Sales of home-use video cameras, CD-R/RW drives and batteries were flat on a yen basis although all decreased on a local currency basis.

The net effect of currency fluctuations on sales from Other Areas was that sales increases were generally larger, and decreases smaller, when stated in yen than when stated in a local currency. Regarding significant differences between results on a yen basis and results on a local currency basis, sales of CRT televisions and recording media increased on a yen basis but decreased on a local currency basis.

Game

Sales for the fiscal year ended March 31, 2002 increased by 342.8 billion yen, or 51.9 percent, to 1,003.7 billion yen compared with the previous fiscal year. Regarding profit performance, compared with an operating loss of 51.1 billion yen recorded in the previous fiscal year, operating income of 82.9 billion yen was recorded.

Sales in the Game segment were positively impacted by the yen s depreciation against the U.S. dollar and the euro. On a local currency basis, sales for the fiscal year ended March 31, 2002 increased approximately 40 percent and operating income was recorded compared with an operating loss in the previous fiscal year.

Regarding sales by geographical area, in Japan PS one hardware unit sales decreased significantly and software sales decreased slightly, but sales of PlayStation 2 hardware units continued to increase, in part, due to a strategic price reduction. As a result, overall sales in Japan increased slightly. In the U.S. and Europe, PlayStation 2 hardware unit sales increased significantly and software sales increased, in accordance with an expansion of the game industry. As a result, overall sales in both the U.S. and Europe almost doubled; in these regions, the depreciation of the yen had a positive impact on sales. Also, price reductions of PlayStation 2 hardware contributed to the increase in unit sales of PlayStation 2 hardware in Europe.

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

	Year ended March 31		Cumulative as of March 31,
	2001	**2002**	**2002**
		(million units)	
Total Production Shipments of Hardware			

PlayStation + PS one	9.31	**7.40**	89.63
PlayStation 2	9.20	**18.07**	28.68
Total Production Shipments of Software*			
PlayStation	135.00	**91.00**	856.00
PlayStation 2	35.40	**121.80**	160.10

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

In terms of total software unit sales, PlayStation 2 titles represented 57 percent of software unit sales for the fiscal year ended March 31, 2002, an increase from 21 percent of software unit sales recorded in the previous fiscal year.

Table of Contents

In terms of profitability, operating income was recorded compared with an operating loss in the previous fiscal year. This was due to an improvement in profitability of the hardware business as a result of reductions in the cost of producing PlayStation 2 hardware and the positive impact of the yen s depreciation. The improvement in operating performance was also due to an increase in profitability of the software business brought on by an increase in unit sales. Although cost of sales in the Game segment increased due to an increase in manufacturing-related expenses following increased unit sales of PlayStation 2 hardware, the ratio of cost of sales to sales significantly decreased compared with the previous fiscal year due to a significant increase in sales and a reduction in the cost of each PlayStation 2 hardware unit. Similarly, although selling, general and administrative expenses increased primarily due to advertising and promotion expenses in conjunction with the expansion of business, the ratio of selling, general and administrative expenses to sales decreased compared with the previous fiscal year because of a significant increase in sales.

Music

Sales for the fiscal year ended March 31, 2002 increased by 30.7 billion yen, or 5.0 percent, to 642.8 billion yen compared with the previous fiscal year. Operating income decreased by 0.3 billion yen, or 1.6 percent, to 20.2 billion yen and the operating income margin decreased from 3.3 percent to 3.1 percent.

On a local currency basis, both sales and operating income in the Music segment for the fiscal year decreased approximately 3 percent compared with the previous fiscal year. The change from a 5.0 percent increase in sales on a yen basis to a 3 percent decrease in sales on a local currency basis was due to the favorable impact of the 11.7 percent depreciation of the yen against U.S dollar compared with the previous fiscal year.

Sales at SMEI decreased approximately 4 percent while operating income decreased approximately 20 percent on a U.S. dollar basis. The decrease in sales was due to the contraction trend of the global music market. 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 decrease in operating income was due to, in descending order of financial impact, a 68 million U.S. dollar, or 8.6 billion yen, charge for restructuring activities (refer to Restructuring for details), a decrease in gross profit brought on by the decrease in sales and the recording of a reserve for certain significant industry-wide litigation. Partially offsetting the decline in profitability, in descending order of financial impact, were an increase in disc manufacturing profitability, which accounted for a significant portion of segment profitability, the benefits of restructuring in the form of headcount reductions and a decrease in advertising and promotion expenses. SMEI s disc manufacturing profitability increased as a result of increased demand for home entertainment and PlayStation DVDs, which are manufactured in the Music segment and are then sold to the Pictures and Game segments (which then sell the DVDs to consumers), and as a result of lower DVD material costs. The ratio of selling, general and administrative expenses to sales for the fiscal year at SMEI was almost flat compared with the previous fiscal year.

Regarding the results of the Music segment in Japan, sales increased 2 percent and operating income increased 18 percent. Despite the negative impact of the contraction of the global music market, profitability improved due to, in descending order of financial impact, the positive impact of best selling albums, a reduction of selling, general and administrative expenses (particularly advertising expenses) and a gain of 2.5 billion yen on the sale of a studio facility, which was replaced by a new studio facility.

On a yen basis, 69 percent of the Music segment s sales were generated by SMEI while 31 percent were generated by SMEJ.

Pictures

Sales for the fiscal year ended March 31, 2002 increased by 80.6 billion yen, or 14.5 percent, to 635.8 billion yen compared with the previous fiscal year. Operating income increased by 27.0 billion yen, or 624.6

Table of Contents

percent, to 31.3 billion yen and the operating income margin increased from 0.8 percent to 4.9 percent. The results in the Pictures segment consist of the results of SPE.

On a U.S. dollar basis, sales for the fiscal year in the Pictures segment increased approximately 2 percent and operating income increased more than tenfold compared with the previous fiscal year. The increase in sales resulted from strong home entertainment sales, primarily DVD software sales, of films released in the previous fiscal year, resulting in an increase of 225 million U.S. dollars, and the strong theatrical and home entertainment performance of releases such as *America s Sweethearts*, *A Knight s Tale,* and *Black Hawk Down*, resulting in an increase of 308 million U.S. dollars. However, the sales increase was partially offset by a decrease in the number of network television series episodes distributed, resulting in a decrease of 91 million U.S. dollars. Regarding profit performance, operating income was favorably impacted by an increase of 82 million U.S. dollars due to the stronger performance of current year releases compared with the previous fiscal year despite losses on two major films released during the fiscal year, *Ali* and *Riding in Cars With Boys,* and an 80 million U.S. dollar insurance recovery for poor performance of certain films released in previous fiscal years. Other factors having a positive impact on profit performance were strong sales of DVD software in the worldwide home entertainment market and a decrease in losses on network television shows due to the consolidation of U.S. television operations. Partially offsetting the increase in operating income, in descending order of financial impact, was a one-time restructuring charge of 67 million U.S. dollars, or 8.5 billion yen, recorded in connection with the consolidation of U.S. television operations (refer to Restructuring), a provision of 40 million U.S. dollars 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 and a weak advertising sales market.

Financial Services

Financial Services revenue for the fiscal year ended March 31, 2002 increased by 33.4 billion yen, or 7.0 percent, to 512.2 billion yen compared with the previous fiscal year. Operating income increased by 4.7 billion yen, or 27.0 percent, to 22.1 billion yen and the operating income margin increased from 3.6 percent to 4.3 percent compared with the previous fiscal year.

At Sony Life, revenue increased by 27.2 billion yen, or 6.5 percent, to 447.2 billion yen and operating income increased by 3.2 billion yen, or 13.0 percent, to 27.8 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 rate of contract cancellations than the industry average, despite a decrease in newly acquired insurance-in-force brought about by a decrease in disposable family incomes due to continued weak economic conditions. On the other hand, Sony Life s revenue gains were partially offset by deterioration in valuation gains and losses from investments in the general account due to the negative impact of an 8.4 billion yen impairment loss on Argentine bonds held in Sony Life s investment portfolio. Operating income increased because of the significant increase in insurance revenue, despite the deterioration of valuation gains and losses from investments in the general account.

At Sony Assurance, revenue increased due to an increase in newly acquired automobile insurance-in-force reflecting greater customer awareness of the benefit of flexible insurance policies which take into account mileage driven, and the maintenance of a high ratio of renewed contracts during the fiscal year. Regarding profit performance, although an operating loss, recorded in the previous two fiscal years, continued to be recorded in the fiscal year ended March 31, 2002, losses decreased because the insurance revenue mentioned above increased. Losses continued to be recorded in the fiscal year ended March 31, 2002, because investments in advertising and computer systems necessary to develop new products and establish customer claim service centers, which are essential to the expansion of Sony Assurance s business, put pressure on profitability.

At Sony Finance, revenue decreased slightly because there was an one-time revenue benefit from the receipt of a lease cancellation fee in the previous fiscal year. In terms of profitability, operating income was recorded compared with an operating loss in the previous fiscal year due to revaluation losses from interest rate swaps in the previous fiscal year.

Table of Contents

Sony Bank, which started business in June 2001, recorded a loss 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.

	Financial Services		All other segments excluding Financial Services		Consolidated	
Year ended March 31	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**
			(Yen in millions)			
Financial Services revenue	478,824	**512,245**			447,147	**483,313**
Net sales and operating revenue			6,878,234	**7,102,369**	6,867,677	**7,094,945**
	478,824	**512,245**	6,878,234	**7,102,369**	7,314,824	**7,578,258**
Costs and expenses	461,392	**490,111**	6,666,441	**6,989,446**	7,089,478	**7,443,627**
Operating income	17,432	**22,134**	211,793	**112,923**	225,346	**134,631**
Other income (expenses), net	1,148	**(1,861)**	35,572	**(40,421)**	40,522	**(41,856)**
Income before income taxes	18,580	**20,273**	247,365	**72,502**	265,868	**92,775**
Income taxes and other	9,423	**11,477**	135,190	**72,785**	144,641	**83,443**
Cumulative effect of accounting changes		**4,305**	(104,473)	**1,673**	(104,473)	**5,978**
Net income	9,157	**13,101**	7,702	**1,390**	16,754	**15,310**

Other

Reflecting the realignment of the business segment configuration, results for the fiscal year ended March 31, 2001 and 2002 have been reclassified to conform to the presentation for the fiscal year ended March 31, 2003. Presentation of the Other segment below is mainly composed of the NACS-related businesses, established in April 2002 (NACS-related businesses include SCN, an Internet-related service business subsidiary operating mainly in Japan, an in-house oriented information system service business and an IC card business), an advertising agency business in Japan, and location-based entertainment businesses in Japan and the U.S., which primarily consist of the management of real estate complexes that consist of both retail operations and attraction-based entertainment. The operations for the location-based entertainment business in Japan were shut down in July 2002.

Sales for the fiscal year ended March 31, 2002 decreased by 3.0 billion yen, or 1.5 percent, to 203.8 billion yen, compared with the previous fiscal year. 45 percent of sales in the Other segment reflected intersegment transactions during the fiscal year. Operating losses for the segment increased from 13.7 billion yen to 16.6 billion yen.

During the fiscal year, sales for the segment decreased primarily due to a decrease in sales of the advertising agency business in Japan, reflecting a reduction in advertising spending by clients due to weak economic conditions. Regarding profit performance, losses were recorded mainly at NACS-related businesses and the

Table of Contents

location-based entertainment businesses in Japan and the U.S. In comparison with the previous fiscal year, segment losses increased primarily due to an increase in operating losses at NACS-related businesses despite a significant decrease in operating losses in the location-based entertainment business in Japan, which recorded a devaluation of assets for an entertainment facility in the previous fiscal year. The losses at NACS-related businesses included an operating loss at SCN, compared with operating income in the previous fiscal year, mainly due to a significant drop in Internet connection rates charged to customers.

Other Income and Expenses

In the consolidated results for the fiscal year ended March 31, 2002, other income decreased by 71.3 billion yen, or 42.5 percent, to 96.3 billion yen, while other expenses increased by 11.1 billion yen, or 8.7 percent, to 138.2 billion yen, compared with the previous fiscal year.

The decrease in other income was primarily due to the fact that one-time gains on sales of securities investments and other, net, gains on issuance of stock by equity investees, and gains from the contribution of certain marketable investment securities to employee retirement benefit trusts were recorded in the previous fiscal year. These gains were minimal in the fiscal year ended March 31, 2002. Regarding gains on sales of securities investments and other, net, the 41.7 billion yen recorded in the previous fiscal year decreased to 1.4 billion yen; in the previous fiscal year gains were recorded from the sale to Liberty Digital of 50 percent of the equity of the Game Show Network, a subsidiary in the U.S. that provides television programming services dedicated to interactive game playing and pre-recorded game shows; the sale of a small portion of the equity of a subsidiary engaged in operation of a television channel in India; and the sale of a subsidiary engaged in the in-flight entertainment business in the U.S. Regarding gains on the issuance of stock by equity investees, the 18.0 billion yen recorded in the previous fiscal year decreased to 0.5 billion yen. In the previous fiscal year gains were recorded primarily from public offerings by Crosswave Communications Inc., which provides high-capacity/high-speed network services in Japan; Monex, Inc., which provides on-line security trading services in Japan; and SKY Perfect Communications Inc., which provides satellite broadcasting services in Japan (refer to Note 19 of Notes to Consolidated Financial Statements). Moreover, other income during the previous fiscal year included 11.1 billion yen recorded for gains from the contribution of marketable investment securities held by Sony Corporation and its subsidiaries to employee retirement benefit trusts. Interest and dividends decreased 2.5 billion, or 13.6 percent, to 16.0 billion yen, primarily due to a decrease in interest earned at subsidiaries inside and outside Japan, compared with the previous fiscal year.

The increase in other expenses was primarily due to an increase in foreign exchange loss, net and an increase in write downs of security investments. Foreign exchange loss, net increased to 31.7 billion yen compared with the 15.7 billion yen recorded in the previous fiscal year primarily due to losses on foreign exchange forward contracts entered into to hedge the foreign currency risk associated with receivables generated from sales originating from Japan. The losses on foreign exchange contracts resulted from the rapid depreciation of the yen from December 2001 to March 2002. Losses on the devaluation of investments increased by 14.2 billion yen, or 336.4 percent, to 18.5 billion yen. These losses primarily related to securities issued by companies in the U.S. with which Sony has strategic relationships for the purpose of developing and marketing new technologies. Such companies included Candescent Technologies Corporation, a developer of flat-screen technology, Trimedia Technologies Inc., a developer of microprocessor technologies, and Zing Network Inc., an online photo portal. Interest expense decreased 6.6 billion yen, or 15.3 percent, to 36.4 billion yen due to a refinancing of long-term debt at lower interest rates and a decrease in U.S. dollar interest rates on short-term debt. As a result, the balance of interest and dividend income, less interest expense, decreased from 24.5 billion yen of net interest expense in the previous fiscal year to 20.4 billion yen of net interest expense.

Income before Income Taxes

Income before income taxes for the fiscal year ended March 31, 2002 decreased by 173.1 billion yen or 65.1 percent, to 92.8 billion yen compared with the previous fiscal year. The year on year decrease in income before

Table of Contents

income taxes was caused by, in descending order of financial impact, the decrease in operating income, the decrease in gains on sales of securities investments and other, net, the increased foreign exchange loss, and the decrease in gains recorded on the issuance of stock by equity investees.

Income Taxes

Income taxes for the fiscal year ended March 31, 2002 decreased by 50.3 billion yen, or 43.6 percent, to 65.2 billion yen, and the ratio of income taxes to income before income taxes (the effective tax rate) increased from 43.5 percent to 70.3 percent. This was due to an increase in losses at subsidiaries such as Aiwa and certain consolidated subsidiaries in the U.S. that were not expected to be able to utilize their loss carryforwards for tax purposes within the period set aside for those carryforwards. Partially offsetting the increase in effective tax rate was a reduction in taxes, due to a decrease in deferred tax liabilities on undistributed earnings of foreign subsidiaries.

Deferred tax assets are recognized on operating loss carryforwards for tax purposes since these losses may reduce future taxable income. However, a valuation allowance is established against those deferred tax assets that are not expected to be realized because sufficient taxable income is not expected to be generated before those loss carryforwards expire. Sony has recognized a valuation allowance for deferred tax assets primarily relating to operating loss carryforwards of consolidated subsidiaries in the U.S. as well as Aiwa.

Results of Affiliated Companies Accounted for under the Equity Method

During the fiscal year, equity in net losses of affiliated companies decreased from 44.5 billion yen in the previous fiscal year to 34.5 billion yen. This decrease occurred principally because, in the previous fiscal year, Sony recorded a 25.0 billion yen loss, including a 17.0 billion yen impairment loss, for the entire carrying value of its investment in Loews Cineplex Entertainment Corporation, a theatrical exhibition company. Since the impairment, no additional equity losses were recorded. In March 2002, Loews completed its reorganization in the U.S. under Chapter 11 of the U.S. Bankruptcy Code, and in Canada under the Companies-Creditors Agreement Act. As a result, Sony is no longer a shareholder in Loews.

Although the above loss due to Loews in the previous fiscal year caused overall equity in net losses of affiliated companies to decrease year on year, losses in other equity affiliates increased. Equity affiliates recording significant losses, in descending order of impact, included SEMC, The Columbia House Company, a direct marketer of music and videos, American Video Glass Company a joint venture which produces CRT glass material in the U.S., Telemundo and CWC.

Minority Interest in Income (Loss) of Consolidated Subsidiaries

In the fiscal year ended March 31, 2002, minority interest in loss of consolidated subsidiaries, which is deducted from income before income taxes, increased by 0.9 billion yen, or 5.8 percent, to 16.2 billion yen compared with the previous fiscal year. This deduction increased net income by the same amount. The minority interest in loss of consolidated subsidiaries for the fiscal year resulted from a net loss at Aiwa.

Income before Cumulative Effect of Accounting Changes

Income before cumulative effect of accounting changes for the fiscal year ended March 31, 2002 decreased by 111.9 billion yen, or 92.3 percent, to 9.3 billion yen compared with the previous fiscal year, due to the factors discussed above. As a percentage of sales, income before cumulative effect of accounting changes decreased from 1.6 percent to 0.1 percent.

Net Income

Net income for the fiscal year ended March 31, 2002 decreased by 1.4 billion yen, or 8.6 percent, to 15.3 billion yen compared with the previous fiscal year. As a percentage of sales, net income was 0.2 percent, and the

Table of Contents

return on stockholders equity was 0.7 percent, both of which were flat compared with the previous fiscal year. (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.) The most significant contribution to the year on year decrease in net income was the decline in income before income taxes as described above. However, the absence of further deductions due to the cumulative effect of accounting changes recorded in the previous fiscal year, (refer to Note 2 of Notes to Consolidated Financial Statements) and the absolute decrease in income tax due to the decrease in income before taxes, caused net income to be 77.5 billion yen less than income before income taxes, compared to a difference of 249.1 billion yen in the previous fiscal year.

Basic net income per share was 16.7 yen compared with 18.3 yen in the previous fiscal year, and diluted net income per share was 16.7 yen compared with 19.3 yen in the previous fiscal year. Refer to Notes 2 and 21 of Notes to Consolidated Financial Statements.

Foreign Exchange Rates

During the fiscal year ended March 31, 2002, the average value of the yen was 124.1 yen against the U.S. dollar, and 109.1 yen against the euro, which was 11.7 percent lower against the U.S. dollar and 9.3 percent lower against the euro, respectively, compared with the average of the previous fiscal year. Regarding operating results on a local currency basis, refer to Impact of Foreign Exchange Fluctuations and Basic Countermeasures above.

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 11 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.

58

Table of Contents

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.

Table of Contents

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.

	Payments Due by Period				
	Total	**Less than 1 year**	**1 to 3 year**	**3 to 5 year**	**After 5 year**
	(Yen in millions)				
Contractual Obligations and Major Commitments:					
Long-term debt (Note 11)					
Capital lease obligations (Notes 8 and 11)	**39,899**	11,313	19,731	2,696	6,159
Other long-term debt (Note 11)	**801,925**	23,072	452,478	196,327	130,048
Minimum rental payments required under operating leases (Note 8)	**289,511**	51,786	77,953	47,305	112,467
Purchase commitments for property, plant and equipment and other assets (Note 23)	**30,814**	30,814			
Expected payments regarding contracts with recording artists and other (Note 23)	**54,508**	24,913	20,182	6,138	3,275
Expected cost for the production or purchase of films or certain rights (Note 23)	**128,140**	65,831	62,309		

The total amount of commitments at March 31, 2003 was 297.8 billion yen (refer to Note 23 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.

Table of Contents

The following table summarizes Sony s contingent liabilities.

	Total Amounts of Contingent Liabilities
	(Yen in millions)
Contingent Liabilities: (Notes 22 and 23)	
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 6 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.

Table of Contents

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 Television, 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

63

Table of Contents

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.

	March 31, 2003			
	Cost	Unrealized gain	Unrealized Loss	Fair market Value
	Yen in Millions			
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

Table of Contents

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* for the fiscal years ended March 31, 2003 and March 31, 2002). 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 years ended March 31, 2003 and March 31, 2002. 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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

	As at March 31					
	Financial Services		All other Segments excluding Financial Services		Consolidated	
	2002	2003	2002	2003	2002	2003
	(Yen in millions)					
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**

Table of Contents

Cash Flows

(The fiscal year ended March 31, 2003 compared with the fiscal year ended March 31, 2002)

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 billion 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

Table of Contents

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.

	Year ended March 31					
	Financial Services		All other segments excluding Financial Services		Consolidated	
	2002	2003	2002	2003	2002	2003
	(Yen in millions)					
Net cash provided by operating activities	301,625	**315,968**	436,059	**542,848**	737,596	**853,788**