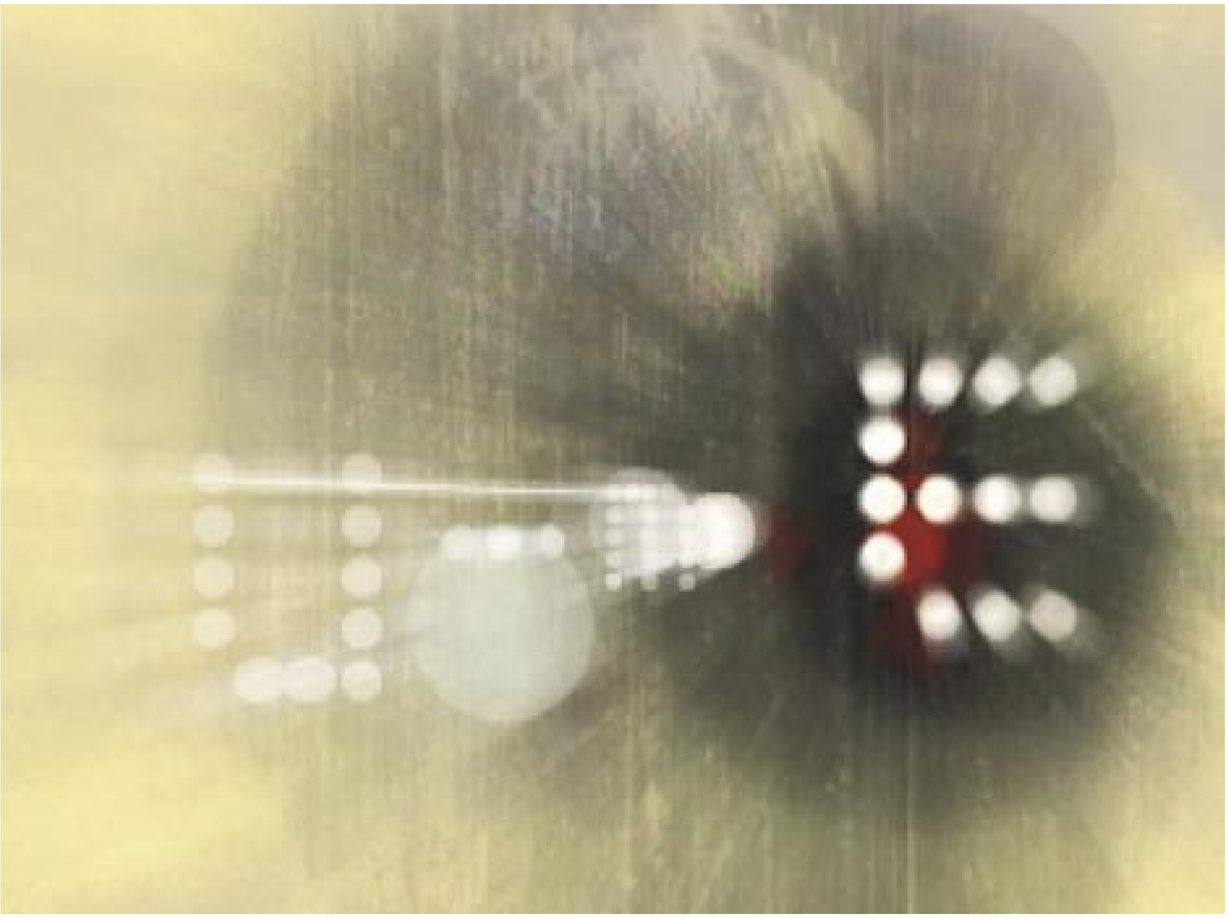
SONY

ANNUAL REPORT 2001

YEAR ENDED MARCH 31, 2001



FINANCIAL HIGHLIGHTS

Sony Corporation and Consolidated Subsidiaries
Year ended March 31

	Yen in millions except per share amounts and number of employees		Percent change	Dollars in millions except per share amounts
	2000	**2001**	2001/2000	**2001**
FOR THE YEAR				
Sales and operating revenue	¥6,686,661	**¥7,314,824**	+9.4%	**$58,518**
Operating income	223,204	**225,346**	+1.0	**1,803**
Income before income taxes	264,310	**265,868**	+0.6	**2,127**
Income before cumulative effect of accounting changes	121,835	**121,227**	-0.5	**970**
Net income	121,835	**16,754**	-86.2	**134**
Per share data:				
Income before cumulative effect of accounting changes				
–Basic	¥ 144.58	**¥ 132.64**	-8.3%	**$ 1.06**
–Diluted	131.70	**124.36**	-5.6	**0.99**
Net income				
–Basic	144.58	**18.33**	-87.3	**0.15**
–Diluted	131.70	**19.28**	-85.4	**0.15**
Cash dividends	25.00	**25.00**		**0.20**
AT YEAR-END				
Stockholders' equity	¥2,182,906	**¥2,315,453**	+6.1%	**$18,524**
Total assets	6,807,197	**7,827,966**	+15.0	**62,624**
Number of employees	189,700	**181,800**		

Notes:
1. *U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥125=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 30, 2001.*
2. *All per share data have been adjusted to reflect the two-for-one stock split that has been completed on May 19, 2000.*
3. *Cash dividends per share for the year ended March 31, 2001 include a dividend which is subject to approval of the Ordinary General Meeting of Shareholders to be held on June 21, 2001.*
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." The provision of SOP 00-2 is effective for fiscal years starting on or after December 16, 2000 with early application encouraged. Sony adopted SOP 00-2 in the first quarter ended June 30, 2000, effective as of April 1, 2000. As a result, Sony's operating income, income before income taxes, and net income for the year ended March 31, 2001 each decreased by approximately ¥28.5 billion ($228 million). Additionally, Sony's net income for the fiscal year ended March 31, 2001 decreased by ¥101.7 billion ($813 million), reflecting a one-time non-cash cumulative effect adjustment in the income statement directly above the caption of "net income" for a change in accounting principle.*
5. *On January 5, 2000, the acquisition transactions by way of exchanges of stock, whereby Sony Music Entertainment (Japan) Inc., Sony Chemicals Corporation, and Sony Precision Technology Inc. became wholly-owned subsidiaries of Sony Corporation, were completed. Intangible assets and goodwill realized from these transactions are being amortized over their useful lives of up to a maximum of 20 years. Such amortization is recorded in selling, general and administrative expenses. As a result, during the fiscal year ended March 31, 2001, operating income and income before income taxes each decreased by approximately ¥16.7 billion ($134 million), and net income decreased by approximately ¥13.3 billion ($106 million), and during the fiscal year ended March 31, 2000, operating income and income before income taxes each decreased by approximately ¥4.2 billion, and net income decreased by approximately ¥3.3 billion.*
6. *In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." Sony adopted SAB No. 101 in the fourth quarter ended March 31, 2001, effective as of April 1, 2000. As a result, a one-time non-cash cumulative effect adjustment of ¥2.8 billion ($23 million) was recorded in the income statement directly above the caption of "net income" for a change in accounting principle. The accounting change did not have a material effect on Sony's consolidated financial results.*
7. *Effective with the year ended March 31, 2001, net loss on sale, disposal or impairment of long-lived assets, which was previously included in other income/expense and shown below operating income, is included in selling, general and administrative expense and shown above operating income. As a result, operating income for the year ended March 31, 2000 has been restated to conform to the presentation for the fiscal year ended March 31, 2001.*

Cautionary Statement with Respect to Forward–Looking Statements

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. These statements are based on management's assumptions and beliefs in light of the information currently available to it and therefore you should not place undue reliance on them. Sony cautions you that a number of important factors could cause actual results to differ materially from those discussed in the forward–looking statements. Such factors include, but are not limited to (i) general economic conditions in Sony's markets, particularly levels of consumer spending; (ii) exchange rates, particularly between the yen and the U.S. dollar, euro, and other currencies in which Sony makes significant sales or in which Sony's assets and liabilities are denominated; and (iii) Sony's ability to continue to design and develop and win acceptance of its products and services, which are offered in highly competitive markets characterized by continual new product introductions, rapid development in technology (particularly in the Electronics business), and subjective and changing consumer preferences (particularly in the Game, Music, and Pictures businesses).

CONNECTED_IDENTITY.

Picture images both on the cover page and color pages are a new message called CONNECTED_IDENTITY from Sony: to connect people worldwide over the Net.
It is a message demonstrating the potentiality that all of us around the globe can be connected with one another over networks.

The message is never fixed but is ever changing like a living creature. It is always interacting with people. It is always open. This represents exactly the way Sony does business.

The CONNECTED_IDENTITY can be accessed by anybody over the internet. When you access and interact with the CONNECTED_IDENTITY, you will change the message herein. The message continues to be changed through access by people around the world.

In some countries, a piece of imagery will be sliced off from the changing image base to be shown in the ending part of each of the different versions of Sony's TV commercials.
Consequently, each of those TV commercials has a different ending. At the same time, it is both the message of Sony and the message of the people who are being connected over the Net.

From this site, you can make changes to the CONNECTED_IDENTITY.

First, please start by connecting to the CONNECTED_IDENTITY.

http://www.sony.co.jp/en/SonyInfo/dream/ci/en/

CONTENTS

TO OUR SHAREHOLDERS

About one year has elapsed since Sony entered a new stage of development, one that seeks to target opportunities in the upcoming era of broadband networks. A new top-management team made up of CEO Nobuyuki Idei, COO Kunitake Ando, and CFO Teruhisa Tokunaka was formed to take the lead in this important effort. During the year ended March 31, 2001, results in the Electronics business improved dramatically, and we made steady progress in preparing for a broadband future where significant growth is expected for network businesses. Regarding the PlayStation 2 business, although we were not satisfied with profitability, production shipments of the console increased.

REVIEW OF THE PAST YEAR

The global economy was generally strong during the first half of the fiscal year. However, the U.S. economy began to slow in the second half of the year due to a rapid slowdown in growth of consumer spending and other economic factors. As the fiscal year drew to a close, economies in Japan, Asia, Europe, and elsewhere showed increasing signs of weakness.

Even amid these worsening market conditions, Sony was able to achieve a 9% increase in consolidated net sales for the year. On a local currency basis, sales rose 12%. A large increase in sales of electronics products was the primary reason. Regarding earnings, the Electronics business performed very well, primarily due to the performance of digital products and semiconductors. The Game business posted a loss, which

NOBUYUKI IDEI
Chairman
and Chief Executive Officer

KUNITAKE ANDO
President
and Chief Operating Officer

was chiefly a reflection of start-up expenses for the PlayStation 2 format. As a result, consolidated operating income increased only 1% compared with the previous year. However, excluding the impact of the stronger yen, on a local currency basis consolidated operating income increased 47%.

PROGRESS REPORT ON CORPORATE STRATEGIES

Accelerating Corporate Reform – Phase 2

The fiscal year ended March 31, 2001 was positioned as the second phase of Sony's corporate reform initiatives. We enacted a number of reforms in April 2000 with regard to our management team, management architecture, and Electronics business. The new management team concentrated on implementing the Sony Group's network strategies. At the same time, we made efforts to expedite the process of giving our business units greater autonomy, thereby making them more independent and self-reliant.

Network Businesses

We set in motion a number of network businesses during the year. Selling products and services directly to customers is just one facet of these businesses. Our central goal is to establish direct channels of communication with customers by using the interactivity of the internet. This will allow us to add still more value to our products, services, and content.

In financial services, Sony Bank Inc. was established in April 2001 and received its banking license from the Japanese authorities. Operations are expected to begin in June 2001, in the form of services provided to individuals through the internet.

Structural Reforms in the Electronics Business

On April 1, 2001, two companies, one intended to serve as a platform for product assembly operations and the other as a platform for the design and manufacture of semiconductors, started operations. The former, Sony EMCS Corporation, integrates business units including 12 manufacturing subsidiaries related to final assembly in Japan. The goal is to conduct efficient and competitive design and production activities that are aligned into a simple and flat organization. The latter, Sony Semiconductor Kyushu Corporation, integrates three fabrication subsidiaries in Japan that produce key semiconductors for the Sony Group.

In March 1999, we announced plans to reduce the number of manufacturing facilities around the world. We are pleased to say that this program is on track. The Sony Group had 60 facilities as of March 31, 2001, a reduction of 10 facilities over the preceding two-year period. We are thus well on the way to achieving our goal of 55 facilities by March 31, 2003.

CORPORATE STRATEGIES AND INITIATIVES FOR THE NEW FISCAL YEAR

Aggressive Management in the Broadband Era

Now we stand on the threshold of the transition from narrowband networks to broadband networks. This era demands greater speed. For Sony, this era presents an enormous opportunity to exhibit our inherent strengths as a supplier of both hardware and content, an attribute that makes us unique as a company. We are determined to be a leader in the broadband era by pursuing aggressive management.

Making Great Strides in a Knowledge Society

Another area of significant change is the transformation of the existing manufacturing society into a knowledge society in which wealth is created from knowledge. For companies to increase their competitive-ness, it is important to hire, retain, and foster knowledge workers. Furthermore, it is important to offer pleasant working environments where people can make the most of their abilities. For Sony, creating the appropriate organizational structure is essential to succeed in this rapidly evolving business era. This is why we conducted a sweeping reorganization in April 2001 and appointed many younger managers.

Vertical Integration and "Soft Alliances"

In a broadband network society, the business spheres of companies will expand globally as reams of information travel around the world instantaneously. In such a society, it will be extremely difficult for just one company to dominate multiple business spheres and regions and to sustain a powerful position. Accordingly, it is crucial to achieve a balanced strategy, combining two inherently different approaches. One is a strategy of vertical integration that encompasses all the activities of the company. The other is a horizontal strategy whereby alliances are forged with leading companies to complement each other's business activities. Leveraging its strengths as a unique company possessing both hardware and content/services, Sony will explore "soft alliances" with strategic partners, taking fully into account market conditions, competition, technology and other factors in its business environment.

Plans to Issue a Japanese-version Tracking Stock

Sony Corporation has taken steps for the issuance of a Japanese-version Tracking Stock, a first for a Japanese company. We intend to issue a new class of Sony stock that would be linked to the performance of Sony Communication Network Corporation, which is involved in internet-related activities. In so doing, we hope to spotlight the value of one of our most strategically important subsidiaries. At the same time, Sony Corporation will retain control of this company, preserving the group's unity while giving the new company the freedom to formulate strategies. We therefore believe that this Tracking Stock is a highly effective means of maximizing synergies among Sony Group companies.

The Use of EVA® Methodology

Sony adopted EVA® two years ago as a tool to evaluate performance in order to increase returns on invested capital. Our Electronics business was the first to apply this system. The result was a series of decisive actions including the realignment of manufacturing facilities, the application of stringent standards to all new

EVA® (Economic Value Added), registered trademark of Stern Stewart & Co., is a management metrics. The company needs to generate sufficient return to investors, or those who provided the necessary capital, in order for it to continue its existence. EVA® measures whether the company was able to generate more return than cost of capital including the cost of stockholder's equity, not shown on the income statement, and thus create corporate value.

investments, and expanded outsourcing of production. By concentrating resources on the most attractive fields, the Electronics business improved the efficiency of its invested capital and achieved a significant improvement in EVA®. During the year, Sony enlarged its EVA®-linked compensation system to cover higher-ranking managers as well as corporate executive officers. As a result, in each of our Electronics business units, awareness of the cost of capital increased significantly. In the fiscal year ending March 31, 2002, we plan to apply EVA® to our Music and Pictures entertainment businesses. Thereafter, we plan to take more decisive steps to use EVA® to evaluate corporate management, investment decisions, and to examine operating results throughout the Sony Group.

Speedy and Unique Management

Today, many companies are aiming to speed up management by taking advantage of networks and information technology (IT). Sony is no exception. As we seek to reform our business processes, applying IT to management and accelerating the speed of it are positioned as important company-wide themes. However, integrating IT into and increasing the speed of corporate activities do not constitute the whole of Sony's management strategy. While pursuing greater management speed, we are also seeking to reap the fruits of a growth strategy under which we will create products and services that embody Sony's unique value. Sony's integrated strategy is to focus concurrently on both speed and uniqueness.

April 27, 2001

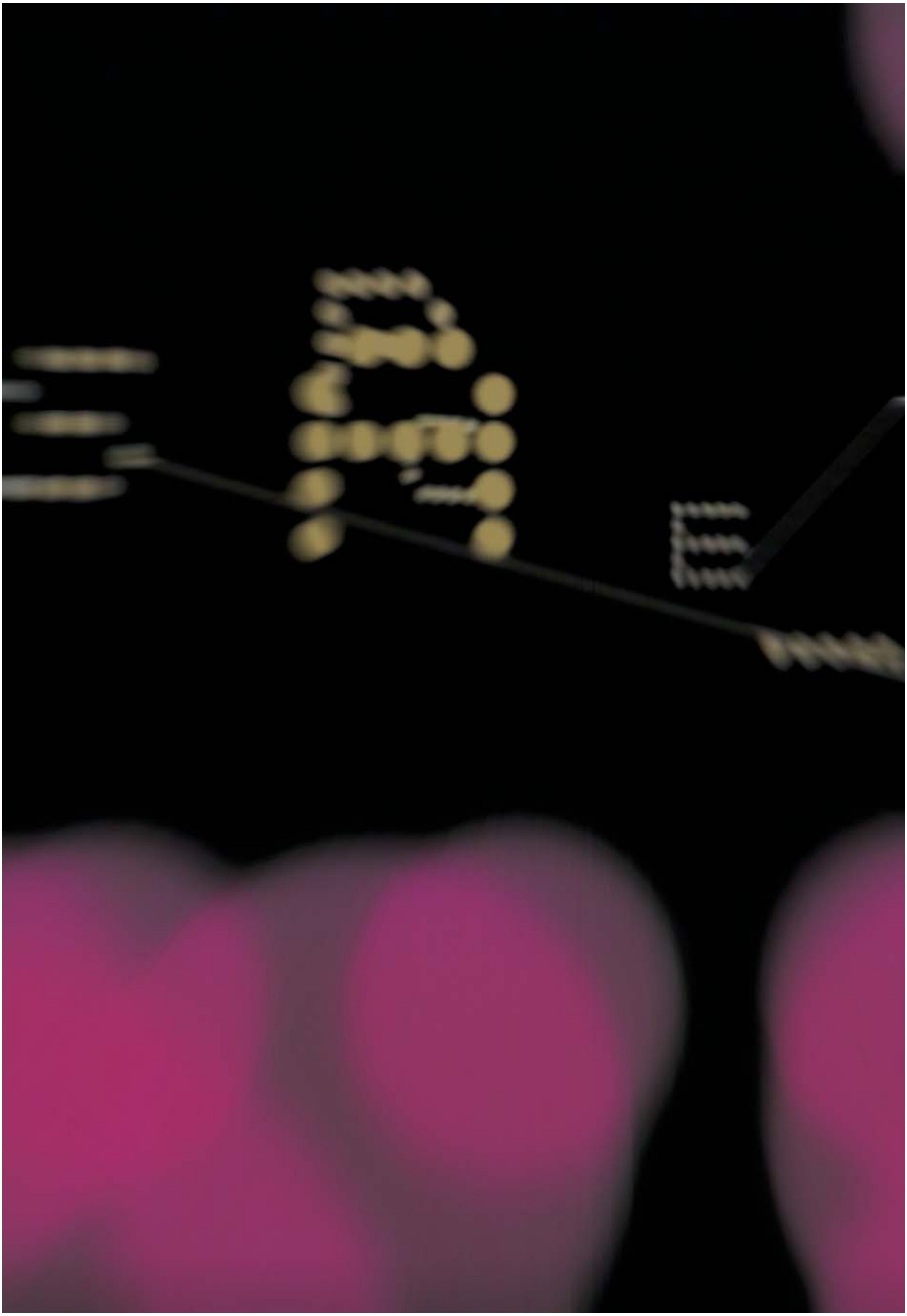
Nobuyuki Idei
Chairman and Chief Executive Officer

Kunitake Ando
President and Chief Operating Officer

Becoming a
"Knowledge-emergent Enterprise in the Broadband Era"

Points become a line. Lines become a network. When the network is turned towards the outside, an open network becomes real. In a world of open networks, for both individuals and companies, barriers of place, society, and time dissolve. We can send and receive whatever we want, whenever we want. We meet the different. We exchange new knowledge dynamically. In this way, we find value where there was none before, and thus we experience the dramatic transformation wrought by open networks. In the broadband era, this transformation will be even faster.

In the midst of this transformation, we believe that our intellectual assets are indispensable in creating value that others cannot imitate. These intellectual assets might be a semiconductor embedded in a product, or a service that is uniquely appealing, thus bringing about new competitive advantages. We believe that it is necessary to transform ourselves into a knowledge-led enterprise which can create conditions of overwhelming competitive advantage by moving from simple manufacturing to embedding our intellectual assets into products and services. In a world of broadband networks, we intend to deepen our ties with customers through interactive communications and to be a company that offers products and services different from any other, individually optimized for the consumer. In this way, Sony seeks to revolutionize itself as a "knowledge-emergent enterprise in the broadband network era".



RECOGNITION OF AN ERA

NOBUYUKI IDEI
Chairman and Chief Executive Officer

Since its commercialization in 1995, the internet has seen explosive growth, revolutionizing our society. New services and markets have come to the fore, including internet connection services, e-commerce, and business-to-business (B2B) exchanges. These have fundamentally altered the way in which consumers interact with companies, how companies interact with each other, and how companies conduct their operations. These changes, however, are only the beginning. As we enter the 21st century, digital network technologies and telecommunications infrastructures are taking the next strides down the evolutionary path. We are about to witness a conscious shift from narrowband networks, which can only transmit small volumes of data such as text and still images, to broadband networks, over which users will be able to freely send and receive high-resolution video imagery, such as movies, home-use game software, and other large-volume data. The evolution of mobile networks, accessible outside the home or office, is equally astounding. Taking us to places beyond our imagination, the emergence of broadband networks – the second wave of transformation – will shape new paradigms uncharted in the past course of history and technological innovation.

Based on this recognition, and anticipating the imminent arrival of the broadband network society, the Sony Group has formulated and begun implementing its new corporate strategies in order to become a "knowledge-emergent enterprise in the broadband network era".

INTEGRATED/DECENTRALIZED MANAGEMENT

The first step was to redefine electronics, which has been the Sony Group's mainstay since its founding, as one of five pillars of Sony, the others being games, internet/communication services, entertainment, and financial services. We also embarked on a review of the corporate organization, in particular the traditional pyramid model, and management systems, namely the command and control-based systems. In doing so, we decided to create a network-based organizational structure. Specifically, the transfer of a wide scope of authority will promote the autonomous management of each business and facilitate swifter decision-making. At the same time, under the leadership of the Sony Group Headquarters, we will bolster strategic alliances among the five pillars and formulate integrated group-wide strategies with the view to maximizing corporate value. We call this new management model "integrated/decentralized management".

PROMOTING ALLIANCES WITHIN THE SONY GROUP

With its five business pillars, the Sony Group is unique among global companies. To boost corporate value across the Sony Group in the broadband network era, we are promoting intra-group alliances. This involves combining the resources of our core businesses, such as brand equity, knowledge, intellectual properties, technologies, products, services, and human resources, to formulate and implement integrated group strategies as only Sony can. Providing arenas in which to promote strategic collaboration among the managements of group companies, or among strategy makers, is a key mission for the Sony Group Headquarters.

REORGANIZATION OF THE SONY GROUP HEADQUARTERS

To powerfully push ahead with integrated/decentralized management and intra-group alliances, we have carried out a reorganization of the Sony Group Headquarters and created the Global Hub (GH) and the Electronics Headquarters. The GH aims to integrate the entire Group by determining group-wide corporate strategy, monitoring the management of core businesses, and promoting strategic collaborations and alliances. The Electronics HQ, as the headquarters for Sony's Electronics business, focuses on formulating and implementing strategies, ensuring solid ties with other core businesses, and making decisions on other essential matters. Furthermore, in addition to the establishment of the GH and the Electronics HQ, the Management Platform was established as well, with the mission of efficiently offering specialized functions such as accounting, finance, legal affairs, human resources, and public relations.

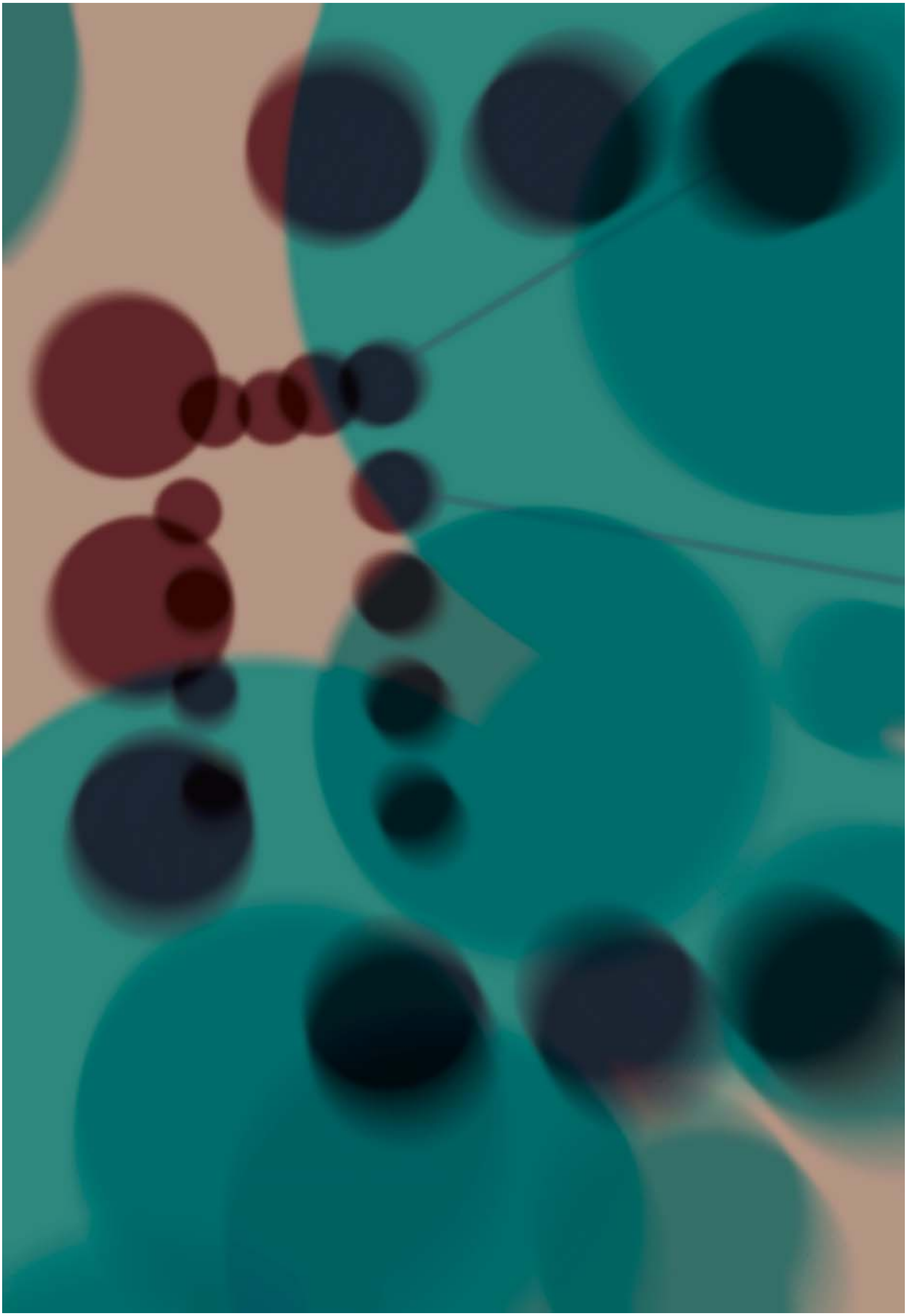
KUNITAKE ANDO
President and Chief Operating Officer

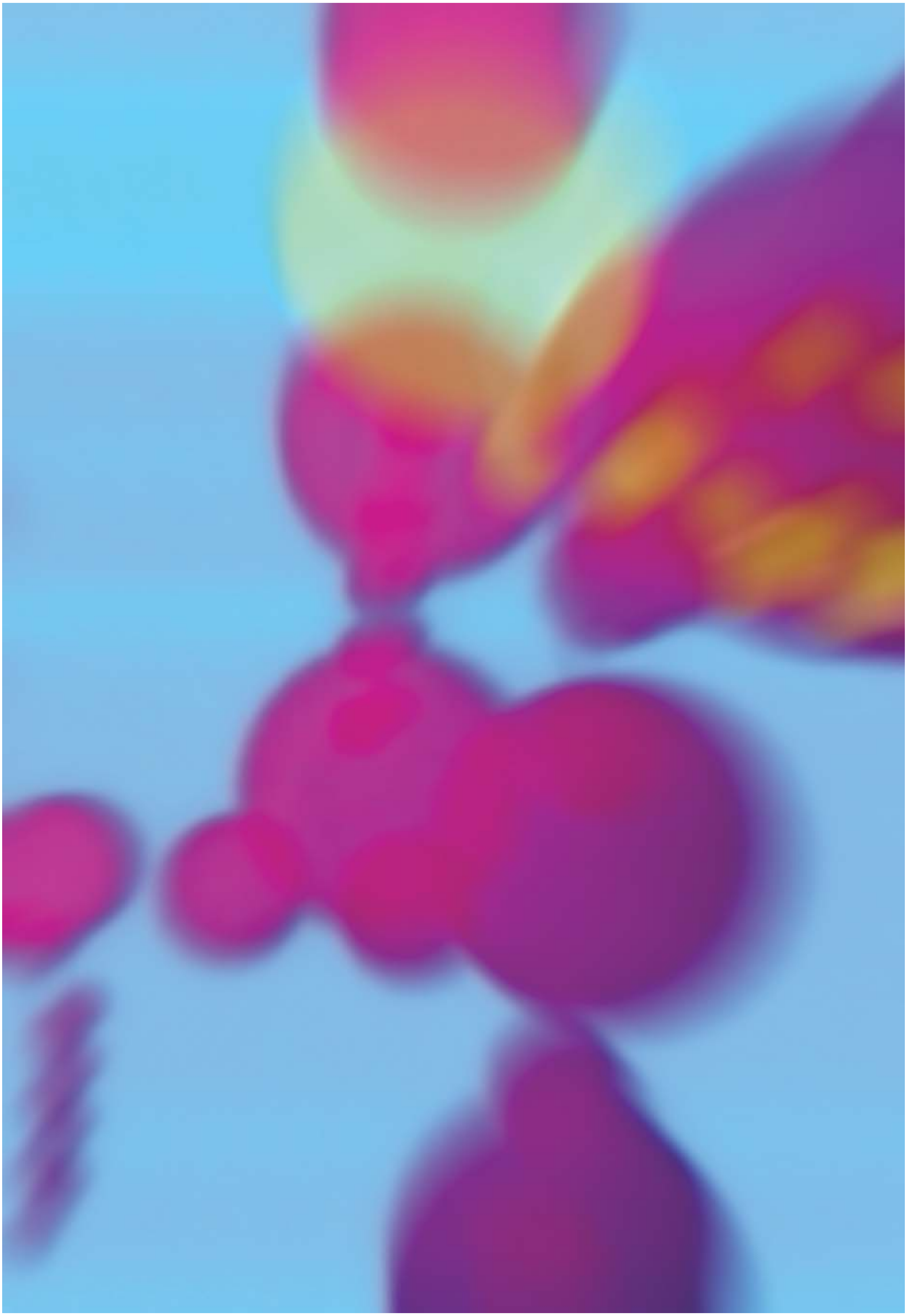
Our goal is to keep Sony at the forefront as the era of broadband networks unfolds. How? By forming alliances between our electronics business as a core and our games and internet/communication services businesses. And by working to create more mutually beneficial ties between our electronics business and our entertainment and financial services businesses. Cooperation of this nature is the best way to expand globally and become more competitive.

BUILDING A UBIQUITOUS VALUE NETWORK

Soon, we will be entering the true age of broadband networks, a time when electronic products will be linked by high-speed, high-capacity networks. With these advances will come IPv6 (Internet Protocol Version 6), which will assign a unique IP address to everything from TVs and PCs to telephones and AV products. Distinguishing individual devices over networks will become possible as a result.

Once such products are connected to broadband networks, people will be able to access easily many types of content and services at any time and place. These qualities make it possible to create a world tied together by a ubiquitous network. Opportunities for completely new kinds of businesses will abound. Here at Sony, we are building a "ubiquitous value network", adding unique value to broadband networks as only Sony can. I believe this network will create new markets and lead to higher growth for Sony.





Our objective is to differentiate our products by offering network services that are unique and entertaining. We are rapidly putting together an integrated business model for this purpose, one that can add value to our electronics business. For example, during the year, Sony started a network service that allows owners of VAIO notebook PCs equipped with a CCD camera to transmit live images over the internet. By offering such network services, Sony aims to add value to its hardware and expand its business.

Furthermore, we are aggressively investing resources to develop and improve key devices such as semiconductors and displays, which, in addition to contributing to a product's functions and quality, are integral to the competitiveness of our business. We are particularly active in the semiconductor arena. While also cooperating with other companies in leading-edge fields, we are investing on our own in production facilities for CCDs and high-temperature polysilicon LCDs. Within the Group, the S&S Architecture Center was formed to encourage joint design and development of system LSIs between it and group companies making finished products.

To support the development of network businesses, we are now at work on a global network platform. Until now, key technologies and systems for such critical functions as billing, settlement, and authentication have been created individually for specific products and services. The new platform will enable us to formulate standardized technologies and systems that can be used throughout the Sony Group. To supervise these tasks, we have formed the Broadband Network Center. Specifically, the center is responsible for reducing redundant system development and operations costs and assisting in the launch of new businesses.

BUILDING A HIGHLY PROFITABLE STRUCTURE

Introduced in 1999, EVA® is now being used strategically as a tool to increase returns on invested capital. We are using EVA® to speed up the process of selecting growing, profitable businesses worthy of receiving new investments. In the fall of 2000, we decided to exit or downsize 28 of our 115 product categories in the Electronics business. Approximately 850 engineers affected by this are being reassigned to strategic fields and growth areas. In addition, we are currently examining those AV-related activities that serve maturing markets and have relatively low returns. A decision on the desirability of continuing these businesses is expected in the near future.

Furthermore, we are determined to become more competitive, by taking decisive actions to restructure our businesses. This has taken the form of a realignment of our manufacturing sites. Now we are turning our attention to building the world's most powerful manufacturing platform, Sony's EMCS (Engineering, Manufacturing and Customer Services) design and production platform, by pursuing greater efficiency in design, production, inventory management, and logistics while also providing outsourcing services to third parties. At the Electronics HQ we have established a global EMCS office. It will focus on several critical tasks: ensuring that Sony only employs the most advanced production technology; procuring components under a global system; and conducting supply chain management that involves marketing units and retail stores.

Focusing intently on the cost of capital, inventory control is essential to the more efficient use of capital and improved cash flows. During the year, although there was an excessive level of inventories at the end of the third quarter, by reducing factory output we drastically reduced our inventories in the fourth quarter to an appropriate level. Going forward, we are going to continue strengthening our supply chain management and work to better manage inventory levels.

LEVERAGING SONY'S ADVANTAGE AS A SUPPLIER OF ENTERTAINMENT CONTENT IN THE BROADBAND ERA

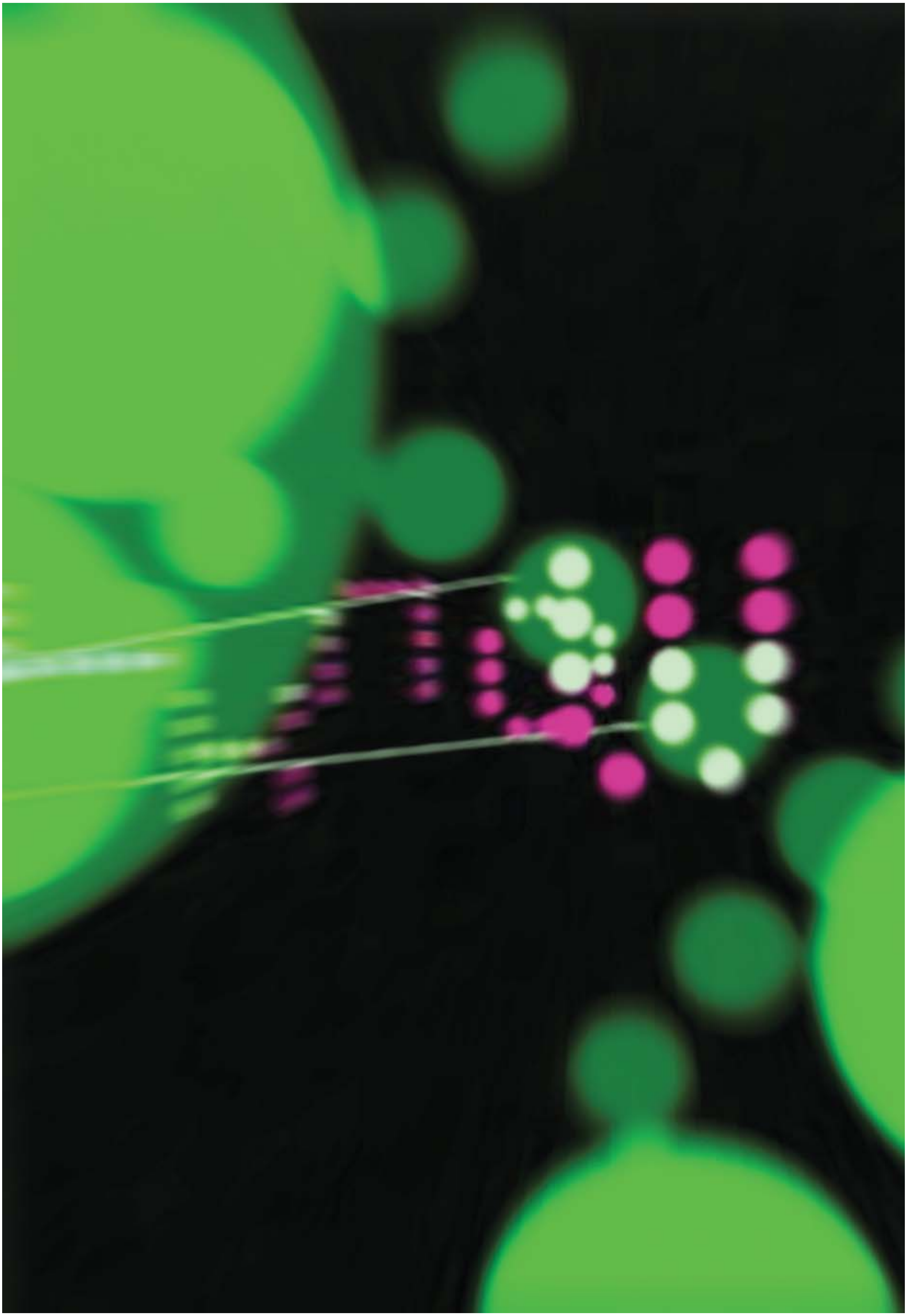
When it comes to content, Sony has two overwhelming advantages. In addition to its extensive holdings of entertainment content, Sony, as a group, is able to add new value to these content assets. For many years, Sony has sought to derive synergies from its manufacturing and entertainment businesses. Now, in an era when networks allow an increase in these synergies between hardware and entertainment content, more than ever our assets are uniquely suited to creating new value.

HOWARD STRINGER
Director (Chairman and Chief Executive Officer of Sony Corporation of America)

The April 2000 establishment in the United States of Sony Broadband Entertainment, Inc. represents this potential. The company is studying the types of digital assets that Sony should own and how best to link that content with hardware and networks. At Sony Pictures Entertainment, a new division called Sony Pictures Digital Entertainment (SPDE) was formed to bring together digital movie production services and the production of digital content such as games played over networks. One of SPDE's initiatives is "EverQuest", a game played over the internet by more than 360,000 registered subscribers. In addition, we are working to build other new business models such as an electronic movie distribution service.

MANAGING WITH THE COST OF CAPITAL IN MIND

We are now examining new methods of managing Sony's entertainment business. We are studying new ways of realizing value from existing content assets. Also, we are taking a closer look at ongoing businesses from the standpoint of using capital more efficiently. Thus, we aim to deliver more shareholder value. The March 2001 closing of our U.S. music cassette tape manufacturing facility was one result of this process. And from April 2001, we are introducing EVA® to such areas as funding film production costs and production methods. By placing more emphasis on the cost of capital, we seek to bring about dramatic change in Sony's entertainment business.



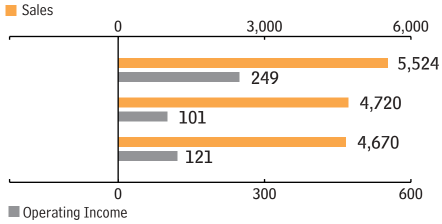
AT A GLANCE

Business Areas

Sales and Revenue, Operating Income *(Billion ¥)*

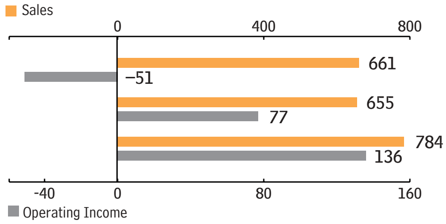
ELECTRONICS

Electronics business consists of Audio, Video, Televisions, Information and communications, and Electronic components and other.



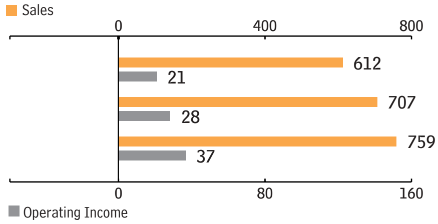
GAME

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



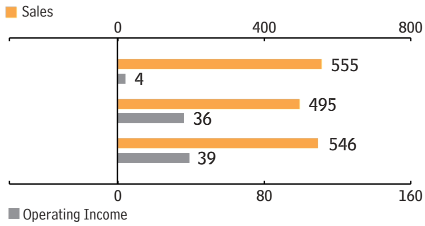
MUSIC

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



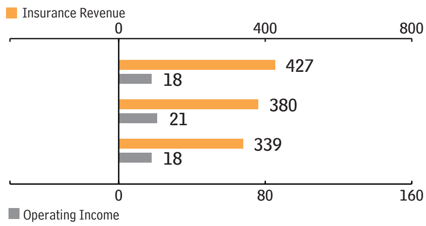
PICTURES

Motion picture and television business is conducted mainly through Sony Pictures Entertainment Inc. (SPE).



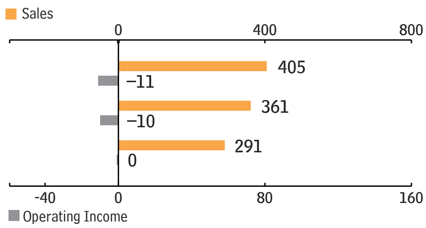
INSURANCE

Insurance business is conducted mainly through Sony Life Insurance Co., Ltd. and Sony Assurance Inc.



OTHER

Other business includes leasing and credit card businesses, satellite distribution-related businesses in Japan, development and operation of location-based entertainment complexes, and other businesses.



(Years ended March 31)

Topics in FY2000	Directions and Plans in FY 2001
• progress on the integration of the manufacturing system, reduction in the number of manufacturing facilities from 64 to 60 over one year • during this fiscal year, · camcorder worldwide shipments: 5.5 million (+17% YoY) · digital still camera worldwide shipments: 2.6 million (+86% YoY) · PC VAIO worldwide shipments: 2.5 million (+79% YoY)	• progress towards adapting electronic products for networks, and accelerate the integration of electronic products and network services • plans to move forward with mass production facilities in Kumamoto for CCDs and LCDs, for which demand is expected to expand, and to start operation in FY 2001
• "PlayStation 2" cumulative production shipments: · hardware: 10.61 million (JPN 4.75 mil, U.S. 3.01 mil, EUR 2.85 mil) · software: 38.30 million • "PlayStation" cumulative production shipments: · hardware: 82.23 million, software: 765 million	• plans to start PS2 network services in Japan, the U.S., and Europe • aiming to mass produce PS2 hardware, in response to vigorous demand, and expand the penetration of this format
• share of new release album sales in 2000 in the U.S.: 15.4%, #3 in the industry (SoundScan est.) • share of new release sales in 2000 in Japan: 18.7%, #1 in the industry (ORICON est.) • number of awards at the 43rd Grammy awards in 2000: 18 • Sony Classical label wins Academy Award® for the 4th consecutive year	• plans to offer Duet, a music distribution service that respects copyrights, in conjunction with Universal Music Group of the U.S. on the Yahoo! Inc. site • working towards strong promotion of A&R and previous artists as well, maintaining a high position in the industry
• film library of nearly 4,000 titles • international box office receipts in 2000: more than $1 billion • largest independent supplier of television programming in North America: 34 programs • number of channels in the international television division: 37 • over 360,000 subscribers to *EverQuest*, an online game from Sony Online Entertainment Inc. (SOE), a subsidiary of SPE	• plans to start Screenblast, a suite of digital tools which helps PC users create entertainment content and share it electronically • SOE aggressively working on the online game version of *Star Wars*, scheduled to launch during 2002
• Sony Life Insurance Co., Ltd.: · new policies sold in FY00: ¥4,368.1 billion (+17% YoY) · rated AA- IFS (Insurer Financial Strength) by the rating agency Standard & Poor's • Sony Assurance Inc.: · net insurance premiums as of March 31, 2001: ¥7.5 billion (up from ¥1.3 billion a year ago)	• working to continuously strengthen and improve the consulting capability of the "Lifeplanner" at Sony Life • pursuing synergies between Sony Life and Sony Assurance, such as Sony Life selling Sony Assurance products
• Sony Finance International, Inc. (SFI): · "e-SCOTT", a credit card transaction and authorization platform for e-commerce has been adopted by 50 sites (including e-shopping malls) · the number of transactions handled by "e-SCOTT" in December 2000 was 2.74 million • the cumulative number of visitors to the Metreon location-based entertainment complex in San Francisco (open since May 1999) passed 10 million	• SFI plans to add industry-first functions in Japan that improve the precision of personal identification through collation of a wide range of customer information, such as date of birth, as an additional service for "Direct e-SCOTT" (launched December 2000), a platform that enables faster and larger-capacity data transmission than "e-SCOTT"

Equipped with a Super Fine-Pitch FD Trinitron flat-surface CRT for ultra-high resolution, this Digital Wega television can faithfully display Hi-vision programs beamed via the BS digital broadcasts that began in Japan in December 2000.

BUSINESS REVIEW: ELECTRONICS

BUSINESS REVIEW

During the year under review, Sony's Electronics business continued to perform well. There was double-digit top-line growth in each region, except Europe, where the euro weakened significantly against the yen. Earnings increased sharply.

By product, strong sales gains were posted by PCs, digital video camcorders and digital still cameras, semiconductors, mobile phones, and televisions (including large-screen projection televisions), among others. Earnings were supported by strong sales in these products as well as by a rebound in earnings from broadcast- and professional-use video equipment. Regarding inventories, although a downturn in demand became apparent in the year's second half, due to Sony's aggressive efforts during the past winter to reduce inventories, most product categories were at appropriate levels at the end of the fiscal year. However, softening demand and steps to bring down inventories caused second-half profit growth to fall below the first half's growth rate. To cope with a challenging operating environment, Sony will concentrate on developing attractive products while rigorously managing inventories of products and parts.

Sales of VAIO PCs were very strong in all four geographic areas – Japan, the United States, Europe, and Other areas. The number of units sold worldwide rose markedly during the year to 2.5 million. Earnings grew significantly despite the effects of the yen's appreciation. In Japan, a number of new models made their debut. Several notebooks featured innovative design; some allow for wireless networking using Bluetooth™

This new "HDCAM" broadcast-use, combination digital camera and VTR that went on sale during the year, offers a more compact size and lighter weight. A slot is provided for Memory Stick IC recording media, making it easy to preserve detailed camera settings data.

This model is the latest of Sony's B5-size projectors that opened up new markets for LCD projectors. Weighing only 2.4kg, this uniquely designed projector is ideal for anything from business presentations to home entertainment.

technology. A new desktop model enables users to enter data easily by writing on its screen with a stylus.

In digital video camcorders and digital still cameras, Sony preserved its high global market share by bolstering networking capabilities and releasing worldwide a number of small and lightweight high-performance models. Sales and earnings climbed despite the yen's strength. As a result, these products were the largest profit earners of the Electronics business during the year.

In mobile phones, Sony continued to make progress in establishing a sound operating base. During the year, new products in Japan included internet-ready handsets for both the i-mode service of NTT DoCoMo, Inc. and the cdmaOne service of KDDI Corporation. Other new models for these operators allowed music playback using a MagicGate Memory Stick. As a result, mobile phone sales in Japan were strong. In Europe and Asia, Sony introduced handsets for WAP-format services. All received high marks from the media for their compact profiles, stylish designs, and high functionality. During the year, demand growth for mobile phones softened in the competitive European market, and research and development expenses for handsets for next-generation communications standards rose. However, although a small loss was still recorded, the overall profit performance of Sony's mobile phone operations improved remarkably year on year because of growth in Japan, Europe, and Asia, driven by new models that reflected Sony's strengths. In addition, in April 2001, Sony and Ericsson signed a Memorandum of Understanding (MoU) with the intention to create a new company that will incorporate their respective mobile phone businesses worldwide. The two companies intend to establish a 50-50 joint venture that will handle product research, design and development, as well as marketing, sales, distribution, and customer services. The new company intends to grow by drawing on Ericsson's leading-edge telecommunications technology and Sony's expertise in technology for consumer electronics products.

In semiconductors, demand expanded significantly in all product categories, notably digital signal processing LSIs, CCDs, analog devices, and LCDs. This led to strong growth in sales and earnings. As semiconductors require huge investments, Sony outsources some production activities. In another step to boost efficiency, supply chain management will be improved through the April 2001 formation of Sony Semiconductor Kyushu Corporation, a platform for semiconductor design and production activities. Resources will be channeled to imaging devices and other product sectors where we are competitive, as Sony pursues a policy of focusing on key businesses. For example, Sony is investing ¥100 billion over a 5-year period to establish a new facility in Kumamoto Prefecture, Japan, that will begin full-scale production during the year ending March 2003 of CCDs and high-temperature polysilicon TFT LCDs, demand for which is expected to expand significantly.

In the business of televisions and projection televisions, large increases in sales of Wega televisions, Sony's pioneering line of models with flat-surface cathode-ray tubes (CRTs), and large-screen projection televisions lifted the overall sales and earnings of this business. In televisions, Sony maintains a substantial edge in terms of cost due to its early moves towards global manufacturing of flat-surface CRTs and other initiatives. In projection televisions, Sony is constantly refining its line-up. Underpinning these efforts is expertise in producing sharp images thanks to exclusive picture-quality technology and the use of high-grade picture tubes, LCD panels, and other key devices produced within the Sony Group.

ORGANIZATIONAL CHANGES

To strengthen its position as the global leader in the consumer electronics field, during the year, in addition to realigning its production facilities, Sony strived to realize the convergence of AV and IT and strengthen its "four network gateways" strategic product groups: digital TVs/set-top boxes, VAIO PCs, PlayStation 2, and mobile communications products. To further reinforce the operating base, the entire Electronics business was reorganized in April 2001.

Headquarters for the Electronics business, now independent of the Sony Group head office, will place priority on establishing a common vision for its business units and making that vision a reality. At the same time, three platforms – design and production, sales, and technology – were positioned as common bases to support the growth of all internal Network Companies and raise the efficiency of the entire Electronics business.

Seven Network Companies have been formed from the previous five. Guiding the realignment were links

FROM LEFT: **SHIZUO TAKASHINO** *Broadband Solutions Network Company, NC President*
KEIJI KIMURA *Mobile Network Company, NC President*
KATSUMI IHARA *Digital Telecommunications Network Company, NC President*
TSUTOMU YAMASHITA *Home Network Company, NC President*
YOSHINORI ONOUE *Display Network Company, NC President*
SUEHIRO NAKAMURA *Core Technology & Network Company, NC President*
TAKEO MINOMIYA *Semiconductor Network Company, NC President*

between products and network services, the convergence of different products, such as desktop PCs and televisions, and similarities in the places where products are used. Based on this new framework, Sony will accelerate efforts to conceive products that can be used with digital networks while building business models in which network services increase the appeal and added value of hardware through integration with such hardware. The new Network Companies and their businesses are as follows:

- Broadband Solutions Network Company: Broadcast- and professional-use equipment, magnetic data storage products, servers, VHS, DVD-Video players, hi-fi audio systems, and other
- Mobile Network Company: Notebook PCs, PDAs, personal audio products, car audio products, camcorders, digital still cameras, and other
- Digital Telecommunications Network Company: Mobile phones
- Home Network Company: Televisions, CRT/LCD rear projection televisions, set-top boxes, desktop PCs, printers, and other
- Display Network Company: LCD projectors, computer displays, and other
- Core Technology & Network Company: Batteries, recording media, optical data storage products, display devices, electronic components, circuitboards, FA systems, and other
- Semiconductor Network Company: Imaging devices, system LSIs, and other semiconductor-related products

This new compact-size VAIO notebook PC model can be linked to Sony's PercasTV service website to broadcast live moving pictures taken with the built-in video camera. With the adoption of Bluetooth™ wireless networking technology, this new VAIO can also exchange data with compatible devices without using cables.

NEW HARDWARE THROUGH INTEGRATION WITH NETWORK SERVICES

Sony is striving to link its products with network services. Doing so will not only make products in its core Electronics business more appealing, but will also enable all businesses to generate more value.

Illustrating this concept are new compact-size members of the VAIO notebook series introduced during the year. Moving images from the computer's built-in video camera can be broadcast over the internet by using the PercasTV service offered exclusively to VAIO owners. Scenes of weddings and graduation ceremonies, for instance, can be sent live to family and friends. Based on exclusive Sony-developed software and a website solely for this service, PercasTV makes personal internet broadcasting a reality. By looking towards the broadband era, Sony has been ahead of other companies in realizing the possibility of high-volume transmission of content.

During the year, Sony began selling, in Japan, the "airboard", a product based on the entirely new concept of a personal IT television. A wireless link allows people to freely carry the "airboard" around the home and continue watching TV broadcasts and surfing the internet. Simultaneously, Sony launched "airboardnet", the first-ever network service for a home IT electronics product. No intricate network connections are needed as with a conventional PC. In addition to e-mail and an 8-day TV program guide, the convergence of TV and the internet gives users an unprecedented array of content and applications to enjoy.

By linking digital moving image compression and wireless communication technologies, Sony's "airboard" personal IT television allows users to view TV broadcasts, e-mail, the internet, and other material freely in the home, thus creating a new concept in entertainment systems — home IT electronics.

The new CLIÉ PDA features the Palm OS® operating system of Palm, Inc. and is compatible with Sony's MagicGate Memory Stick IC media. Thanks to a high-resolution color LCD display and high-quality fonts, clear images and text are produced. In addition, the PDA can play music, turning it into an entertainment device.

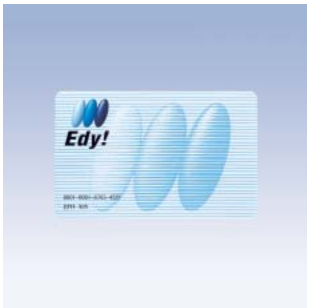
In the PDA arena, Sony introduced the CLIÉ during the year and launched the CLIÉ Plaza! Website to supply a variety of services. One is ImageStation, allowing users to store still and moving images from a digital still camera or camcorder for viewing at any time on CLIÉ's screen. The Movie Salon service distributes cinema previews and other moving images to CLIÉ units. At the end of March 2001, more than 8,000 software developers were participating in the CLIÉ Developer Program, set up to support the development of applications for CLIÉ and increase its appeal.

HOW SONY TECHNOLOGY AND FORMATS CREATE NEW MARKETS AND NEW FORMS OF ENJOYMENT

Sony has demonstrated its ability to devise new technologies and formats that create entire markets and new forms of enjoyment. The Memory Stick IC recording medium and IC card are two illustrations. In this manner, Sony strives to go beyond electronics to propose new ways to enjoy life.

The Memory Stick, which made its debut in the fall of 1998, is rapidly gaining acceptance. More than 10 million Memory Sticks had been shipped worldwide by the spring of 2001. During the same period, Sony had also shipped more than 10 million Memory Stick-compatible products. As of March 31, 2001, in excess of 140 companies had agreed to support the development of products and components or the provision of

The Memory Stick offers new forms of enjoyment as a networking medium, by bringing together many Sony digital products and services. Acceptance of this format is growing rapidly. By the spring of 2001, Sony's worldwide shipments of these IC recording media and shipments of compatible products had each topped 10 million units.



Based on Sony's FeliCa non-contact IC card-related technology, the Edy electronic money service is in use at some Tokyo office buildings. In addition to serving as electronic money, these cards can serve as an employee ID card, an office access card, and a cash dispenser card.

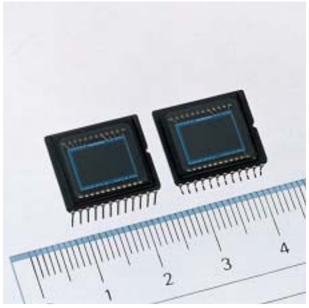
services involving this recording medium. Support for the Memory Stick has extended well beyond the electronics industry. Thus, Sony believes that the Memory Stick is now firmly established as a network medium that facilitates the easy exchange of many types of content, such as images, music, and data.

Sony is currently developing ways to give the Memory Stick smaller dimensions, more capacity and a higher data transfer rate. Accompanying this work is the development of products that utilize the medium in new ways and create new forms of enjoyment for electronics products, such as expansion modules equipped with new functions. In the future, Sony intends to add camera, GPS, fingerprint-matching, and wireless communication functions to Memory Sticks.

Sony and other companies that support the Memory Stick format are working to offer new lifestyles that take advantage of the possibilities of Memory Stick. In Japan, multimedia kiosks with slots for direct insertion of Memory Sticks are being placed in convenience stores. Customers need merely insert a Memory Stick to print an image from a digital camcorder or digital still camera.

In the area of non-contact IC card-related technology, Sony has developed FeliCa. It offers excellent security, high speed, and simultaneous data processing. The card needs only to be passed over a reader/ writer unit to perform the exchange of data. There is almost no possibility of processing errors caused by dirt, dust, or scratches. Hopes are high for adoption of these IC cards at public transportation fare collection gates and in electronic money systems for small-sum transactions.

This new CLIÉ PDA features many high value-added Sony devices, such as a slender lithium-ion polymer battery and a low-temperature polysilicon TFT LCD display that produces vivid images. Users can easily enjoy music by inserting a MagicGate Memory Stick, which incorporates copyright protection technology.



Sony developed this 2/3-inch CCD with 5.07 million pixels for digital still cameras. In addition to high resolution almost on a par with conventional photos, the CCD has excellent sensitivity and smear characteristics.

In the transportation field, FeliCa is already being used in Hong Kong for a common fare collection system on trains, buses and ferries. Utilization is growing at public telephones, convenience stores and fast-food restaurants. By March 31, 2001, Sony had shipped in Hong Kong a total of about 9.7 million FeliCa technology-based Octopus IC cards, and about 15,000 reader/writers.

In April 2001, East Japan Railway Company began to test two types of FeliCa technology-based Suica IC Cards with volunteers on the Saikyo Line in the Tokyo metropolitan area. One type combined a commuter pass with a prepaid ticket card. The other had only the latter function. In all, Sony expects to supply about 6.5 million IC cards to this railway company, making this Japan’s largest IC card initiative yet.

To promote FeliCa for e-money applications, Sony, along with banks, communication carriers, and companies in other fields, established bitwallet, Inc. The new company will offer a prepaid electronic money service called Edy that is slated to be launched in October 2001.

RESEARCH & DEVELOPMENT

Sony is aggressively striving to carry out research and development in areas of technology that are seen to have high potential in the future. This includes the development of technologies indispensable to making electronics products more convenient and compatible with networks as well as of technologies to support services that use broadband networks.

THE R&D ORGANIZATION

As part of the April 1, 2001 new group structure, Sony adopted a new framework for R&D activities. One result is upgraded capabilities at Network Companies for research that can be quickly applied to ongoing businesses. The Corporate Laboratories, which are overseen directly by Sony headquarters, will focus on themes that relate to the entire Sony Group's medium- and long-term strategic goals.

The Corporate Laboratories consist of seven research centers. The Internet Laboratories perform fundamental research involving networking technology for the post-broadband era. At the Frontier Science Laboratories, work targets electronic materials and basic devices. The A^3 Research Center studies strategic technologies that may lead to next-generation businesses. The Digital Creatures Laboratory is responsible for robot-related technologies. At the Wireless Telecommunication Laboratory, research encompasses third-generation and subsequent technology. The Cyber Technology Laboratory studies frameworks and architectures for knowledge management and other next-generation data processing techniques, as well as fundamental technologies. Finally, the Fusion Domain Laboratory explores opportunities created by the fusion of device and nanometer (one billionth of a meter) processing technologies.

Outside Japan, Sony has numerous R&D bases in the United States, Europe, and Asia, a reflection of its policy of conducting research and product development on a global scale.

ORGANIC ELECTROLUMINESCENCE DISPLAYS

Sony has developed a method to fabricate active matrix Organic Electroluminescence (OEL) displays. Using low-temperature polysilicon TFTs, these displays have a large surface area, outstanding brightness, and high resolution. In February 2001, Sony unveiled a 13-inch full-color prototype that was the largest OEL display in the world at

During the year, Sony developed Top emission Adaptive Current drive (TAC) technology, making possible a large-scale Active Matrix Organic Electroluminescence (OEL) display driven by low-temperature polysilicon TFTs. A full-color 13-inch prototype, the largest in the world at the time, was made public in February 2001.

the time. Sony plans to take advantage of the wide viewing angles, excellent contrast and vivid colors of these displays to create thin televisions and other large-screen displays ranging from 10 to 30 inches.

In April 2001, Sony and Universal Display Corporation of the United States agreed to cooperate in the development of OEL displays using high-luminescence materials. Combining Universal Display's high-efficiency electrophosphorescent materials with Sony's OEL display expertise is expected to lead to displays with a longer life. The two companies will now accelerate development of technologies to realize such displays.

Functioning as interfaces linking people with content and services offered over networks, display devices are an essential element of the coming broadband era. In line with this thinking, Sony will speed up research and development of display device technologies that offer future promise, including OEL displays. Sony aims to apply such technologies to thin, wall-mounted televisions, computer displays, and other innovative products.

NETWORK-RELATED TECHNOLOGIES

Looking towards the growth of wireless broadband services, Sony has developed the OpenMG Light copyright protection and distribution system for digital content sent to mobile devices. This greatly enhances the capabilities of mobile phones, PDAs, and other mobile devices by compressing OpenMG, which is currently used to protect copyrighted music stored by PCs, into a small, client/server format. This overcomes the restrictions imposed by the compact size of mobile devices to bring OpenMG's copyright protection to the wireless world. Making this software still more attractive for wireless applications is the ability to resume transfer after an interruption.

This software for copyright management and distribution of music, video, and other digital content is not only for mobile devices. In the future, Sony envisions extending its use to a broad range of other networking devices. At the same time, Sony will urge other related companies and industries to adopt OpenMG Light.

TOPICS: ELECTRONICS

In November 2000, Sony revealed a small-size entertainment robot that can walk on two legs at ROBODEX 2000, the first-ever "partner robot" exhibition. The robot danced and performed other human-like movements that caught people's attention.

With adoption of the Bluetooth™ wireless networking technology, this new VAIO notebook PC can exchange data with compatible devices without any cables.

A small AIT-2 library system stores, on compact 8mm cassettes, the increasing volumes of data of the broadband network age.

This headphone-type Network Walkman is small enough to be placed on the ears. Built-in flash memory stores music, enabling the headphone unit to be used alone.

Available in three colors and able to be positioned vertically or horizontally, this DVD-Video player matches a room's interior, creating a stylish home theater.

Equipped with the MDLP extended recording and playback function, this MD Walkman can record up to 320 minutes of stereo music on an 80-minute MD. A "W" jog lever provides simple access to many functions.

This single, compact unit has an FM/AM tuner and accommodates MDs and CDs. It features various editing functions such as an MDLP mode, which allows for extended recording and playback of disks, as well as quadruple-speed recording from a CD to an MD.

In addition to an FM/AM tuner and CD player, this unit can handle CD-R/RW disks for enjoyment of original recordings. Compatibility with MP3 files adds yet another way to enjoy music on the road.

This new Digital Handycam camcorder introduced during the year has a 1.55-million pixel CCD for even better picture quality. Packaging materials made of 100% recycled magazine paper and main solders that are lead-free are among many environmentally sensitive measures that Sony has incorporated into it.

Clip-On is a video recorder that uses a hard disk instead of a video tape to make possible a new way of enjoying TV programs. For example, just-recorded sections of a program can be enjoyed while the remainder of the same show is being recorded.

Able to operate nonstop for up to 3 hours or take up to 3,000 photos, this Cybershot digital still camera delivers high picture quality, featuring a 3.34-million pixel CCD and a 3x Carl Zeiss optical zoom lens.

Pictured here is a stylish new VAIO desktop PC that comes with an LCD monitor. For added convenience, an LCD pen tablet allows users to input data by writing directly on the screen with a special stylus.

Functioning as a mobile phone and music player, these handsets have slots for MagicGate Memory Stick IC media, which incorporate copyright protection technology. (from the right) During the year, Sony launched such mobile phones for the PDC-standard i-mode service of NTT DoCoMo, Inc. and for the cdmaOne-standard EZweb service of KDDI Corporation. In Europe, Sony expects to begin selling such GSM phones compatible with WAP services during the fiscal year ending March 31, 2002.

Equipped with a TV tuner and video inputs, this LCD computer display can also function as a high-resolution screen for enjoying broadcasts and videos.

While listening to the radio or watching television, a particular song or commercial can be bookmarked with the eMarker service, enabling subsequent searches using a PC. The eMarker service also allows users to purchase a CD or other products related to the music or commercial bookmarked. Sony began offering this service during the year in Japan and the United States. Shown is the eMarker device sold in Japan.

The PlayStation 2 computer entertainment system

BUSINESS REVIEW: GAME

MESSAGE FROM TOP MANAGEMENT

In 2000, Sony Computer Entertainment (SCE) launched the PlayStation 2 (PS2) computer entertainment system in Japan, North America, and Europe. After one year from the launch, PS2 worldwide shipments have reached more than 10 million units. Production shipments of PS2 software titles have been strongly supported in each territory. PlayStation (PS) is now in its seventh year and is offered in about 100 countries and territories. During the year under review, as cumulative shipments continued to grow, particularly in North America and Europe, PS continued to solidify its position as the world's favorite game console for the home.

SCE reported a substantial operating loss for the year. This was due to start-up costs for the PS2 business and additional costs associated with delays in ramping up production of the semiconductors for PS2 as well as to a decline in overall software sales. However, by spring 2001, monthly PS2 production had increased to about 1.5 million units to meet strong demand in Japan and other countries. Looking ahead, SCE is working to further expand PS2 production and is seeking to aggressively cut costs by reducing the number of parts in both PS and PS2 as well as by other efforts. SCE will also flexibly review the production locations.

Through the penetration of PS and PS2 platforms, SCE intends to create new forms of computer entertainment. SCE also intends to form global strategic alliances in such areas as networks and semiconductors. Through these actions, SCE is working to strengthen its network business in the broadband era.

KEN KUTARAGI
President and Chief Executive Officer
Sony Computer Entertainment Inc.

GLOBAL EXPANSION OF THE PLAYSTATION FORMATS

As of March 31, 2001, SCE achieved worldwide production shipments of 10.61 million PS2 computer entertainment systems. This is about three times more than production shipments of PS during the corresponding period after its introduction. In its seventh year, cumulative production shipments of PS game consoles continued to increase. One reason was the popularity of PS one, which was launched during the year. Shipments for the year exceeded initial estimates. By March 31, 2001, cumulative PS shipments worldwide had reached 82.23 million units.

Various software developers and publishers in Japan and other countries continued to release many appealing software titles for PS2 and PS during the year, and strong sales were recorded in each area. As a result, worldwide cumulative shipments of PS2 and PS software were over 800 million units as of March 31, 2001. With a large number of prominent companies around the world continuing to develop software titles for these two platforms, it is expected that even more captivating titles will be released.

ESTABLISHING A BUSINESS PLATFORM FOR A NETWORKED ERA

By developing various technologies and forming alliances globally, SCE is making progress towards building a business platform for a networked era.

In May 2001, SCE signed a Memorandum of Understanding with America Online, Inc. (AOL) to form a strategic alliance to accelerate the development of new forms of computer entertainment. Under the agreement, both companies will work together to create a framework for integrating popular interactive AOL features, such as instant messaging, chat, and e-mail into game applications. In the same month, SCE reached a definitive agreement with U.S.-based RealNetworks Inc. to embed RealPlayer® 8, the company's seminal streaming media player, and other RealNetworks client technologies on PS2. SCE also signed a Memorandum of Understanding with U.S.-based Macromedia, Inc. to embed the company's Macromedia Flash Player web animation tool on PS2. Also in May 2001, SCE reached a definitive agreement with U.S.-based Cisco Systems, Inc. to develop an IPv4/IPv6 dual protocol stack for PS2 for both the current internet and future broadband networks.

These strategic alliances will play an instrumental role in developing new computer entertainment for a networked era. SCE is working to introduce in each geographic area hardware that will enable use of this broad spectrum of network-compatible content and services, including PS2 hard disk drive, adapter for connecting to the network, LCD monitor, keyboard, and mouse. SCE will also embed the software necessary for these functions and services into the PS2 content development library, and provide it to game software and other content production companies. By doing so, SCE will promote the creation of entirely new network-based computer entertainment content.

In the mobile network arena, SCE announced a tie-up with NTT DoCoMo, Inc. (NTT DoCoMo) in August 2000. This led to a new service that brings together PS and the i-mode service of NTT DoCoMo, and in March 2001, SCE introduced a mobile phone connecting cable in Japan. Already, several game software developers and publishers are selling titles compatible with this cable. It is expected that more titles compatible with this cable will be released.

In Europe, Sony Computer Entertainment Europe Ltd., a subsidiary of Sony Computer Entertainment Inc., and UK-based Vodafone Multimedia Limited entered into a Memorandum of Understanding in January 2001 to research together a new business linking Vodafone group's mobile phones and PS.

SCE recognizes that protecting copyrights for digital content and maintaining security in the network era are becoming the most pressing issues. Thus, SCE is working to develop a copy management system for PS2 while also constructing a high-level security system. In regards to content suppliers such as game software companies, SCE's subsidiary PlayStation.com (Japan) Inc. and various Sony Group companies plan to supply from 2001 basic services necessary for carrying out network businesses, such as user identification and settlement, and server hosting.

SCE, together with its partner companies, will create and develop a new world of computer entertainment for the coming broadband era.

TOPICS: GAME

The PS one home-use game console.

This image comes from *i-mode mo issho*, appendix disk released in Japan in May 2001. This title is used with the *Dokodemo-issho* game developed for SCE's PocketStation. Compatible with SCE's mobile phone connection cable that went on sale in March 2001, this software lets people communicate with other players and even game characters using handsets compatible with NTT DoCoMo's i-mode service.

In March 2001, SCE launched this mobile phone connecting cable in Japan. With this cable, PlayStation consoles and i-mode handsets can be connected to enjoy certain software titles.

SCE's semiconductor production facilities Fab1 and Fab2.

Shown here is a scene from *Gran Turismo 3 A-spec*, a PlayStation 2 title released in Japan in April 2001. This software makes use of the system's sophisticated image processing capabilities to generate high-resolution graphics and vehicle handling which is almost exactly like the movements of an actual racing car. This software made a big hit, with more than 1 million units shipped in its first 3 days of release.

Jennifer Lopez became the first artist ever to have an album (*J. Lo*) and a film (*The Wedding Planner*), both Sony releases, debut the same week at number one.

BUSINESS REVIEW: MUSIC

MESSAGE FROM TOP MANAGEMENT

During the year under review, Sony Music Entertainment Inc. (SMEI), responsible for Sony's Music business outside Japan, continued cultivating its artist development efforts, successfully signing, developing, and establishing a wide range of artists around the world. However, sales and operating income decreased due to soft market conditions in several territories and increased investments in digital media development. We have been actively reviewing all areas of our business to achieve and maximize efficiencies. We are also aggressively pursuing global cost reduction activities and initiatives utilizing advanced technologies to offer consumers convenient, personalized, and protected access to our music online. By instituting these efficiencies, supported by the strength of upcoming releases, we hope to see increased sales and stronger overall results in the year ending March 31, 2002.

We increased our efforts in combating piracy, offline and online, and protecting intellectual property rights. SMEI is well on the way to developing the infrastructure to manage and optimize its digital assets. We are aggressively pursuing strategic alliances to position ourselves so that our active catalogue is digitally available for delivery on a global basis anywhere and anytime, thus broadening our reach and enhancing our assets.

THOMAS D. MOTTOLA
Chairman and Chief Executive Officer
Sony Music Entertainment Inc.

HIGH NOTES

Sade's *Lovers Rock* and Ricky Martin's *Sound Loaded*, together with releases by Destiny's Child, Jennifer Lopez, and Offspring, were multimillion-selling global successes for SMEI. Aggregate sales of new releases by 3LW, Aerosmith, Cypress Hill, Celine Dion, Gloria Estefan, Lara Fabian, Fuel, Incubus, Wyclef Jean, KoЯn, Oasis, Pearl Jam, Rage Against The Machine, Train, Wu-Tang Clan, and other best-selling releases, sold more than 70 million units worldwide.

ARTIST AND BUSINESS DEVELOPMENT

SMEI's artist development efforts yielded million and multimillion sales of debut albums from Anastacia, Crazy Town, Billy Gilman, Macy Gray, Lil Bow Wow, Jill Scott, and Son By Four, and second albums by Dixie Chicks, Savage Garden, and Destiny's Child. These albums contributed sales of 24 million units.

In May 2000, SMEI established a joint venture with Universal Music Group to launch an on-demand, internet-based commercial music subscription service in 2001 called Duet that intends to offer licensed content from many music companies on a non-exclusive basis. In April 2001, Duet announced its first affiliate agreement, with Yahoo! Inc. (Yahoo!) whereby the music service will be marketed on all of Yahoo!'s internet sites. Initial services will include streaming music, browsing, and search capabilities, and the creation of personal playlists and music communities.

INTERNATIONAL GROWTH

SMEI extended its presence in China, Egypt, and Lebanon, and enjoyed success fueled by global bestsellers and regional hits from artists such as Sheila On 7 and the *Raju Chacha* and *Zubeida* soundtracks (Asia); a1, Adriano Celetano, Creed, Julio Iglesias, and La Oreja de Van Gogh (Europe); and Roberto Carlos, Chayanne, Ricky Martin, and Son By Four (Latin America).

CLASSICAL NOTES

Charlotte Church's *Dream a Dream* and *A Three Tenors Christmas* were global bestsellers. Sony Classical won its fourth consecutive Academy Award® for Sony Classical artist Tan Dun's score to Sony Pictures Classics' film, *Crouching Tiger, Hidden Dragon*, which featured cellist Yo-Yo Ma.

MUSIC PUBLISHING

Sony/ATV Music Publishing benefited from owning 22 of 27 copyrights on the Beatles album *1*, which sold over 20 million units, and acquired the Web IV catalogue. Administration agreements were signed with The Disney Company's film and television catalogues and those of Omar Alfanno, Destiny's Child, Stevie Nicks, Cat Stevens, Stephen Stills, and The Song Corp.

SONY MUSIC ENTERTAINMENT (JAPAN) INC. (SMEJ) [Eiji Kishi, Chief Executive Officer & Representative Director]

SMEJ is taking decisive actions to improve its operating efficiency by closely managing expenses connected with artist development and marketing activities. During the year under review, Japanese artists L'Arc～en～Ciel, Shogo Hamada, and Ken Hirai recorded hit releases. In the area of non-Japanese artists, hit releases included those by Aerosmith and Offspring, as well as two works conceived and produced in Japan by SMEJ, *image* and *MAX BEST*. Regarding SMEJ's results, sales for the year decreased, primarily due to lower sales reflecting the delay of releases from certain artists. However, gains in operating efficiency, as well as the above hits, led to a noticeable improvement in operating income.

In December 1999, SMEJ began selling music through its fee-based "bitmusic" internet site, and a new service was launched during the year under review to further enlarge sales channels. Customers can now download titles to MDs from terminals located in record stores and convenience stores.

SMEJ will continue to work on increasing sales of music in traditional packaged formats while also pursuing growth opportunities in electronic distribution channels.

TOPICS: MUSIC

Sade's *Lovers Rock* has sold more than 5.4 million units both in the United States and internationally, for career sales of more than 45 million units.

Destiny's Child's *Independent Women Part I*, from the *Charlie's Angels* soundtrack, reached the largest audience (140.4 million listeners) in the history of monitored U.S. airplay.

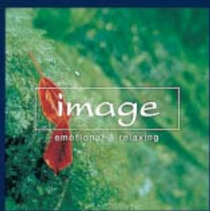
By the end of his 2000 tour, Ricky Martin had performed to more than 500,000 people across the United States. A Ricky Martin performance at London's Hyde Park drew more than 100,000 fans.

Charlotte Church's albums – *Voice Of an Angel, Charlotte Church,* and *Dream a Dream* – have sold in excess of 7 million copies worldwide.

Anastacia's debut album, *Not That Kind*, was first released in Europe where it became a Top 10 hit, with gold, platinum and multiplatinum sales status in more than a dozen countries and overall sales exceeding three million units.

1.5 billion people throughout Asia were given the opportunity during the year to vote for their favorite L'Arc~en~Ciel songs. The top 12 titles along with a new release were then combined to create an album called *Clicked Singles Best 13*. With its release, the album skyrocketed to the top of Japan's ORICON chart.

Billy Gilman, at age 11, became the youngest artist in SoundScan history to have a #1 hit and sell a million albums.



SMEJ's *image* album received the Special Product Album Of The Year prize at Japan's 15th Annual Gold Disk Awards. The album contains a number of theme songs from emotionally moving TV shows, TV commercials, and movies.

The critically acclaimed blockbuster *Crouching Tiger, Hidden Dragon* earned four Academy Awards® including Best Foreign Film and became the highest-grossing foreign language film ever in North America.

BUSINESS REVIEW: PICTURES

MESSAGE FROM TOP MANAGEMENT

During the year under review, we strengthened the position of Sony Pictures Entertainment (SPE) as a premier global content provider, enhanced SPE's corporate value by adding to our film and TV libraries and expanding our international channels business, and took major strides to support Sony's goal to be the world's broadband entertainment leader.

Despite the challenging conditions in our industry, SPE recorded higher sales and won prestigious industry awards. However, in terms of profit performance, our net income was lower than that of the previous year, in large part due to the adoption of new accounting standards mandated for the motion picture business.

In motion pictures, we surpassed the billion-dollar mark in international box office revenues for only the second time in our Company's history. Building on that momentum, we are reorganizing to facilitate a more consistent performance through improved production efficiencies and a strategic focus on our film slate. We consolidated our worldwide marketing and distribution organization, enabling us to coordinate these critical functions more closely. In addition, we established a coveted partnership with Joe Roth's Revolution Studios and plan to distribute 36 of their films over the next six years.

Our objectives are to continue to strengthen our existing movie and television businesses, leverage our content in new ways, build new businesses, and make a smooth and profitable transition to the broadband entertainment age.

JOHN CALLEY
Chairman and Chief Executive Officer
Sony Pictures Entertainment Inc.

MOTION PICTURE & HOME ENTERTAINMENT HIGHLIGHTS

In Motion Pictures, a challenging first half of the year was followed by a strong second half, partly because of our competitive advantage in Hollywood's changing approach to filmmaking – the globalization of film production and distribution.

We introduced a global distribution strategy to accelerate box office revenues, which helped propel SPE to a record $1.073 billion in international box office revenues for calendar year 2000.

SPE expanded its film production presence internationally, with successful local-language operations in Germany and Asia. *Crouching Tiger, Hidden Dragon* – co-financed by our Hong Kong-based Columbia Pictures Film Production Asia and distributed in North America by Sony Pictures Classics – became the highest-grossing foreign language film ever in North America, topping $120 million and winning four of the studio's total of seven Academy Awards®.

Columbia Pictures positioned itself strategically for the future, developing films for upcoming release including *Ali, Spider-Man, Stuart Little II,* and *Men in Black II.*

Our Home Entertainment division strengthened its leadership position in the expanding world of DVD, launching 300 titles and shipping more than 39 million units worldwide.

STRONG TELEVISION PERFORMANCE

In Television, our performance was driven by growth opportunities in international markets and our popular game show and soap opera formats.

Columbia TriStar Television delivered strong earnings from our *Wheel of Fortune* and *Jeopardy!* game shows and *Days of Our Lives* and *The Young & The Restless* soap operas. We also remained the leading independent program supplier in North America, with 34 programs on the air – including *Family Law*, *The King of Queens*, and the Lifetime Networks hit, *Strong Medicine*.

In just six years, our international channels business has grown to 37 network ventures worldwide, making it a leading distributor and creating substantial corporate value for SPE. SPE is now the #1 sitcom supplier in Germany, and we own the top-rated cable networks in India and Brazil.

Telemundo Group, partially owned by Sony, is the fastest growing Spanish-language network in the United States. Also, we sold a 50% stake in the Game Show Network to Liberty Digital, Inc. for $275 million in cash and stock, and together we intend to make it the first fully interactive, 24-hour game show channel.

THE DIGITAL & BROADBAND ENTERTAINMENT FUTURE

As a key asset in Sony's broadband portfolio, Sony Pictures Digital Entertainment (SPDE) oversees computer-generated imaging and digital content creation for motion picture, television, and online markets.

SPDE is preparing to launch two revolutionary broadband services: Moviefly, a partnership with other studios, will allow consumers to download movies to personal computers, and Screenblast will help PC users create entertainment content and share it electronically.

Imageworks, SPE's visual effects company, received its third Academy Award® nomination this year, for work done on *Hollow Man*.

Sony Online Entertainment (SOE) proved to be an internet business success story. *EverQuest* has become the internet's top-ranked multi-player game, with more than 360,000 subscribers paying a monthly fee. SOE is now developing *Star Wars Galaxies* with LucasArts Entertainment Company LLC for release in calendar year 2002.

TOPICS: PICTURES

The action comedy *Charlie's Angels* topped more than $250 million in worldwide box office receipts and became a major hit in direct-to-sales DVD release.

Strong Medicine, produced by Columbia TriStar Television Distribution for Lifetime Networks, ranks as the #1-rated original drama on basic cable and Lifetime's #1-rated original series.

Columbia Pictures' *Spider-Man* - to be released in Spring 2002 - created a sensation when its official website, www.sony.com/spiderman opened in March 2001. The site received 6 million page views within the first week, signaling tremendous fan interest well in advance of the release.

The leading multi-player online game *EverQuest* on TheStation@sony.com, reaches more than 360,000 subscribers. During peak periods, as many as 80,000 subscribers play the game simultaneously.

The game show *Wheel of Fortune* continues to be the #1-rated show of all genres in U.S. syndication television, reaching more than 100 million viewers worldwide.

Scheduled for launch in calendar year 2001, Screenblast is a suite of digital tools used to create original entertainment content, helping consumers interact through computers, digital video cameras, handheld electronic devices, and the internet.

Lifeplanners are the backbone of Sony Life Insurance. All are well versed in fields as diverse as taxation, law, and economics, and possess high-level consulting skills. Lifeplanners take full advantage of sophisticated computer software to create customized, best-fit solutions for individual customers' present and future requirements.

The customer center of Sony Assurance is equipped with the most up-to-date call center system. Well-trained operators on site quickly and accurately respond to queries and estimate requests from clients.

BUSINESS REVIEW: INSURANCE

MESSAGE FROM TOP MANAGEMENT

Ensuring the financial security and stability of our customers by offering effective life insurance and quality services is the basic mission of Sony Life Insurance Co., Ltd., reflecting the Sony Group's philosophy of making peoples' dreams come true. Customers have greatly appreciated the consulting-driven sales activities that we have conducted since our establishment. This is evident in the steady growth in our life insurance-in-force. In the year under review, our operating income declined 4% from the previous year's level, mainly because reserves for the Life Insurance Policyholders Protection Corporation of Japan were recorded. However, new policies sold and life insurance-in-force continued their steady growth, rising by 17% and 14%, respectively.

Sony Life has consistently placed a priority on improving its operating base and the soundness of management. Due to these efforts, we have attained a solvency margin ratio of 1,906%, one of the highest among Japanese life insurers. In addition, our solid growth, profitability, asset quality, policyholder reserves, and other strengths have earned us high ratings from rating agencies in Japan and overseas. During the year, A.M. Best Co. and Japan Credit Rating Agency, Ltd. awarded us upgrades, and in May 2001, Rating and Investment Information, Inc. as well awarded us an upgrade. Deregulation in Japan is expected to open up many new opportunities for insurers. We are taking an aggressive stance regarding such opportunities, mainly targeting fields offering synergies with our core life insurance business. One result was Sony Life's May 2001 start of sales of certain Sony Assurance products.

KEN IWAKI
President and Chief Operating Officer
Sony Life Insurance Co., Ltd.

A SOLID SALES ORGANIZATION

Lifeplanners, who have considerable consulting skills, are the greatest strength of Sony Life's sales organization. These professionals can tailor life insurance plans to the individual needs of each customer, as well as provide valuable advice. As of March 31, 2001, there were 4,340 Lifeplanners at Sony Life's network of 98 Lifeplanner branch offices in Japan. Additionally, the sales organization includes 33 regional sales offices and 1,775 independent agencies throughout Japan.

TO PROVIDE SERVICE TO A GREATER NUMBER OF CUSTOMERS

Sony Life has made consulting-based sales offered by Lifeplanners the nucleus of its sales activities. Sony Life has allocated considerable resources to direct sales through the internet and its call center to reach a greater number of customers. Through these direct channels, Sony Life began selling guaranteed issue whole life insurance during the year, in addition to offering excess interest dividend educational endowment products. Applying for such whole-life policies is simple, as no detailed explanations or examinations are needed. Direct sales of cancer insurance began in May 2001. Also, Sony Life has seen positive feedback by introducing customers, initially approached through direct channels, to the Lifeplanner system upon request.

RISK MANAGEMENT AND COMPLIANCE SYSTEMS

As the life insurance business becomes more diverse and complex, the importance of managing credit, market, systems, legal, and other types of risk steadily increases. Sony Life regards the establishment of a system able to accurately monitor and control such risks as vital in ensuring that the company generates a return suitable to the risks assumed. This is why the upgrading of risk management capabilities is one of Sony Life's primary policy objectives. To oversee these measures, a Risk Management Committee has been formed. The committee is charged with reinforcing Sony Life's entire risk management system by comprehensively evaluating and analyzing risks associated with the operating environment. Using this information, the necessary management systems and methodology for each type of risk will be structured.

Sony Life strives to imbue an awareness of the critical role of compliance activities throughout the company. This reflects Sony Life's commitment to fulfill its role as an insurance company, an organization that has social responsibilities and is necessary to the public interest. Compliance is also essential to protecting customers and being worthy of their trust. To this end, Sony Life is implementing a compliance program made up of concrete measures. A compliance section was established within the Legal Division, and a Compliance Committee was created, made up of representatives from all areas of the company. In addition, a Compliance Manual sets forth clear guidelines that are thoroughly implemented by executives and employees of Sony Life. Compliance progress reports are prepared on a regular basis for internal use. An objective evaluation system further underpins an organization that promotes fair and free competition while maximizing benefits for customers.

SONY ASSURANCE INC. [Shinichi Yamamoto, President & Representative Director]

Sony Assurance Inc. is engaged in the direct sale of automobile insurance by telephone and over the internet. Competition in the automobile insurance market in Japan is heating up as policies and fees are deregulated. Nevertheless, Sony Assurance was able to post steady growth in net insurance premiums during the year under review.

Drawing on the advantages of its direct-sales channels, Sony Assurance has been concentrating on offering products that reflect the needs of its customers. During the year, a new automobile insurance rider was introduced that includes coverage for drivers and passengers for accidents that occur even when they get out of their car en route or after they arrive at their destination. Included is coverage for injuries, damage to personal belongings, and third-party liability. As of March 31, 2001, about 8% of Sony Assurance's policyholders had chosen this rider. This favorable number demonstrates the widespread customer support that can be garnered by providing products inspired by Sony Assurance's innovative thinking. The company serves policyholders with a 24-hour, 365-day accident report reception system, the assignment of one person to each accident case, and other measures to ensure quick and detailed service. In a company survey conducted during the year, more than 90% of policyholders stated that they were satisfied with assistance provided following an accident.

Sony Assurance remains dedicated to drawing on its direct customer ties to provide the streamlined, quality insurance services needed to continue earning the support of policyholders.

ENVIRONMENTAL ACTIVITIES

The Sony Environmental Vision

Recognizing that environmental protection is one of the most pressing issues facing mankind in the 21st century, Sony has positioned environmental conservation as an integral element of its management strategy. Through the constant pursuit of technological progress and creative business activities, Sony is dedicated to helping achieve a sustainable society.

A NEW APPROACH TO FULFILLING THE SONY ENVIRONMENTAL VISION TOWARDS SUSTAINABILITY

Sony understands that sound ecology and economics are both essential to an environmentally sustainable society. Sony further believes that the rapid incorporation of this thinking in management policies is critical to raising the company's value over the medium and long terms. To define this basic stance, Sony Environmental Vision Towards Sustainability was made public in October 2000. Embodying business models, education, and technology, the vision points Sony's activities in a more environmentally conscious direction. Every stage in a product's lifecycle is covered, from strategic planning to recycling. In numerical terms, by 2010 Sony intends to double its eco-efficiency, a figure obtained by dividing sales by environmental impact, compared to 2000 levels.

To achieve this vision, the Green Management 2002, Sony Mid-term Environmental Action Program, was revised in March 2001 to create Green Management 2005. The predecessor program, which was formulated in 1998, set forth several concrete goals and achieved tangible results worldwide. One result was earning ISO14001 certification, an international standard for environmental management systems, at all Sony manufacturing facilities worldwide. Sony also attained at 35 manufacturing sites "zero landfill", defined as a reduction of waste generated in landfills by reducing or recycling more than 95% of the waste generated.

Green Management 2005 goes further still, outlining an action plan to fulfill the Environmental Vision's intermediate target of achieving 1.5 times eco-efficiency by 2005. Many numerical goals are listed to raise the environmental perspective of a broad range of activities, including R&D, product design, procurement and purchasing, site management and production processing, marketing, distribution, repair services, customer services, and even information disclosure programs.

ADDING THE ENVIRONMENT TO PERFORMANCE CRITERIA AT NETWORK COMPANIES

Beginning with the year under review, Sony added the "Environment" category to the criteria used to evaluate each internal Network Company's performance. With this step, environmental programs were solidly positioned as a core element of management policies. In evaluating Network Companies, environmental criteria account for about 10% of the total assessment. The focus of such evaluations is to determine the amount by which Sony Network Companies actually reduced their impact on the environment during the year.

MANAGEMENT OF ENVIRONMENTAL RISK AND EMPLOYEE HEALTH AND SAFETY FOR BUSINESS AND PRODUCTION PROCESSES

Along with lowering the environmental impact of business facilities, Sony Environmental Vision stresses two important areas: environmental risk management and employee health and safety management. During the year, 35 non-manufacturing facilities, such as that of Sony Computer Entertainment Inc. obtained ISO14001 certification. Additionally, 19 manufacturing facilities, such as Sony Chemicals Singapore Pte. Ltd., met the OHSMS (Occupational Health and Safety Management System) standard, an international standard for systems used to manage employee health and safety.

AIMING FOR "ZERO LANDFILL" AT BUSINESS FACILITIES

Along with energy conservation and the management and reduction of chemical substances used, Sony strives for the control, sorting, reuse, and recycling of waste materials at business facilities. Green Management 2005 challenges all Sony business facilities to achieve "zero landfill" by the year 2005. 35 manufacturing facilities, including Beijing Suohong Electronics Co., Ltd. and Gödölö Factory in Hungary, had already achieved the "zero landfill" goal, by the end of April 2001.

PROMOTING ENVIRONMENTALLY SOUND PRODUCTS

Sony lightens the environmental impact of its products by making products that require fewer resources, consume less energy, and reduce or eliminate materials that significantly impact the environment.

For example, a Sony Digital Handycam camcorder that went on sale in March 2001 employs lead-free solder for the major printed wiring boards, and resins in the main circuit boards and camera body contain no halogenated flame retardants. Additionally, there is no PVC (Polyvinyl Chloride) in any internal or external structural components other than wiring materials. The viewfinder's LCD is backlit by LEDs rather than a fluorescent lamp, eliminating the use of mercury. Packaging materials feature cardboard cushions and paper, both made entirely of recycled content. Moreover, the color printing on the product's cardboard packaging uses vegetable oil-based printing ink which is free of VOCs (Volatile Organic Compounds).

This environmentally sensitive Digital Handycam camcorder employs lead-free solder for the major printed wiring boards as well as paper-based cardboard cushions and 100% recycled magazine paper for packaging.

STEPS TO FACILITATE THE RECYCLING OF HOME ELECTRONICS PRODUCTS

Sony's Environmental Vision includes decisive steps to recover, reuse and recycle end-of-life products. Envisioning a sustainable society, Sony has been researching and developing the technology needed to recycle TVs since the early 1990s.

This led to the October 1997 opening of the Recycle Research Center in Ichinomiya, Aichi Prefecture to further refine recycling techniques. Knowledge gained from this research center is now utilized by Green Cycle Corp., a company that mainly recycles end-of-life electronics products. Sony is the leading shareholder of this company, which began operations in March 2001. Also, to comply with Japan's new home appliance recycling law — the Law for Recycling Specified Kinds of Home Appliances — which took effect in April 2001, Sony cooperated with other home appliance and electronics companies to establish a country-wide recycling system.

DISCLOSURE OF ENVIRONMENTAL INFORMATION

Releasing information regarding environmental preservation is viewed by Sony as one of the most critical aspects of its accountability to the public. Sony adheres to a fundamental policy of supplying such information to all stakeholders in an honest, fair, expeditious, and continuous manner. During the year, Sony introduced its Eco Info mark to inform customers of the ways in which Sony pays attention to the environment. Furthermore, Sony uses environmental reports, its website, press releases, advertisements, and other means to disclose pertinent information on a regular basis. Also, Sony receives opinions and questions from stakeholders in return, which promotes a meaningful dialogue that helps improve Sony's environmental activities.

COMMUNITY RELATIONS

On April 26, 2000, 78 enthusiastic employees of the Sony Technology Center in San Diego participated in a program under the "SOMEONE NEEDS YOU" project to clean a local beach.

The Sony Asia Fund helped a local Indonesian NPO to provide learning opportunities for children in Mandala Nanwangi, Indonesia who had to drop out of school because of poor access to transportation.

Through Community Relations (CR) activities, Sony seeks to build stronger relationships with communities, as the recognition of the importance of communities as stakeholders increases. Sony's CR programs are rooted in the idea of implementing Sony's corporate mission to "provide opportunities to create and fulfill people's dreams" in the communities of which Sony is a part. The basis of such activities is to promote Sony's role as a member of both regional and international communities. To this end, Sony makes donations of money and products and carries out support programs based on a dialog with community members. In addition, Sony undertakes to build partnerships with non-profit organizations (NPOs) and conducts volunteer programs for employees worldwide. Through these and other activities, Sony is taking the initiative to build ties with communities on a global scale.

THE SONY CORPORATE CULTURE AND COMMUNITY RELATIONS ACTIVITIES

Sony's emphasis on respect for the individual and on each person's uniqueness is reflected in its corporate culture. In line with this, CR programs place priority on education for children. During the year under review, through the Sony Foundation for Science Education, Sony Education Grants were given to 140 elementary and junior high schools in Japan that work particularly hard at educating students and nurturing personal development and creativity. In 1999, a program called Sony Science Lab for Children was started in Japan. Utilizing as laboratories the facilities of Sony Group companies and nearby civic halls, Sony invited elementary and junior high school students to conduct experiments. In China, the Sony ExploraScience facility opened in Beijing in the fall of 2000. Based on an entirely new concept, this interactive educational center allows visitors to see, experience, and enjoy various advances and wonders of science and digital technology.

SOCIAL RESPONSIBILITIES AND COMMUNITY RELATIONS ACTIVITIES

As a globally operating company with annual sales of ¥7 trillion, and 180,000 employees, Sony is keenly aware of its social responsibilities to contribute to the development of communities. To address the problems of poverty and other social issues in Indonesia and the Philippines, Sony Asia Fund, a non-profit trust, supports grassroots NPOs that help disadvantaged children attend school. In South Africa, since broadcasting of educational programs for elementary school pupils commenced in 1999, Sony has conducted a School TV Access Project in conjunction with local broadcasters to improve the quality of elementary school education. Through this project, Sony is donating color TVs and video decks to 250 schools over a three-year period. Similar projects through which Sony donates audio-visual equipment are underway to assist elementary schools in the Philippines and China. Sony hopes that these gifts will spark greater creativity and interest in science among children.

Sony supplied a video search/retrieval system to Japan Platform, an emergency aid framework for refugees that is supported by the Japanese government, NPOs, and business associations. Also, Sony donated digital mapping systems that employ aerial video images to the Japan Alliance for Humanitarian Demining Support, an organization which extends logistical support for removing mines. In many ways, Sony is working to demonstrate its commitment to becoming a better corporate citizen through its global activities.

SONY EMPLOYEES VOLUNTEER THE WORLD OVER

In April 2000, under the slogan of "SOMEONE NEEDS YOU", abbreviated as SONY, Sony Group employees around the world took part in CR programs, such as regional volunteer activities. Conceived by U.S.-based Sony Electronics Inc., this program drew the participation of about 24,000 employees in 20 countries.

THE SONY BRAND AND COMMUNITY RELATIONS ACTIVITIES

Sony believes that its brand is built on people's trust and high hopes for products and services that embody dreams. In the same way, Sony's many corporate activities, including active community involvement, help to build trust in its brand. By conducting programs that contribute to the development of communities, Sony strives to enhance its standing within society and thus further strengthen the Sony brand.

TRACKING STOCK

ISSUANCE OF TRACKING STOCK LINKED TO SONY COMMUNICATION NETWORK CORPORATION

Sony Corporation is proceeding with preparations to issue a new class of stock whose price would reflect the economic value of Sony Communication Network Corporation (SCN), a wholly-owned subsidiary of the Sony Group.

SCN is active in three main areas: as an internet service provider, as a supplier of content, and as a provider of electronic commerce services. With the arrival of the era of broadband networks, SCN is of considerable strategic importance as a wholly-owned subsidiary of Sony. Sony is positioning SCN as the center for the Sony Group's internet/communication service business. As such, SCN is aggressively working to facilitate the network compatibility of Sony hardware, to construct network platforms, and to provide content services that take advantage of broadband networks.

Sony believes that the creation of Tracking Stock is an effective way to facilitate decentralized/integrated corporate management. While enabling the securities markets to place a value on strategically important subsidiaries, Tracking Stock also preserves parent company control and maintains unity of group strategies. These attributes of the Tracking Stock can add flexibility to SCN's businesses and accelerate growth, while concurrently preserving strong ties with other Sony Group members. For these reasons, Sony believes that it can increase the value of the entire Sony Group through the use of such Tracking Stock.

So-net is an internet-related service offered by SCN. Through it, SCN strives to offer a new style of network services, including a variety of unique and appealing content. Going forward, SCN plans to further enhance its content development, while extending ties with other Sony Group companies. By supplying attractive services that make the most of the interactivity offered by networks in the broadband era, SCN aims to grow into a "Broadband Interactive Content Provider".

SONY COMMUNICATION NETWORK CORPORATION

Since January 1996, when it launched So-net, an internet service provider (ISP) business, SCN has strived to offer a new style of network services, including content supplying services. Future plans call for SCN to continue enhancing the development of content, while deepening its ties with other Sony Group companies. SCN aims to grow into a "Broadband Interactive Content Provider" that supplies attractive services, taking advantage of the interactivity offered by broadband networks.

Creating quality content for broadband networks is just one step toward this goal. SCN must also reinforce its involvement in other areas such as electronic commerce. Furthermore, SCN is focusing on international expansion. Broadband infrastructures are growing rapidly in Asia, and in a first step to target this region, SCN intends to establish a joint venture in Taiwan in July 2001 to provide broadband ISP and content services.

As these developments unfold, Sony Corporation has been seeking to clarify the value of SCN as a part of the Sony Group. The result was the decision to begin preparations for the issuance of a Tracking Stock linked to this strategic subsidiary. Funds procured from the sale of this stock are expected to be used to increase SCN's equity. This is expected to strengthen its financial structure and to provide capital for broadband network initiatives, including the development of content, strategic investments, and business development in Asia.

(As of May 17, 2001)

MANAGEMENT

DIRECTORS

NORIO OHGA
Chairman of the Board, Director

NOBUYUKI IDEI
Chairman and Chief Executive Officer, Representative Director

KUNITAKE ANDO
President and Chief Operating Officer, Representative Director

TERUHISA TOKUNAKA
Executive Deputy President and Chief Financial Officer, Representative Director

MINORU MORIO
Vice Chairman, Director

TAMOTSU IBA
Vice Chairman, Director

TERUO MASAKI
Corporate Senior Executive Vice President, Director

HOWARD STRINGER
Director (Chairman and Chief Executive Officer of Sony Corporation of America)

KEN KUTARAGI
Director (President and Chief Executive Officer of Sony Computer Entertainment Inc.)

PETER G. PETERSON
Director (Chairman of The Blackstone Group)

KENICHI SUEMATSU
Director (Advisor of Sumitomo Mitsui Banking Corporation)

IWAO NAKATANI
Director (Director of Research, Sanwa Research Institute and Consulting Corporation)

AUDITORS

AKIHISA OHNISHI
Standing Statutory Auditor

TAKASHI HAYASHI
Standing Statutory Auditor

TAKAFUMI ABE
Standing Statutory Auditor

KAZUAKI MORITA
Statutory Auditor

BOARD OF DIRECTORS

The 12 members of Sony's Board of Directors, three of whom are outside Directors, were elected at the Ordinary General Meeting of Shareholders held on June 29, 2000. During the year under review, the Board held 15 meetings, including one in the United States. The goal of Directors is to maximize shareholder value. To this end, they deliberate and authorize the Sony Group's fundamental strategies, business plans, major investments, and business alliances. Directors also evaluate performance as well as supervise the overall business operations of Sony Corporation and its subsidiaries.

During the year, the Executive Committee, comprised of six Directors under the supervision of the full Board, met 17 times. The Board delegates responsibility for certain important matters involving Sony Corporation's and Sony Group's operations to this Committee. In April 2001, to enhance its functioning, the Executive Committee grew to nine members with the addition of one Sony Director and two corporate executive officers.

The Board of Directors includes a Nominating Committee and a Compensation Committee. The Nominating Committee was made up of five Directors, one of whom is an outside Director. On June 29, 2000, two newly elected Directors joined the Committee, increasing its membership to seven. This Committee met three times during the year to recommend candidates for the posts of Director, Statutory Auditor, and corporate executive officer to the Board of Directors. The Board of Directors has begun to consider adding more outside Directors to the Nominating Committee to improve its functioning. The Compensation Committee, made up of two outside Directors and a Senior Advisor of Sony, held seven meetings during the year. This Committee determines compensation structure and amounts for Directors within the guidelines approved by shareholders at the Ordinary General Meeting of Shareholders. This Committee also determines compensation systems and amounts for corporate executive officers and presents guidelines related to compensation for Directors of Sony Group companies.

BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors is comprised of four members, two of whom were elected at the Ordinary General Meeting of Shareholders held on June 29, 2000. Three of the members are outside Statutory Auditors. In all, 14 meetings were held during the year under review. The Statutory Auditors are responsible for supervising the work of Directors in accordance with an audit plan approved by the Board of Statutory Auditors. During the year, to perform this duty, the Statutory Auditors attended meetings of the Board of Directors and other important meetings, reviewed important documents, visited and examined major business facilities, examined operations of subsidiaries, and performed other tasks. The results of these activities were reported to the Board of Statutory Auditors. The Board also received reports from ChuoAoyama Audit Corporation (PricewaterhouseCoopers, Tokyo), Sony's independent public accountants, regarding its auditing methods and the results of its audit. Based on these activities, the Board of Statutory Auditors prepared an audit report that was submitted to the Board of Directors on April 27, 2001.

CORPORATE EXECUTIVE OFFICERS

Chairman and Chief Executive Officer
Nobuyuki Idei

President and Chief Operating Officer
Kunitake Ando

Executive Deputy President and Chief Financial Officer
Teruhisa Tokunaka

Vice Chairman
Minoru Morio

Vice Chairman
Tamotsu Iba

Executive Deputy President
Junichi Kodera

Executive Deputy President
Suehiro Nakamura

Corporate Senior Executive Vice President
Kenichi Oyama

Corporate Senior Executive Vice President
Akiyoshi Kawashima

Corporate Senior Executive Vice President
Shizuo Takashino

Corporate Senior Executive Vice President
Teruo Masaki

Corporate Senior Executive Vice President and Chief Administration Officer
Akira Kondoh

Corporate Research Fellow (Corporate Senior Executive Vice President)
Tsugio Makimoto

Corporate Executive Vice President
Sumio Sano

Corporate Executive Vice President
Teruaki Aoki

Corporate Executive Vice President
Mario Tokoro

Corporate Executive Vice President
Sunobu Horigome

Corporate Executive Vice President
Mitsuyuki Watanabe

Corporate Executive Vice President
Toshitada Doi

Corporate Executive Vice President
Seiichi Watanabe

Corporate Executive Vice President
Katsuaki Tsurushima

Corporate Executive Vice President
Katsumi Ihara

Corporate Executive Vice President
Tadakatsu Hasebe

Corporate Executive Vice President
Kenichiro Yonezawa

Corporate Senior Vice President
Takeo Eguchi

Corporate Senior Vice President
Tadasu Kawai

Corporate Senior Vice President
Mitsuru Ohki

Corporate Research Fellow (Corporate Senior Vice President)
Yoshio Nishi

Corporate Senior Vice President
Yutaka Nakagawa

Corporate Senior Vice President
Yukio Kubota

Corporate Senior Vice President
Takeo Minomiya

Corporate Senior Vice President
Masayuki Nozoe

Corporate Vice President
Tsutomu Yamashita

Corporate Vice President
Ryoji Chubachi

Corporate Vice President
Tetsujiro Kondo

Corporate Vice President
Kiyoshi Nishitani

Corporate Vice President
Yoshiyuki Kamon

Corporate Vice President
Tsutomu Niimura

Corporate Vice President
Michiaki Tsurumi

Corporate Vice President
Takeo Kaji

Corporate Vice President
Kozo Kaminaga

Corporate Vice President
Keiji Kimura

Corporate Research Fellow (Corporate Vice President)
Jun Takayama

Corporate Research Fellow (Corporate Vice President)
Yoshifumi Mori

Corporate Research Fellow (Corporate Vice President)
Shigeo Kubota

Corporate Research Fellow (Corporate Vice President)
Akira Iga

Corporate Research Fellow (Corporate Vice President)
Norihisa Shirota

GROUP EXECUTIVE OFFICERS

Ken Iwaki
Masayoshi Morimoto
Shigeo Maruyama
Motoyasu Kanasugi
Masayuki Takano
Toshiharu Sawada
Masao Morita
Yoshihide Nakamura
Akira Kubota
Thomas D. Mottola
John Calley
Otto G. Zich
Jean-Michel Perbet
Masahiro Oki
Senji Yamamoto
Fujio Nishida
Nobuyuki Oneda
Edward Grebow
Masao Tomioka
Eiji Kishi
Fujio Sugano
Takeshi Matsunobu
Kei Kodera
Akira Sato

(As of April 27, 2001)

FINANCIAL SECTION

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following "Operating and Financial Review and Prospects" is based on current information known to management as of May 31, 2001.

(Notes)

i) On January 5, 2000, the acquisition transactions by way of exchanges of stock, whereby Sony Music Entertainment (Japan) Inc., Sony Chemicals Corporation, and Sony Precision Technology Inc. became wholly-owned subsidiaries of Sony Corporation, were completed. Intangible assets and goodwill realized from these transactions are being amortized over their useful lives of up to a maximum of 20 years. Such amortization is recorded in selling, general and administrative expenses. As a result, during the fiscal year ended March 31, 2001, operating income and income before income taxes each decreased by 16.7 billion yen and net income decreased by 13.3 billion yen, and during the fiscal year ended March 31, 2000, operating income and income before income taxes each decreased by 4.2 billion yen, and net income decreased by 3.3 billion yen (refer to Note 4 of Notes to Consolidated Financial Statements).

ii) In June 2000, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants ("AcSEC") issued Statement of Position ("SOP") 00-2, "Accounting by Producers or Distributors of Films." SOP 00-2 is effective for fiscal years starting on or after December 16, 2000 with early application encouraged. Sony adopted SOP 00-2 effective as of April 1, 2000 (refer to Note 2 of Notes to Consolidated Financial Statements). As a result, Sony's operating income, income before income taxes, and net income for the fiscal year ended March 31, 2001 each decreased by 28.5 billion yen. Additionally, Sony's net income for the fiscal year ended March 31, 2001 decreased by 101.7 billion yen, reflecting a one-time non-cash after-tax cumulative effect adjustment in the income statement directly above the caption of "net income" for a change in accounting principle.

iii) In December 1999, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." Sony adopted SAB No. 101 in the fiscal year ended March 31, 2001, effective as of April 1, 2000 (refer to Note 2 of Notes to Consolidated Financial Statements). The impact on consolidated results for this change in accounting principle was not material. However, a one-time non-cash after-tax 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.

iv) Effective from the fiscal year ended March 31, 2001, gain or loss on sale and disposal, net and loss from impairment of long-lived assets, which were previously recorded in other income and expenses, are now recorded in selling, general and administrative expenses. The presentation for previous fiscal years has been restated to conform to the presentation for the fiscal year ended March 31, 2001. In addition to the above restatements, certain amounts in the consolidated balance sheets, consolidated statements of income, and consolidated statements of cash flows in previous fiscal years have been reclassified to conform to the presentation for the fiscal year ended March 31, 2001.

RESULTS OF OPERATIONS

(The fiscal year ended March 31, 2001 compared with the fiscal year ended March 31, 2000)

Impact of Foreign Exchange Fluctuations and Basic Countermeasures

During the fiscal year ended March 31, 2001, the average value of the yen was 109.6 yen against the U.S. dollar, and 98.9 yen against the euro, which was 0.9% higher against the U.S. dollar and 15.1% higher against the euro, respectively, compared with the level of the previous year. Operating results on a local currency basis described in "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 year to monthly local currency-denominated sales, cost of sales, and selling, general and administrative expenses for the fiscal year ended March 31, 2001, assuming the value of the yen had remained the same. Regarding the U.S. based Music and Pictures businesses, results of worldwide subsidiaries (in the case of Music, excluding those of Japan) are consolidated on a U.S. dollar basis and then translated into yen. Therefore, regarding such businesses, discussion of operating results on a local currency basis is on a U.S. dollar basis. Local currency basis results are not reflected in Sony's financial statements and are not measures conforming with Generally Accepted Accounting Principles in the U.S. ("U.S. GAAP"). Also, Sony does not believe that these measures are a substitute for U.S. GAAP measures. However, Sony believes that local currency basis results provide additional useful information to investors regarding operating performance.

Particularly in the Electronics and Game businesses, which are subject to foreign currency fluctuations, Sony employs foreign exchange forward contracts and foreign currency option contracts to hedge the foreign currency risks associated with receivables from consolidated companies that arise from its export and import transactions of materials, parts, and products. Furthermore, particularly in the Electronics business, to minimize the adverse effects of foreign exchange fluctuations on its financial results and to reduce inventory and costs, Sony seeks, when appropriate, to localize material and parts procurement, design, and manufacturing operations outside Japan.

Operating Performance

For the fiscal year ended March 31, 2001, worldwide economic conditions were generally favorable during the first half of the year in such major regions as Japan, the U.S., Europe, Asia excluding Japan ("Asia"), and Latin America, reflecting continued strong economic growth in the U.S. and Europe. However in the second half of the year, an economic slowdown was clearly seen in the U.S., where there was a rapid deceleration in the growth of personal consumption. Corresponding to this negative trend in the U.S., economies of such regions as Asia and Europe as well as Japan also showed signs of slowing down toward the end of the year. In Japan, full-scale economic recovery was not achieved partly due to continuing concerns regarding the quality of credit portfolios in the banking sector. Under such market conditions and reflecting the impact of the translation of financial results into yen, the currency in which the financial statements are prepared, Sony's sales for the fiscal year ended March 31, 2001 increased 9.4% and operating income increased 1.0% compared with the previous year. The favorable results for sales and operating income were primarily due to strong results in the Electronics business despite the negative impact of the yen's strength against the U.S. dollar and particularly the euro. The sales increase was due to higher sales in all business segments except for the Music business. The slight increase in operating income was due to significant profit increase in the Electronics business offset by losses in the Game and Other businesses and lower profits in the Music, Pictures, and Insurance businesses.

On a local currency basis (In connection with all references herein to results of operations expressed on a local currency basis, please refer to "Impact of Foreign Exchange Fluctuations and Basic Countermeasures."), Sony's sales for the fiscal year ended March 31, 2001 increased approximately 12% and operating income increased approximately 48% compared with the previous year.

Sales

Sales for the fiscal year ended March 31, 2001 increased by 628.2 billion yen, or 9.4%, to 7,314.8 billion yen compared with the previous year, for the reasons discussed above.

Cost of Sales and Selling, General and Administrative Expenses (Excluding the Insurance Business)

Cost of sales for the fiscal year ended March 31, 2001 increased by 451.6 billion yen, or 9.8%, to 5,046.7 billion yen compared with the previous year and increased from 72.9% to 73.3% as a percentage of sales. The increase in cost of sales was primarily due to increases in manufacturing-related expenses, such as raw materials and depreciation, and research and development expenses. This increase in cost of sales was partially offset by the yen's strength against the U.S. dollar and particularly the euro. In addition, in the Pictures business, due to Sony's adoption in April 2000 of the new film accounting standard (refer to Note 2 of Notes to Consolidated Financial Statements), certain exploitation costs such as advertising expenses and marketing costs are now recorded as incurred in selling, general, and administrative expenses for the current fiscal year, rather than deferred as film inventory and amortized in cost of sales as in previous fiscal years. Research and development expenses for the fiscal year ended March 31, 2001 increased by 22.2 billion yen, or 5.6%, to 416.7 billion yen compared with the previous year, primarily in the Electronics business. However, the ratio of research and development expenses to sales decreased from 6.3% to 6.0%.

Selling, general and administrative expenses for the fiscal year ended March 31, 2001 increased by 125.0 billion yen, or 8.3%, to 1,634.0 billion yen compared with the previous year. Despite this increase, the ratio of selling, general and administrative expenses to sales decreased from 23.9% to 23.7%. The increase in expenses was primarily due to the effects of the aforementioned new film accounting standard, an increase in amortization expenses for intangible assets and goodwill resulting from the acquisition transactions of three listed subsidiaries (refer to Note 4 of Notes to Consolidated Financial Statements), and an increase in royalty expenses. However, the increase in selling, general, and administrative expenses was partially offset by the yen's strength against the U.S. dollar and particularly the euro and the approximately 5.6 billion yen reversal of stock-price linked incentive compensation, reflecting the decrease in Sony Corporation's stock price during the year. In comparison, the previous year included an approximately 19.2 billion yen charge related to incentive compensation. In addition, gains or losses on the sale and disposal, net and losses from impairment of long-lived assets, which were previously recorded in other income and expenses, are now recorded in selling, general and administrative expenses (refer to Note 2 of Notes to Consolidated Financial Statements). Losses on the sale and disposal, net and losses from impairment of long-lived assets increased by 6.9 billion yen, or 39.5%, to 24.3 billion yen compared with the previous year. During the year, losses on the sale and disposal of long-lived assets were recorded primarily in the Electronics business, in which Sony actively proceeded with new equipment purchases and realignment of manufacturing facilities.

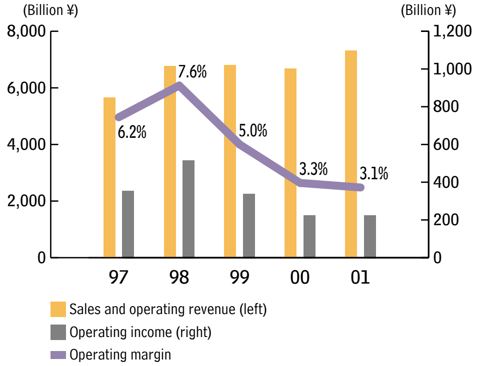
Operating Income

As a result of the factors discussed above, operating income for the fiscal year ended March 31, 2001 increased by 2.1 billion yen, or 1.0%, to 225.3 billion yen compared with the previous year. However, the operating margin decreased from 3.3% to 3.1%.

Operating Performance by Business Segment

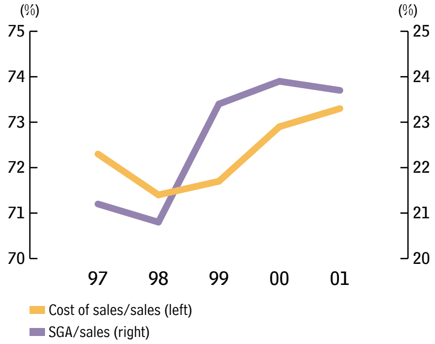
The following discussion is based on segment information. Sales and operating revenue in each business segment include intersegment transactions. In the Electronics business, sales and operating revenue by product category represent sales to customers, which do not include intersegment transactions (refer to Note 23 of Notes to Consolidated Financial Statements).

Sales and operating revenue and operating income



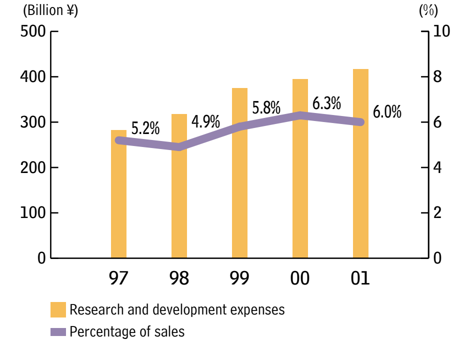
* Year ended March 31

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



* Year ended March 31
* Excluding the Insurance business

Research and development expenses and such expenses as percentage of sales



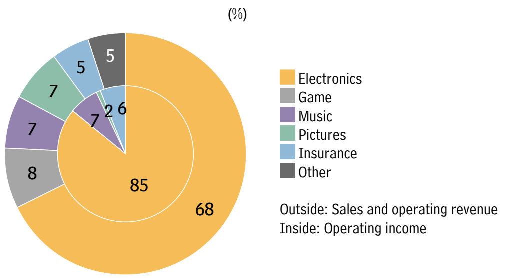
* Year ended March 31
* Excluding the Insurance business

Business segment information

Year ended March 31

	Yen in billions 2000	2001	Percent change	Percent change on a local currency basis
SALES AND OPERATING REVENUE:				
Electronics	¥4,719.6	**¥5,523.9**	+17.0%	+21%
Game	654.7	**660.9**	+0.9	+2
Music	706.9	**612.1**	−13.4	−14
Pictures	494.7	**555.2**	+12.2	+12
Insurance	380.3	**426.9**	+12.3	—
Other	361.5	**405.1**	+12.1	—
Elimination	(631.1)	**(869.4)**	—	—
Consolidated	¥6,686.7	**¥7,314.8**	+9.4%	+12%
OPERATING INCOME (LOSS):				
Electronics	¥ 101.4	**¥ 248.7**	+145.2%	+249%
Game	76.9	**(51.1)**	—	—
Music	28.3	**20.5**	−27.5	−38
Pictures	35.9	**4.3**	−88.0	−93
Insurance	20.9	**17.9**	−14.2	—
Other	(9.9)	**(11.3)**	—	—
Elimination and unallocated corporate expenses	(30.3)	**(3.6)**	—	—
Consolidated	¥ 223.2	**¥ 225.3**	+1.0%	+48%

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

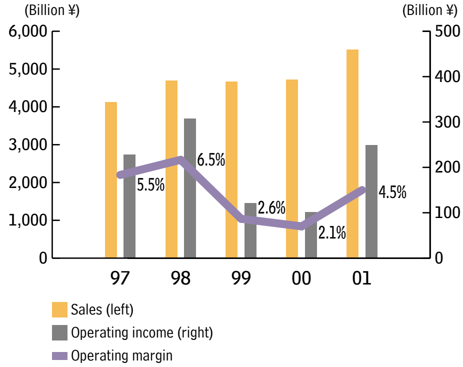


* Year ended March 31, 2001
* Including intersegment transactions
* Operating income charts are calculated as if operating losses in the Game and the Other segments were 0.

ELECTRONICS

Sales for the fiscal year ended March 31, 2001 increased by 804.3 billion yen, or 17.0%, to 5,523.9 billion yen compared with the previous year. Operating income increased by 147.3 billion yen, or 145.2%, to 248.7 billion yen and the operating margin increased from 2.1% to 4.5%. The significant improvement in results was due to sales increases in many product categories especially in digital equipment and electronic devices, although the results were offset in part by the negative impact of the yen's strength against the U.S. dollar and particularly the euro. Regarding sales by area, sales increased significantly in Japan, the U.S., Asia, and Latin America, while sales increased only slightly in Europe, where the significant strength of the yen against the euro negatively impacted sales. In Japan, demand remained strong as in the previous year, especially in information and communication areas. In the U.S., demand increased significantly for most digital products, particularly in the first half of the year. In Asia, demand increased for electronic devices such as semiconductors. In Latin America, sales were positively impacted by the strong U.S. economy as well as increased local demand. Operating income increased significantly due to improvement in profit performance reflecting the aforementioned higher sales. However, operating income was negatively impacted in part by the yen's strength against the U.S dollar and particularly the euro. In addition, operating losses were recorded in the fourth quarter. The operating losses were primarily due to Sony's reductions in manufacturing output and higher advertising expenses. Sony increased these expenses as part of an effort to promote sales in response to inventory increases and slowing sales growth in the U.S. particularly from December 2000 to the end of the year. Furthermore, regarding Aiwa Co., Ltd., an approximately 51% owned consolidated subsidiary of Sony Corporation, operating losses increased significantly and negatively affected the results in the Electronics business during the year.

Sales and operating income in the Electronics business



* Year ended March 31

Performance by product category

"Audio" sales decreased by 10.9 billion yen, or 1.2%, to 924.0 billion yen. The decrease was primarily due to lower sales of radio-cassette recorders, which were negatively impacted by lower demand in most areas, other than Latin America, as well as lower prices. Regarding home-use audio, although demand increased especially in Europe and Latin America, the increase in overall sales was limited primarily due to lower sales in Europe, when translated into the yen, reflecting the significant strength of the yen against the euro. Regarding headphone stereos, overall sales increased slightly, primarily because demand for the CD/MD format increased, although demand for the compact cassette format decreased especially in the U.S. and Europe. Also, overall sales of car audio slightly increased primarily due to higher demand for the CD/MD format particularly in the U.S.

"Video" sales increased by 121.1 billion yen, or 12.4%, to 1,097.8 billion yen. The increase was primarily due to higher sales of digital still cameras, home-use video cameras, and DVD-Video players, although sales of home-use video decks decreased. Regarding digital still cameras, sales increased due to higher demand primarily in Japan, the U.S., and Europe, reflecting improvement in picture quality and further penetration of

PCs. Regarding home-use video cameras, overall sales increased due to higher demand for digital format primarily in the U.S., Europe, and Asia, although sales in Europe decreased due to the significant strength of the yen against the euro. Regarding DVD-Video players, sales increased due to higher demand especially in the U.S. and Europe, reflecting increased availability of content. On the other hand, overall sales of home-use video decks decreased primarily due to lower demand in Japan as well as lower prices, despite an increase in demand in the U.S.

"Televisions" sales increased by 90.8 billion yen, or 12.7%, to 805.0 billion yen. The increase was primarily due to higher sales of televisions (including large-screen projection televisions) and projectors. Regarding televisions, sales increased due to higher demand for large-screen televisions that incorporate flat surface CRTs and projection televisions, especially in the U.S. and Latin America, although sales decreased in Europe reflecting the significant strength of the yen against the euro. In addition, regarding projectors, sales increased due to higher demand in Europe and Asia.

"Information and communications" sales increased by 279.9 billion yen, or 26.6%, to 1,332.6 billion yen. The increase was primarily due to higher sales of PCs, mobile phones, CD-R/RW drives, and Memory Stick. Overall sales of PCs increased significantly due to higher demand for notebook PCs in Japan, the U.S., and Europe, and also for desktop PCs in Japan and the U.S., reflecting aggressive introductions of high value-added new models. Regarding mobile phones, sales increased significantly due to higher demand in Japan and Europe, reflecting aggressive introductions of new models. Sales of mobile phones in the U.S. had been discontinued in the previous year. For CD-R/RW drives, sales increased primarily in Asia, reflecting sales to PC vendors, due to higher demand, which reflected lower prices of the recording media for this format. Regarding Memory Stick, sales increased primarily due to Sony's aggressive introduction, aimed at further penetration, of such format and also due to increases in the number of products which support such format. In April 2001, Sony's cumulative production of Memory Stick reached 10 million units.

"Electronic components and other" sales increased by 121.8 billion yen, or 17.0%, to 839.2 billion yen. The increase was primarily due to significant sales increases of electronic devices, including system LSIs, CCDs, LCDs, memory chips, and optical pickups, reflecting higher demand for most electronics products such as digital AV and PC-related equipment.

Cost of sales in the Electronics business increased primarily in manufacturing-related expenses such as raw materials, reflecting increases in manufacturing output from higher demand, and in research and development expenses. Selling, general and administrative expenses increased primarily in advertising expenses, reflecting Sony's efforts to expand sales further, especially in the second half of the year, and royalty expenses relating to information- and communications-related technologies. On the other hand, the increases in cost of sales as well as selling, general and administrative expenses were partially offset by the yen's strength against the U.S. dollar and particularly the euro. However, the ratio of cost of sales to sales and the ratio of selling, general, and administrative expenses to sales decreased, due to the aforementioned significant sales increase. Regarding profit performance by product category, operating income for the year was primarily derived from home-use video cameras, digital still cameras, semiconductors, and televisions. On the other hand, losses were recorded in such categories as HiFD drives (a high-capacity floppy disk-based data recording system), which incurred expenses relating to termination of the development, manufacture, and sale of such product during the year; and the WLL (wireless local loop access system) service business, which incurred expenses relating to investment for wireless communication infrastructure. Compared with the previous year, profit of semiconductors increased significantly and that of such categories as televisions and PCs also increased. Regarding mobile phones, results were negatively impacted by research and development expenses relating to next-generation telecommunication technologies and the significant strength of the yen against the euro. However, operating loss decreased significantly. Large expenses were recorded in the previous year, primarily due to the discontinuation of the mobile phone business in North America, and sales of mobile phones newly introduced in Japan were favorable during the year under review compared with the previous year.

During the year, regarding the geographical breakdown of Sony's total production amount (excluding Aiwa, which represented less than 10% of sales in Sony's Electronics business) and the final destination of such production, more than half of total production was in Japan, where production of digital AV products, information and communication products, and electronic devices increased significantly, and slightly more than 50% of such production was destined for other regions. Asia accounted for approximately a quarter of total production, slightly less than 70% of which was destined for other regions. The Americas and Europe together accounted for the remaining quarter of total production, most of which was destined for use in the respective area of production. Regarding realignment of manufacturing facilities in the Electronics business, during the year, Sony consolidated in Japan a subsidiary where batteries were manufactured with a subsidiary where electronic devices were manufactured. Sony sold to Solectron Corporation a subsidiary in Japan where car AV products were manufactured and a subsidiary in Taiwan where audio equipment was manufactured. Sony closed a subsidiary in Taiwan where video products were manufactured. As a result, the number of manufacturing facilities at March 31, 2001 was 60, compared with 64 at March 31, 2000.

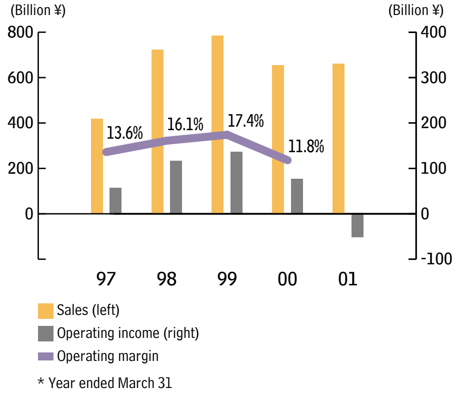
Results in the Electronics business were negatively impacted by the yen's strength against the U.S. dollar and particularly the euro. On a local currency basis, sales for the fiscal year ended March 31, 2001 increased approximately 21% and operating income increased approximately 249% compared with the previous year. This was due to improved profitability primarily from significant sales increases in digital products and electronic devices, along with improved efficiencies of manufacturing facilities. Regarding sales by area on a local currency basis, in Japan, sales of PCs, mobile phones, semiconductors, digital still cameras, and broadcast- and professional-use equipment increased, while sales of home-use video decks and most categories of audio equipment decreased. In the U.S., sales of PCs, televisions, home-use video cameras, digital still cameras, DVD-Video players, and semiconductors increased, although sales of broadcast- and professional-use equipment and home telephones decreased. In Europe, sales of PCs, home-use video cameras, digital still cameras, mobile phones, computer displays, DVD-Video players, home-use audio, televisions, and semiconductors increased, while sales of home-use video decks and radio cassette recorders decreased. In Other areas, sales of CD-R/RW drives, semiconductors, and optical pickups increased in Asia, and sales of televisions and home-use audio increased in South America.

GAME

Sales for the fiscal year ended March 31, 2001 increased by 6.2 billion yen, or 0.9%, to 660.9 billion yen compared with the previous year. Regarding profit performance, compared with an operating profit of 76.9 billion yen recorded in the previous year, an operating loss of 51.1 billion yen was recorded.

Regarding sales by area, in Japan, despite a decrease in software sales, overall sales in Japan were almost flat due to higher sales of hardware, reflecting the introductions of PlayStation 2 in March 2000 and PS one in July 2000. In the U.S., overall sales increased due to higher sales of hardware,

Sales and operating income in the Game business



reflecting the introductions of PS one in September 2000 and PlayStation 2 in October 2000 although software sales decreased. The strength of the yen against the U.S. dollar had a negative effect on sales. In Europe, although hardware sales increased reflecting the introduction of PS one in September 2000 and PlayStation 2 in November 2000, overall sales decreased in Europe due to lower sales of software. The significant strength of the yen against the euro had a significant negative effect on sales. In addition, in the U.S. and Europe, due to shortages in production shipments and supplies of PlayStation and PS one hardware in certain periods during the year, sales of such hardware decreased in the corresponding periods, and software sales in those areas were negatively affected.

Total worldwide production shipments of PlayStation and PS one hardware for the fiscal year ended March 31, 2001 were 9.31 million units for the year compared with 18.50 million units for the previous year, resulting in cumulative production shipments of 82.23 million units as of March 31, 2001. Worldwide production shipments of PlayStation 2 hardware were 9.20 million units for the year compared with 1.41 million units for the previous year, resulting in cumulative production shipments of 10.61 million units as of March 31, 2001. Worldwide production shipments of PlayStation software (including that from both Sony and third parties under Sony licenses) were 135 million units for the year compared with 200 million units for the previous year, resulting in cumulative production shipments of 765 million units as of March 31, 2001. In addition, worldwide production shipments of PlayStation 2 software (including that from both Sony and third parties under Sony licenses) were 35.4 million units for the year compared with 2.9 million units for the previous year, resulting in cumulative production shipments of 38.3 million units as of March 31, 2001.

Operating losses were recorded during the year principally due to the aforementioned software sales decrease and start-up expenses for the PlayStation 2 format. Cost of sales in the Game business increased principally due to manufacturing-related expenses for PlayStation 2 hardware, including raw materials and depreciation, which are attributable to capital expenditures from previous years. Selling, general, and administrative expenses also increased principally due to amortization of intangible assets and goodwill resulting from the acquisition transactions of three listed subsidiaries (refer to Note 4 of Notes to Consolidated Financial Statements). As a result, the ratio of cost of sales and the ratio of selling, general, and administrative expenses to sales rose.

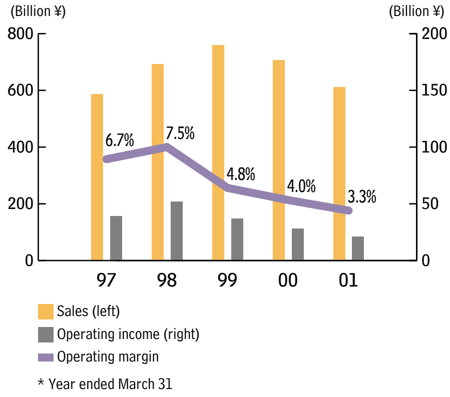
Sales in the Game business were negatively impacted by the yen's strength against the U.S. dollar and particularly the euro. On a local currency basis, sales for the fiscal year ended March 31, 2001 increased approximately 2% and an operating loss was recorded compared with an operating profit in the previous year.

MUSIC

Sales for the fiscal year ended March 31, 2001 decreased by 94.8 billion yen, or 13.4%, to 612.1 billion yen compared with the previous year. Operating income decreased by 7.8 billion yen, or 27.5%, to 20.5 billion yen and the operating margin decreased from 4.0% to 3.3%.

Regarding the results of Sony Music Entertainment Inc. ("SMEI"), the U.S. based operation, sales and operating income decreased. The lower sales were primarily due to soft market conditions in a number of international territories, the delayed timing of certain new releases, and the strengthening of the U.S. dollar against foreign currencies, despite the strong sales of several albums. Regarding profit performance, the decrease in profit was primarily due to

Sales and operating income in the Music business



the aforementioned factors which resulted in lower sales, as well as increased spending associated with various digital media development and investing activities and expenses associated with the discontinuation and closure in March 2001 of a U.S. manufacturing facility where cassette music software was previously manufactured. Despite the lower sales, the ratio of selling, general, and administrative expenses to sales during the year was almost flat compared with the previous year due to the benefit of global cost reduction initiatives. During the year, SMEI reduced its worldwide work force by 10%.

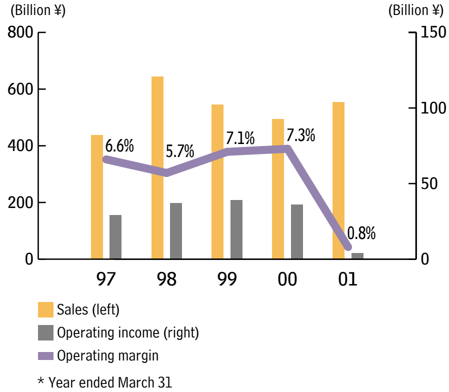
Regarding the results of the Music business in Japan, comprised of Sony Music Entertainment (Japan) Inc. ("SMEJ") and its subsidiaries, overall sales decreased primarily due to lower sales of SMEJ reflecting the delay of releases from certain artists and due to discontinuation of a business to sell CD-ROM software at an SMEJ subsidiary. Despite the decrease in sales, operating income increased by pursuing efficiencies in such areas as advertising expenses at SMEJ.

Regarding results in the Music business on a local currency basis, sales for the fiscal year ended March 31, 2001 decreased approximately 14% and operating income decreased approximately 38% compared with the previous year.

PICTURES

Sales for the fiscal year ended March 31, 2001 increased by 60.5 billion yen, or 12.2%, to 555.2 billion yen compared with the previous year. Operating income decreased by 31.6 billion yen, or 88.0%, to 4.3 billion yen and the operating margin decreased from 7.3% to 0.8%, primarily due to the adoption of the new film accounting standard (refer to Note 2 of Notes to Consolidated Financial Statements). The results in the Pictures business consist of the results of Sony Pictures Entertainment ("SPE"), a U.S. based operation.

Sales and operating income in the Pictures business



The sales increase was primarily due to higher box office revenues from successful current year motion picture releases as well as the growth of DVD software sales in the home entertainment business. However, the sales increase was partly offset by fewer network television series episodes and lower television syndication sales. Regarding profit performance, despite the contribution from higher sales of DVD software, operating income significantly decreased primarily due to the 28.5 billion yen negative impact from the adoption of the new film accounting standard (refer to Note 2 of Notes to Consolidated Financial Statements), lower television syndication sales, and expenses associated with the start-up of online businesses and other strategic investments in the areas of new digital entertainment initiatives.

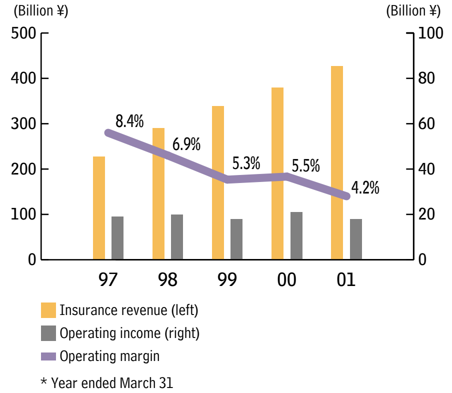
Regarding results in the Pictures business on a local currency basis, sales for the fiscal year ended March 31, 2001 increased approximately 12% and operating income decreased approximately 93% compared with the previous year.

INSURANCE

Insurance revenue for the fiscal year ended March 31, 2001 increased by 46.6 billion yen, or 12.3%, to 426.9 billion yen compared with the previous year. Operating income decreased by 3.0 billion yen, or 14.2%, to 17.9 billion yen and the operating margin decreased from 5.5% to 4.2%.

Regarding the results of Sony Life Insurance Co., Ltd., revenue increased and profit decreased compared with the previous year. The revenue increase was due to a net increase in life insurance-in-force from individual life insurance products such as term-life and medical expense coverage. However, reflecting the weak Japanese stock market conditions during the year, the revenue increase was partially offset by revaluation losses from investments under separate account for variable life insurance and variable annuity products. Regarding profit performance, operating profit decreased primarily because reserves for the Life Insurance Policyholders Protection Corporation of Japan were recorded, and because the amount accrued to policy reserves increased, reflecting a reduction in interest rates related to the valuation of such reserves for newly acquired policies during the year. As the profit performance from investments under the aforementioned separate account is solely for the account of policyholders while it impacts revenues, it does not affect the profit performance of Sony.

Insurance revenue and operating income in the Insurance business



Regarding the results of the non-life insurance business conducted by Sony Assurance Inc., although sales increased due to a net increase in non-life insurance-in-force from automobile insurance, losses continued to be recorded since expenses, including advertising expenses and payments for insurance benefits, were higher than revenue.

Condensed insurance business financial statements

The Insurance business is included on a consolidated basis in Sony's consolidated financial statements. The following schedule shows unaudited condensed financial statements for the Insurance business and for all other businesses excluding Insurance business as well as condensed consolidated financial statements. While these presentations are not required under U.S. GAAP used in Sony's consolidated financial statements, because the Insurance business is different in nature from Sony's other businesses such as Electronics, Game, Music, and Pictures businesses, Sony believes that these types of comparative presentations help the understanding and analysis of Sony's consolidated financial statements. Transactions between the Insurance business and all other businesses excluding Insurance business are eliminated in the consolidated figures shown below.

Policy reserves, included in future insurance policy benefits and other in the following condensed balance sheets, are recorded under U.S. GAAP. As for the statutory books of account, Sony Life Insurance Co., Ltd. has consistently satisfied a sufficient level of policy reserves as authorized by the Financial Services Agency in Japan (the "FSA"), and in March 2001, aiming to further strengthen its financial condition, Sony Life Insurance Co., Ltd. increased its capital through a 50.0 billion yen capital injection from Sony Corporation and achieved a more conservative level of policy reserves as recommended by the FSA.

Condensed balance sheets (unaudited)
March 31

Yen in millions	Insurance business 2000	Insurance business 2001	All other businesses excluding Insurance business 2000	All other businesses excluding Insurance business 2001	Consolidated 2000	Consolidated 2001
ASSETS						
Cash and cash equivalents	¥ 216,680	**¥ 271,858**	¥ 409,384	**¥ 335,387**	¥ 626,064	**¥ 607,245**
Marketable securities	87,539	**77,905**	19,960	**12,189**	107,499	**90,094**
Other current assets	14,646	**22,157**	2,275,360	**2,759,909**	2,288,453	**2,780,135**
Investments and advances	810,963	**1,094,097**	264,631	**294,891**	1,075,594	**1,388,988**
Investments in Insurance business, at cost	—	**—**	64,822	**124,822**	—	**—**
Deferred insurance acquisition costs	239,981	**270,022**	—	**—**	239,981	**270,022**
Other long-lived assets	13,908	**13,255**	2,457,718	**2,680,391**	2,469,606	**2,691,482**
	¥1,383,717	**¥1,749,294**	¥5,491,875	**¥6,207,589**	¥6,807,197	**¥7,827,966**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Future insurance policy benefits and other	¥1,124,873	**¥1,366,013**	—	**—**	¥1,124,873	**¥1,366,013**
Other liabilities and minority interest in consolidated subsidiaries	98,356	**143,304**	¥3,403,968	**¥4,006,348**	3,499,418	**4,146,500**
Liabilities and minority interest in consolidated subsidiaries	1,223,229	**1,509,317**	3,403,968	**4,006,348**	4,624,291	**5,512,513**
Stockholders' equity	160,488	**239,977**	2,087,907	**2,201,241**	2,182,906	**2,315,453**
	¥1,383,717	**¥1,749,294**	¥5,491,875	**¥6,207,589**	¥6,807,197	**¥7,827,966**

Condensed statements of income (unaudited)
Year ended March 31

Yen in millions	Insurance business 2000	Insurance business 2001	All other businesses excluding Insurance business 2000	All other businesses excluding Insurance business 2001	Consolidated 2000	Consolidated 2001
Insurance revenue	¥ 380,319	**¥ 426,917**	—	**—**	¥ 380,317	**¥ 426,913**
Net sales and operating revenue	—	**—**	¥6,308,381	**¥6,890,346**	6,306,344	**6,887,911**
	380,319	**426,917**	6,308,381	**6,890,346**	6,686,661	**7,314,824**
Insurance expenses and operating expenses	359,464	**409,025**	6,106,223	**6,683,076**	6,463,457	**7,089,478**
Operating income	20,855	**17,892**	202,158	**207,270**	223,204	**225,346**
Non-operating income (expenses), net	506	**(1,550)**	40,791	**42,256**	41,106	**40,522**
Income before income taxes	21,361	**16,342**	242,949	**249,526**	264,310	**265,868**
Income taxes and other	9,788	**8,405**	132,687	**136,236**	142,475	**144,641**
Cumulative effect of accounting changes	—	**—**	—	**104,473**	—	**104,473**
Net income	¥ 11,573	**¥ 7,937**	¥ 110,262	**¥ 8,817**	¥ 121,835	**¥ 16,754**

Condensed statements of cash flows (unaudited)
Year ended March 31

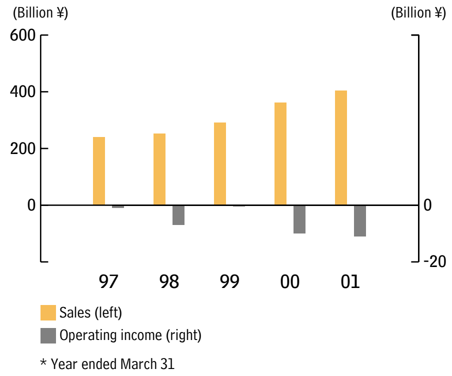
	Insurance business		All other businesses excluding Insurance business		Consolidated	
Yen in millions	2000	**2001**	2000	**2001**	2000	**2001**
Net cash provided by operating activities	¥ 202,860	**¥ 239,549**	¥ 376,603	**¥ 305,218**	¥ 579,463	**¥ 544,767**
Net cash used in investing activities	(107,892)	**(244,411)**	(351,041)	**(534,637)**	(449,893)	**(719,048)**
Net cash provided by (used in) financing activities	9,474	**60,037**	(68,509)	**134,405**	(68,075)	**134,442**
Effect of exchange rate changes on cash and cash equivalents	(1)	**3**	(27,640)	**21,017**	(27,641)	**21,020**
Net increase (decrease) in cash and cash equivalents	104,441	**55,178**	(70,587)	**(73,997)**	33,854	**(18,819)**
Cash and cash equivalents at beginning of year	112,239	**216,680**	479,971	**409,384**	592,210	**626,064**
Cash and cash equivalents at end of year	¥ 216,680	**¥ 271,858**	¥ 409,384	**¥ 335,387**	¥ 626,064	**¥ 607,245**

OTHER

During the fiscal year ended March 31, 2001, the Other business included Sony Finance International, Inc., a leasing and credit financing business subsidiary in Japan; Sony Trading International Corporation, a subsidiary focused on a parts trading services business within the Sony group; an advertising agency business in Japan; location-based entertainment businesses in Japan, the U.S., and Germany; and satellite distribution-related businesses engaged in programming and distribution in Japan.

Sales for the fiscal year ended March 31, 2001 increased by 43.6 billion yen, or 12.1%, to 405.1 billion yen, compared with the previous year. Approximately 70 percent of sales in the Other business reflected intersegment transactions during the year. Operating losses increased from 9.9 billion yen to 11.3 billion yen.

Sales and operating income in the Other business



During the year, sales increased primarily due to an increase in the sales of Sony Trading International Corporation, reflecting increases in product demand within the Electronics business. Regarding profit performance, losses were recorded primarily from location-based entertainment businesses in Japan, the U.S., and Germany and satellite distribution-related businesses in Japan. Regarding the location-based entertainment business, losses decreased in the U.S. as a result of the devaluation of assets for an entertainment facility recorded in the previous year, losses in Japan increased due to the devaluation of assets for an entertainment facility, and losses in Germany increased due to expenses relating to the shutdown of an entertainment facility.

Other Income and Expenses

In consolidated results for the fiscal year ended March 31, 2001, other income increased by 21.4 billion yen, or 14.6%, to 167.7 billion yen, while other expenses increased by 21.9 billion yen, or 20.9%, to 127.1 billion yen, compared with the previous year.

The increase in other income was primarily due to 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. Gain on sales of securities investments and other, net during the year was 41.7 billion yen. This gain resulted primarily from the sale to Liberty Digital of 50% of the equity of Game Show Network, a subsidiary that provides television programming services in the U.S exclusively dedicated to interactive game playing and pre-recorded game shows; the sale of a small portion of the equity of a subsidiary engaged in a television channel operation in India; and the sale of a subsidiary engaged in the in-flight entertainment business in the U.S. On the other hand, gain on sales of securities investments and other, net in the previous year was 28.1 billion yen, which included gains from the sales of certain investment securities. In addition, other income during the year under review included 18.0 billion yen of gains on issuance of stock by equity investees. These gains were primarily related to public offerings during the year 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 year under review included 11.1 billion yen of gains from the contribution of certain marketable investment securities held by Sony Corporation and its subsidiaries to employee retirement benefit trusts. Royalty income increased from 21.7 billion yen in the previous year to 29.3 billion yen, primarily due to increases in licensing revenues from optical disc and video signal compression technologies. Interest and dividends increased from 17.7 billion yen in the previous year to 18.5 billion yen, primarily due to increase in interest received at subsidiaries outside Japan. Other income was negatively impacted by a foreign exchange loss, net, that was recorded during the year, compared with a foreign exchange gain, net, recorded in the previous year.

To hedge risks from exchange rate fluctuations, Sony primarily employs foreign exchange forward contracts and foreign currency option contracts. During the year, 15.7 billion yen of foreign exchange loss, net was recorded. This loss was primarily due to foreign exchange losses realized in connection with foreign exchange forward contracts previously entered into to hedge the foreign currency risk associated with receivables from consolidated companies recorded in the second half of the year, as well as revaluation losses recorded in connection with foreign exchange forward contracts and foreign currency option contracts entered into to hedge the foreign currency risk associated with receivables from consolidated companies that are expected to be recorded in the fiscal year ending March 31, 2002. These losses reflected the sudden weakening of the yen's average rate against the euro and the U.S. dollar in the second half of the year. On the other hand, 27.5 billion yen of foreign exchange gain, net, was recorded in the previous year. This gain was primarily due to the foreign exchange gains realized in connection with foreign exchange forward contracts previously entered into to hedge the foreign currency risk associated with receivables from consolidated companies, as well as revaluation gains recorded in connection with foreign exchange forward contracts and foreign currency option contracts entered into to hedge the foreign currency risk associated with receivables from consolidated companies that were expected to be recorded in the fiscal year ending March 31, 2001. These gains reflected the strengthening of the yen in the previous year.

The increase in other expenses was primarily due to the aforementioned foreign exchange loss, net. Interest expense increased from 42.0 billion yen in the previous year to 43.0 billion yen, primarily due to an increase in the average outstanding balances of debt outside Japan in addition to the yen's appreciation. As a result, the balance of interest and dividends income, less interest expense, was almost flat at 24.5 billion yen of net interest expense, compared with the previous year.

Income before Income Taxes

Income before income taxes for the fiscal year ended March 31, 2001 increased by 1.6 billion yen, or 0.6%, to 265.9 billion yen compared with the previous year.

Income Taxes

Income taxes for the fiscal year ended March 31, 2001 increased by 20.9 billion yen, or 22.1%, to 115.5 billion yen, and the ratio of income taxes to income before income taxes (the effective tax rate) increased from 35.8% to 43.5%. This was primarily because a valuation allowance was established against deferred tax assets of Aiwa Co., Ltd. during the year, corresponding to an increase in its loss, while in the previous year, profit performance improved in certain U.S. subsidiaries that had operating loss carryforwards for tax purposes, which had the effect of lowering the effective tax rate.

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 Co., Ltd.

Results of Affiliated Companies Accounted for under the Equity Method

During the fiscal year ended March 31, 2001, equity affiliates included i) in the Electronics business - S.T. Liquid Crystal Display Corp. ("ST-LCD"), an LCD joint venture in Japan and Crosswave Communications Inc., a provider of high-capacity/high-speed network services in Japan, ii) in the Music business - The Columbia House Company ("CHC"), a direct marketer of music and videos, iii) in the Pictures business - Telemundo, a U.S. based Spanish language television network and station group and Loews Cineplex Entertainment Corporation ("Loews"), a theatrical exhibition company, and iv) in the Other business - a commercial- and other-use facility in Germany and a satellite broadcasting business in Japan.

During the year, equity in net losses of affiliated companies increased from 37.8 billion yen in the previous year to 44.5 billion yen. Equity in net losses of affiliated companies during the year was primarily due to losses at Loews and CHC. With respect to Loews, 25.0 billion yen of equity in net losses was recorded during the year, primarily due to continued losses as well as the impairment loss recorded against the entire carrying value of Sony's investment in Loews. In the previous year, 2.2 billion yen of equity in net losses was recorded for Loews. In February 2001, Loews filed petitions for corporate reorganization in the U.S. under Chapter 11 of the Federal Bankruptcy Code, and in Canada under the Companies-Creditors Arrangement Act, and signed a letter of intent with a group of investors regarding a proposed acquisition of Loews and a restructuring of its indebtedness. When the reorganization is completed, it is expected that Sony will no longer be a shareholder in Loews and Loews will be excluded from Sony's equity affiliates. In addition, in relation to CHC, 6.0 billion yen of equity in net losses was recorded during the year, primarily due to sluggish sales reflecting the maturity of the CD market, severe competition from other online retailers, and costs associated with various restructuring activities. In the previous year, 13.6 billion yen of equity in net losses was recorded for CHC, primarily due to the costs relating to shortened amortization periods and an impairment of advertising and member acquisition expenses. Given the challenging business environment, CHC has restructured its business by reducing costs while seeking to focus on growth areas such as DVD video and online sales. Also, with respect to Telemundo, a satellite broadcasting business in Japan, a commercial- and other-use facility in Germany, and ST-LCD, although equity in net losses were recorded during the year, the amount of losses decreased compared with the previous year.

Minority Interest in Income (Loss) of Consolidated Subsidiaries

In the fiscal year ended March 31, 2001, regarding minority interest in income (loss) of consolidated subsidiaries, which is excluded from income before income taxes, 15.3 billion yen of minority interest in loss of consolidated subsidiaries was recorded, which increased net income by the same amount. This was primarily due to minority shareholder's interest in the net losses of Aiwa Co., Ltd., an approximately 51% owned subsidiary of Sony Corporation. In the previous year, 10.0 billion yen of minority interest in income of consolidated subsidiaries was recorded, which decreased net income by the same amount. This was primarily due to minority shareholder's interest in the net income of SMEJ, for the period prior to the acquisition transactions of three listed subsidiaries (refer to Note 4 of Notes to Consolidated Financial Statements), which was due to the favorable results of Sony Computer Entertainment ("SCE"), which was at that time an approximately 50% owned subsidiary of SMEJ.

Income before Cumulative Effect of Accounting Changes

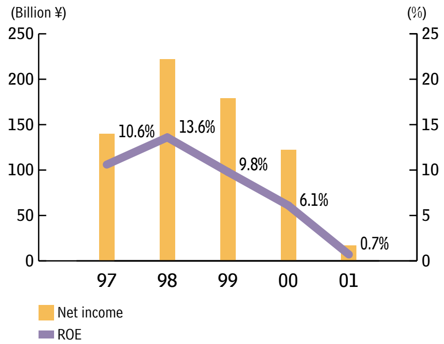
Income before cumulative effect of accounting changes for the fiscal year ended March 31, 2001 decreased by 0.6 billion yen, or 0.5%, to 121.2 billion yen compared with the previous year, due to the factors discussed above. As a percentage of sales, income before cumulative effect of accounting changes decreased from 1.8% to 1.7%.

Net Income

Net income for the fiscal year ended March 31, 2001 decreased by 105.1 billion yen, or 86.2%, to 16.8 billion yen compared with the previous year. As a percentage of sales, net income decreased from 1.8% to 0.2%, and the return on stockholders' equity (based on the average of such amounts at the end of each fiscal year and previous fiscal year) decreased from 6.1% to 0.7%. The decrease in net income was primarily due to the 104.5 billion yen one-time cumulative effect of accounting changes, relating to the adoption of the new film accounting standard (refer to Note 2 of Notes to Consolidated Financial Statements) and the accounting standard regarding revenue recognition (refer to Note 2 of Notes to Consolidated Financial Statements), as well as the increase in equity in net losses of affiliated companies, partially offset by the aforementioned positive impact from minority interest in income (loss) of consolidated subsidiaries.

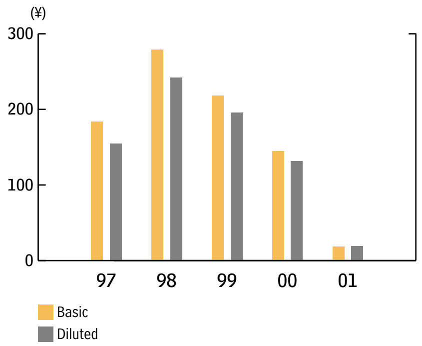
Basic net income per share was 18.3 yen compared with 144.6 yen in the previous year, and diluted net income per share was 19.3 yen compared with 131.7 yen in the previous year (refer to Note 2 of Notes to Consolidated Financial Statements).

Net income and ROE



* Year ended March 31

Net income per share



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

LIQUIDITY AND CAPITAL RESOURCES

Finance and Liquidity Management

Sony's financial policy is to assure adequate financing and liquidity for its operations and to maintain the strength of its balance sheet.

Regarding types and maturities of funding, it is a basic policy of Sony to utilize long-term debt financing and equity financing/equity-linked bond financing as needed, for long-term funding requirements such as for investments, and to utilize short-term debt financing for short-term funding requirements. Regarding long-term funding, in September 2000 Sony Corporation issued a total of 150.0 billion yen of notes aimed at financing capital expenditures for its manufacturing equipment for semiconductors, using a shelf registration statement for use in the Japanese market, with respect to 300 billion yen of notes, and in October 2000 also issued 12.0 billion yen of bonds with detachable warrants for the purpose of stock-price linked incentive compensation.

In order to meet funding requirements in each area, Sony maintains in Japan 300 billion yen of Japanese commercial paper ("CP") issuance capacity at Sony Corporation. Sony issued 50 billion yen of CP in June 2000 and redeemed in October 2000 to fund a temporary increase of working capital. Moreover, Sony maintains U.S. CP programs of 6 billion U.S. dollars at its finance subsidiary in the U.S., and also maintains U.S. CP programs of 1 billion U.S. dollars and Euro CP programs of 0.5 billion U.S. dollars at its finance subsidiary in the United Kingdom. During the fiscal year ended March 31, 2001, peak month-end outstanding balances were 156.6 billion yen at a finance subsidiary in the U.S. and 58.4 billion yen at a finance subsidiary in the United Kingdom. At March 31, 2001, the total outstanding balance of CP programs was 117.3 billion yen. In addition to the aforementioned CP programs, Sony maintains a 3 billion U.S. dollar medium term note ("MTN") program targeted for investors in the U.S. and a 2 billion U.S. dollar Euro MTN program at a finance subsidiary in the U.S., and also maintains 1 billion U.S. dollar and 0.5 billion U.S. dollar Euro MTN programs at finance subsidiaries in the United Kingdom and Netherlands, respectively. At March 31, 2001, the total outstanding balance of MTN programs was 79.3 billion yen.

Regarding the maintenance of liquidity, it is a basic policy of Sony that it will keep total liquid assets equal to at least 80% of the sum of the amount of the largest expected monthly gross sales and the amount of the largest expected monthly debt redemption during the fiscal year. Liquid assets consist of cash and cash equivalents, time deposits, and marketable securities. In addition to these, Sony also includes committed lines as liquid assets because funds are available from such lines during the period of the contracts. Sony has contracts for committed lines with banks in a total amount of approximately 430 billion yen at March 31, 2001. All of those contracts are short-term, expiring in less than one year. As a principal policy, Sony selects banks rated "C" or above in Moody's Bank Financial Strength ratings for its contracts for committed lines, and enters into contracts with banks rated "A" or "B" with respect to more than 70% of the total amount. The policy and figures in this paragraph exclude Sony Life Insurance Co., Ltd., Sony Assurance Inc., and Aiwa Co., Ltd., each of whose liquidity is managed separately from the remainder of Sony.

Sony is centralizing and pursuing global efficiency of its cash management. In Japan, the excess or shortage of cash of most of its subsidiaries is collectively invested or funded at Sony Corporation through intra-group deposits and loans. Sony has introduced a cash centralizing system in which all the funds collected by domestic subsidiaries are automatically centralized in Sony Corporation's master bank account through zero balance arrangements, and Sony Corporation arranges payments on behalf of domestic subsidiaries so that those subsidiaries do not have to hold cash. Also, since the fiscal year ended March 31, 2000, Sony has been managing its excess cash globally among finance subsidiaries in the U.S., the United Kingdom, Singapore, and Sony Corporation in order to improve the use of available cash balances and to reduce excess cash as well as debt. As of March 31, 2001, a total amount outstanding of approximately 83.0 billion yen was lent from cash-surplus subsidiaries in Asia to financial subsidiaries in other regions. In the fiscal year ended March 31, 2001, Sony established a subsidiary named Sony Global Treasury Services, plc. to integrate and rationalize the Sony group's treasury transactions and continue to improve efficiency of financing operations in the future.

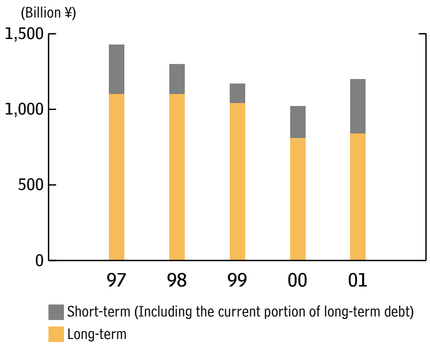
Sony's financial condition remains strong. Sony believes that it maintains sufficient liquidity through its cash and other liquid assets, and that in order to fund ongoing operating requirements and investments related to the expansion of existing businesses and the development of new projects, it is able to secure adequate resources through its access to financial and capital markets.

Assets, Liabilities and Stockholders' Equity

Total assets at March 31, 2001 increased by 1,020.8 billion yen, or 15.0%, to 7,828.0 billion yen compared with the previous fiscal year-end. (Total assets were affected by currency translation. It is estimated that total assets at March 31, 2001 would have increased by approximately 9% compared with the previous fiscal year-end if the value of the yen had remained the same at March 31, 2001 as at the previous fiscal year-end.) The increase was primarily attributable to increases in securities investments and other, inventories, and tangible fixed assets.

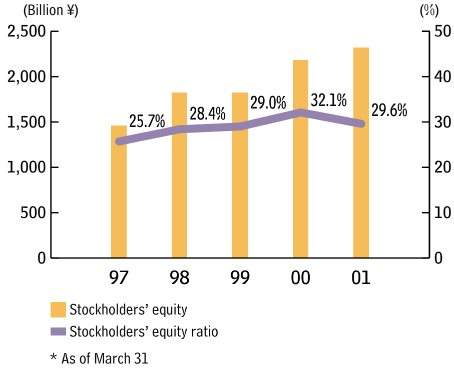
Current assets increased by 455.5 billion yen, or 15.1%, to 3,477.5 billion yen. This increase was primarily due to increases in notes and accounts receivable, trade and inventories. Among current assets, notes and accounts receivable, trade, less allowance for doubtful accounts and sales returns increased by 239.8 billion yen, or 22.7%, to 1,295.3 billion yen due to sales increases primarily in the Electronics and Game businesses. Inventories increased by 196.3 billion yen, or 26.3%, to 942.9 billion yen primarily at manufacturing facilities in Japan, reflecting increases in manufacturing output in the Electronics and Game businesses. In the Electronics

Interest-bearing liabilities

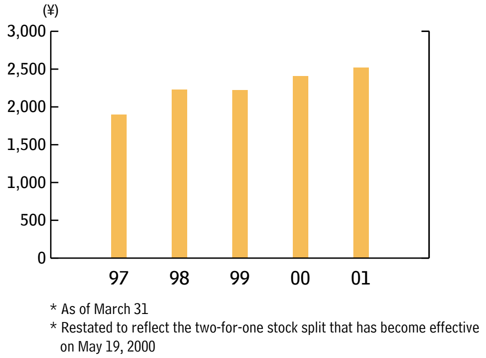


* As of March 31

Stockholders' equity and stockholders' equity ratio



Stockholders' equity per share



business, inventories increased by 103.4 billion yen, or 15.2%, to 782.0 billion yen. Regarding the trend of inventories in the Electronics business since March 31, 2000, those at December 31, 2000 had increased 225.1 billion yen, or 33.2%, to 903.7 billion yen, compared with those at March 31, 2000. This was primarily because Sony increased manufacturing output especially in the first half of the fiscal year, reflecting higher demand in product categories such as digital equipment and electronic devices, and this was followed by a slowdown in the rate of sales growth in the U.S. becoming clear from December 2000 to the end of the year. However, due to Sony's efforts to reduce inventories by reducing manufacturing output and further promoting sales during the fourth quarter, inventories at March 31, 2001 were reduced to the level of 782.0 billion yen, despite the yen's depreciation during the fourth quarter. In the Game business, inventories increased 80.7 billion yen, or 335.3%, to 104.7 billion yen primarily at manufacturing facilities in Japan, as Sony continued to increase manufacturing output for PlayStation 2 hardware. Due to the aforementioned inventory controls, implemented in response to rapid changes in demand trends, particularly in the Electronics business, 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 2.01 months, which was almost the same level as that in the previous year. Please note that inventories at previous fiscal years-end have been reclassified due to the adoption of the new film accounting standard (refer to Note 2 of Notes to Consolidated Financial Statements).

Investments and advances increased by 313.4 billion yen, or 29.1%, to 1,389.0 billion yen. The increase was due to the increases in securities investment and other, while investments and advances to affiliated companies decreased. The increase in securities investment and other was primarily due to higher investment assets in the Insurance business, reflecting net increases in life insurance-in-force. Also attributable was the fact that investment in other companies was larger than the sale of securities investments and subsidiaries. Investments and advances to affiliated companies decreased primarily due to the impairment write-off against the entire carrying value of Sony's investment in Loews.

Tangible fixed assets increased by 178.7 billion yen, or 14.2%, to 1,434.3 billion yen. The increase was primarily due to the fact that capital expenditures were higher than depreciation expenses and sales of tangible fixed assets during the year, primarily in the Electronics and Game businesses. Capital expenditures (additions to fixed assets) during the year increased 29.3 billion yen, or 6.7%, to 465.2 billion yen compared with the previous year. With respect to the capital expenditures by business segment (excluding unallocated amounts), such expenditures in the Electronics business increased by 60.6 billion yen, or 26.6%, to 287.9 billion yen, primarily due to higher expenditures for manufacturing equipment for semiconductors and new products; such expenditures in the Game business decreased by 10.8 billion yen, or 9.1%, to 108.2 billion yen, primarily due to lower expenditures for manufacturing equipment for semiconductors; such expenditures in the Music business increased by 13.1 billion yen, or 53.3%, to 37.8 billion yen, primarily due to higher expenditures for manufacturing equipment for DVD discs; such expenditures in the Pictures business decreased by 0.9 billion yen, or 7.8%, to 11.0 billion yen; such expenditures in the Insurance business decreased by 1.4 billion yen, or 46.8%, to 1.6 billion yen; and such expenditures in the Other business decreased by 30.7 billion yen, or 64.3%, to 17.1 billion yen.

Other assets increased by 114.6 billion yen, or 10.3%, to 1,229.6 billion yen. Among other assets, deferred insurance acquisition costs increased due to net increases in life insurance-in-force in the Insurance business.

Total current and long-term liabilities at March 31, 2001 increased by 903.8 billion yen, or 19.7%, to 5,493.5 billion yen compared with the previous fiscal year-end. (It is estimated that total liabilities at March 31, 2001 would have increased by approximately 15% compared with the previous fiscal year-end if the value of the yen had remained the same at March 31, 2001 as at the previous fiscal year-end.) The increase was primarily attributable to increases in future insurance policy benefits and other, short-term borrowings, notes and accounts payable, trade, and accounts payable, other and accrued expenses. Among current liabilities, short-term borrowings increased 129.1 billion yen, or 228.8%, to 185.5 billion yen. The increase was primarily due to issuances of commercial paper in the U.S., corresponding to funding requirements for working capital. Current portion of long-term debt increased 12.3 billion yen, or 7.8%, to 170.8 billion yen. The increase was due to reclassifications from long-term debt, net of redemption of MTNs and notes in the U.S. Notes and accounts payable, trade increased 114.0 billion yen, or 14.1%, to 925.0 billion yen. Accounts payable, other and accrued expenses increased 126.1 billion yen, or 18.5%, to 807.5 billion yen. The increases in notes and accounts payable, trade and accounts payable, other and accrued expenses were due to sales increases in the Electronics and Game businesses. Among long-term liabilities, future insurance policy benefits and other increased due to net increases in life insurance-in-force in the Insurance business. Accrued pension and severance costs increased 91.2 billion yen, or 70.4%, to 220.8 billion yen. The increase was primarily because an additional minimum pension liability was recorded, due to decreases in the current value for pension assets held by Sony Corporation reflecting sluggish stock market conditions in Japan during the year. Long-term debt increased 29.9 billion yen, or 3.7%, to 843.7 billion yen. The increase was despite the reclassification of some long-term debt to the current portion of long-term debt, and was due to the 150.0 billion yen of issuance of notes in Japan. As a result, the total of short-term borrowings, the current portion of long-term debt, and long-term debt increased by 171.3 billion yen, or 16.7%, to 1,200.1 billion yen.

Stockholders' equity at March 31, 2001 increased by 132.5 billion yen, or 6.1%, to 2,315.5 billion yen compared with the previous fiscal year-end. The increase was primarily because foreign currency translation adjustments decreased in amount as a reduction of stockholders' equity from 483.6 billion yen at the previous fiscal year-end to 323.3 billion yen, due to the yen's depreciation. The ratio of stockholders' equity to total assets decreased from 32.1% to 29.6%.

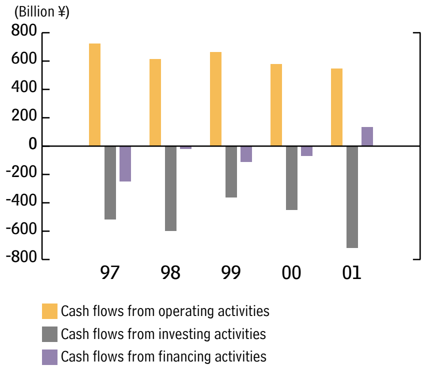
For reference, unaudited condensed balance sheets in the Insurance business are presented on page 67.

Cash Flows

(The fiscal year ended March 31, 2001 compared with the fiscal year ended March 31, 2000)

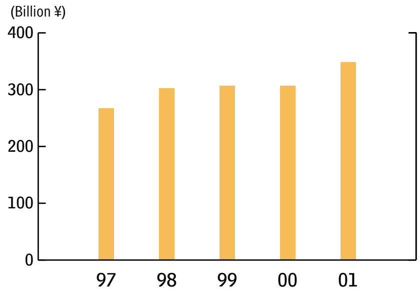
During the fiscal year ended March 31, 2001, Sony generated 544.8 billion yen (a decrease of 34.7 billion yen, or 6.0%, compared with the previous year) of net cash from operating activities. Sony used 719.0 billion yen (an increase of 269.2 billion yen, or 59.8%, compared with the previous year) of net cash in investing activities. Sony generated 134.4 billion yen of net cash in financing activities as opposed to using 68.1 billion yen in the previous year. As a result, during the fiscal year ended March 31, 2001, cash and cash equivalents at end of year decreased by 18.8 billion yen, or 3.0%, to 607.2 billion yen compared with the previous year, despite the positive effect of exchange rate changes on cash and cash equivalents of 21.0 billion yen. In the previous year, there was a negative impact of exchange rate changes on cash and cash equivalents of 27.6 billion yen.

Cash flows



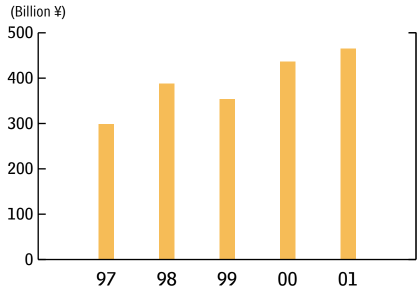
* Year ended March 31

Depreciation and amortization



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

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



* Year ended March 31

The decrease in net cash provided by operating activities compared with the previous year was primarily due to the increases in inventories as well as notes and accounts receivable, although accrued income and other taxes increased. Net income decreased significantly primarily due to a non-cash one-time after-tax charge of 104.5 billion yen for cumulative effect of accounting changes relating to the adoptions of the new film accounting standard (refer to Note 2 of Notes to Consolidated Financial Statements) and the accounting standard regarding revenue recognition (refer to Note 2 of Notes to Consolidated Financial Statements). In addition, amortization of film costs decreased while film costs (after adjusted cumulative effect of accounting changes) decreased. During the year, 16.8 billion yen of net income was recorded. Among adjustments to net income, depreciation and amortization, including amortization of deferred insurance acquisition costs was 348.3 billion yen, primarily in the Electronics and Game businesses. The breakdown of this amount was 270.3 billion yen of depreciation of fixed assets, 39.1 billion yen of amortization of intangible assets, and 38.9 billion yen of amortization of deferred insurance acquisition costs. Amortization of film costs was 244.6 billion yen. Equity in net losses of affiliated companies, net of dividends was 47.2 billion yen. Furthermore, the aforementioned cumulative effect of accounting changes was recorded. Regarding changes in assets and liabilities, film costs increased by 269.0 billion yen. Notes and accounts receivable increased by 177.5 billion yen, while notes and accounts payable increased by 95.2 billion yen. The increases in notes and accounts receivable and notes and accounts payable primarily reflected sales increases in the Electronics and Game businesses. Inventories increased by 103.1 billion yen primarily at manufacturing facilities in Japan, reflecting increases in manufacturing output in the Electronics and Game businesses. Furthermore, future insurance policy benefits and other increased by 241.1 billion yen, reflecting net increases in life insurance-in-force in the Insurance business.

The increase in net cash used in investing activities compared with the previous year was primarily due to increases in purchases of fixed assets as well as investments and advances. During the year, payments for purchases of fixed assets were 468.0 billion yen primarily in the Electronics, Game, and Other businesses. In the Insurance business, payments for investments and advances were 319.1 billion yen, while proceeds from sales of securities investments and other and collections of advances were 87.5 billion yen, primarily reflecting higher investment assets. Other than the Insurance business, payments for investments and advances were 122.6 billion yen, consisting of approximately 98.0 billion yen for investments and approximately 24.0 billion yen for advances. Payments for investments included investments in Japan in Tokyu Cable Television, bitwallet, Inc., which promotes an electronic money service, and Internet Initiative Japan Inc., which is an Internet service provider. Investments in the U.S. included those in Revolution Studios, which is a film production company, Telemundo, which is a Spanish language television network and station group, Transmeta Corporation, which is a chip manufacturer, and Candescent Technologies Inc., which has technologies for next-generation flat panel displays. Investments in Europe included that in Canal+ Technologies, which is a developer of digital and interactive television-related software solutions. Payments for advances included loans to CHC. On the other hand, proceeds from sales of securities investment and other and collections of advances (other than insurance business) were 65.1 billion yen. Such proceeds from sales of securities investment and other were approximately 48.0 billion yen, which included the sale of 50% of the equity of Game Show Network; the sale of a small portion of the equity of a subsidiary engaged in a television channel operation in India; and the sale of a subsidiary engaged in the in-flight entertainment business in the U.S.

In financing activities, the fact that net cash was generated during the year while net cash was used in the previous year, was primarily due to increases in proceeds from issuance of long-term debt and short-term borrowings. During the year, proceeds from issuance of long-term debt were 195.1 billion yen. This was primarily from the issuance of 150.0 billion yen of notes in Japan. On the other hand, payments of long-term debt were 143.3 billion yen. This was primarily from redemption of MTNs and notes in the U.S. Furthermore, the increases in short-term borrowings were 106.2 billion yen. This was primarily due to issuances of commercial paper in the U.S., corresponding to funding requirements for working capital. During the year, Sony Corporation paid cash dividends of 22.8 billion yen.

For reference, unaudited condensed statements of cash flows in the Insurance business are presented on page 68.

RESEARCH AND DEVELOPMENT

Sony believes research and development activities are vital to the growth of its business. Accordingly, Sony actively carries out research and development in various areas that are expected to become important in the future. Such areas include technologies that improve the utility and network connectivity of products, as well as those technologies that support service businesses carried out over broadband networks. At present, regarding Sony's research and development activities, areas that require rapid introduction to market are handled at each business unit, and lateral areas based on mid-to-long term strategies are handled at corporate laboratories directly supervised by Sony headquarters. Also, overseas laboratories in the U.S., Europe, and Asia, taking advantage of resources available in their respective areas, actively collaborate with business units and corporate laboratories. In April 2001, as part of the reorganization of the group structure, Sony reorganized the corporate laboratories, overseen directly by Sony headquarters, into the following seven units;

- Internet Laboratories (networking technology)
- Frontier Science Laboratories (material and device technology)
- A^3 Research Center (signal processing technology)
- Digital Creatures Laboratory (robotic technology)
- Wireless Telecommunication Laboratory (wireless telecommunication technology)
- Cyber Technology Laboratory (frameworks for data processing technology)
- Fusion Domain Laboratory (fusion of device and nanometer technologies)

Research and development expenses for the fiscal year ended March 31, 2001 increased by 22.2 billion yen, or 5.6%, to 416.7 billion yen compared with the previous year, primarily in the Electronics business. However, the ratio of research and development expenses to sales (excluding the Insurance business) decreased from 6.3% to 6.0%. With respect to the breakdown of major research and development expenses, such expenses in the Electronics business increased by 22.8 billion yen, or 6.4%, to 380.9 billion yen, and such expenses in the Game business decreased by 0.7 billion yen, or 1.9%, to 34.2 billion yen. Of such expenses in the Electronics business, slightly more than 70% was for development of prototypes of new products and the remainder, slightly less than 30%, was for the development of mid-to-long term new technologies in such areas as semiconductors, communications, and displays.

NUMBER OF EMPLOYEES

Sony's consolidated number of employees (including fixed-term employees) at the end of March 2001 was approximately 181,800, a decrease of approximately 7,900 from the end of March 2000. The decrease is attributable to a reduction of the number of employees, primarily in the Electronics and Music businesses.

STRATEGIC DEVELOPMENTS AND FORECAST

This section, including without limitation the Forecast of Consolidated Results, contains forward-looking statements about the possible future performance of Sony and should be read in light of the cautionary statement on that subject, which appears on the inside front cover page and applies to this entire document. A forecast of consolidated results is requested by the rules of the Tokyo Stock Exchange to which Sony is subject.

The following is a summary of certain recent strategic developments and Sony's forecast for its fiscal year ending March 31, 2002.

Management Policy

Sony's management is endeavoring to develop appropriate plans for its businesses in light of the current general economic and operating environment and available information.

Aiming to achieve its vision of Value Creation Management, during the fiscal year ended March 31, 2001, Sony reinforced its group headquarters, accelerated the development of network businesses, and sought to strengthen its core business. Sony aims to become a "knowledge-emergent enterprise in the broadband network era", which offers customers appealing and useful services through the cooperation of the five key business areas including electronics, game, entertainment (primarily consisting of the music and pictures businesses), Internet and communication services, and financial services. To achieve this goal, Sony intends to continue its management initiatives by using information technology and pursuing creativity. Moreover, through the use of EVA®*, a performance indicator which reflects the cost of capital, Sony intends to strive for strengthening its growth potential and mid- and long-term competitiveness and to increase corporate value.

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

Reorganization of the Group Headquarters and the Electronics Business

In April 2001, Sony divided its former headquarters organizations into three units; "the Global Hub", a new group headquarters which focuses on overall group strategy; "the Electronics HQ", a headquarters which unifies all of its electronics-related businesses; and "the Management Platform", a unit which offers common staff support throughout the group. In the Electronics business, Sony reorganized its former five Network Companies into seven Network Companies, corresponding to the places in which Sony's products are utilized. In Japan, Sony established in April 2001 "Sony EMCS Corporation", a platform company for finished electronic products, by integrating business units including 12 manufacturing subsidiaries relating to final assembly. Sony also established in April 2001 "Sony Semiconductor Kyushu Corporation", a semiconductor platform company, by integrating three semiconductor fabrication subsidiaries. Moreover, as part of its reorganization of manufacturing facilities, Sony intends to consolidate by the end of September 2001 a facility where portable audio equipment is manufactured with a facility where home-use audio equipment is manufactured. In the U.S., Sony terminated the manufacture of CRTs for computer displays at the end of April 2001 and the facility is focusing on the manufacture of CRTs for televisions. The manufacturing equipment for CRTs for computer displays is being transferred to other regions for reutilization. On the other hand, Sony is establishing new manufacturing facilities in areas where demand is expected to increase. In Japan, aiming at expanding manufacturing capacity of LCDs and CCDs, Sony is constructing a semiconductor-related manufacturing facility, targeting to start operations in October 2001. Cumulative capital expenditures for the facility are expected to be approximately 100 billion yen by the end of the fiscal year ending March 31, 2006, approximately 10 billion yen of which was invested in the fiscal year ended March 31, 2001. In China, a manufacturing facility, which was established for local manufacture and supply of lithium-ion polymer rechargeable batteries, is expected to start operation in the fiscal year ending March 31, 2002.

Recent Strategic Developments and Business Alliances

In an environment where technologies progress rapidly, Sony is proceeding with alliances with other companies, aiming at prompt and efficient business development despite limited managerial resources.

In the area of digital televisions/digital set-top-boxes, Sony acquired in December 2000 approximately 3% of the outstanding shares of Canal+ Technologies, which is a unit of Canal+, the largest pay-television operator in Europe. Sony and Canal+ Technologies are jointly proceeding with application and standardization of software related to interactive digital televisions.

In the area of mobile terminals, Sony and Ericsson of Sweden signed in April 2001 a non-binding Memorandum of Understanding with the intention to create "Sony Ericsson Mobile Communications", a new company in which Sony and Ericsson will equally invest, to proceed with a mobile phone business worldwide. Sony and Ericsson intend to start operation in October 2001, after completion of definitive documentation and satisfaction of applicable regulatory requirements. Sony plans to account for this investment under the equity method. Sony and Ericsson intend that the new company, to which the mobile phone businesses of the parties will be transferred, will be responsible for product research, design, and development, as well as marketing, sales, distribution, and customer service.

In the area of flat-panel display devices, Sony and Toyoda Automatic Loom Works, Ltd. intend to invest in January 2002 a total of 20.0 billion yen (10.0 billion yen by each company) in ST-LCD, a joint venture company previously established by the two companies. With demand for low-temperature polycrystalline silicon TFT LCDs expected to increase, this will fund part of ST-LCD's capital expenditure of 75.0 billion yen to establish a second production line in fall 2001, with a target to start operation of such line in June 2002. After the investment from Sony and Toyoda Automatic Loom Works, Ltd., the total paid-in capital of ST-LCD will be 50.0 billion yen, 25.0 billion yen of which will have been provided by Sony.

In the area of semiconductors, SCE, International Business Machines Corporation ("IBM"), and Toshiba Corporation ("Toshiba") reached a definitive agreement in March 2001 to jointly research and develop an ultra-high speed processor for the broadband network era. The three companies jointly established a research and development center in the U.S. and intend to invest together more than 400 million U.S. dollars over the next five years. At the same time, SCE and IBM reached a definitive agreement regarding both the licensing of IBM's latest semiconductor fabrication process technology under 0.10 micron meter design rules and technological cooperation, aiming for the fabrication of an ultra-high speed processor. SCE and Toshiba also entered into a non-binding Memorandum of Understanding regarding a cooperative relationship for semiconductor embedded DRAM logic process under 0.13 micron meter design rules, aiming for the further integration of semiconductors for PlayStation and PlayStation 2. Furthermore, in May 2001, Sony Corporation and Toshiba agreed to jointly develop process and design technologies for system LSI under 0.10 and 0.07 micron meter design rules. The joint development started in May 2001 at the research and development center of Toshiba and is scheduled to continue until the end of the fiscal year ending March 31, 2004. Research and development expenses are expected to be approximately 15.0 billion yen in total, to be equally provided by the two companies.

In establishing business models which combine hardware with networks, SCE is separately cooperating with NTT DoCoMo, Inc., America Online, Inc. which is a unit of AOL Time Warner, and Vodafone Multimedia Limited which is a unit of Vodafone UK Limited, to prepare for entertainment services which include online game and Internet functions through the use of PlayStation 2. In the Music business, "Duet", which was jointly established by SMEI and Universal Music Group ("Universal"), a unit of Vivendi Universal of France, agreed with Yahoo! to cooperate on digital music distribution. The Duet subscription service is scheduled to be launched in the U.S. later in 2001. In the area of communication service business, during the fiscal year ended March 31, 2001, Sony acquired 15% of the outstanding shares of Tokyu Cable Television ("Tokyu Cable"). Sony, Tokyu Cable, and Tokyu Corporation are jointly working to establish a broadband network.

In the financial service business, Sony Bank Inc., which was established as a personal Internet bank, obtained a formal banking license from the Financial Services Agency in Japan in April 2001, and intends to start its operation in June 2001. The total paid-in capital of Sony Bank Inc. is 37.5 billion yen, 30.0 billion yen of which was provided by Sony Corporation. In the field of electronic money service, eleven companies, including Sony Corporation, NTT DoCoMo, Inc., and Sumitomo Mitsui Banking Corporation, established in January 2001 a joint venture company named "bitwallet, Inc." to promote a prepaid electronic money service named "Edy" in Japan through the use of "FeliCa", a non-contact IC card technology developed by Sony. The total capitalization of the company is 5.0 billion yen, 47% of which was provided by the Sony group. The company plans to commence a full-scale service in Japan in October 2001.

In June 2001, Sony Corporation intends to issue shares of subsidiary tracking stock in Japan, the economic value of which is intended to be linked with the economic value of Sony Communication Network Corporation ("SCN"), a wholly-owned subsidiary of Sony engaged in Internet-related services. This issuance aims to further the growth of SCN as a member of the Sony group, by enhancing its independence and flexibility, and at the same time to enhance overall group corporate value by enhancing SCN's synergy with other Sony group divisions.

EVA®

Sony has been using EVA® as one evaluation measure to improve returns from capital investment since the fiscal year ended March 31, 2000. In the Electronics business, to which Sony first introduced EVA®, Sony has been focusing on key businesses by introducing the concept of cost of capital based on EVA® to profit evaluations and, since the fiscal year ended March 31, 2001, has been reflecting EVA® in compensation, including for general managers as well as for corporate executive officers. In the fiscal year ending March 31, 2002, Sony intends to proceed with the introduction of EVA® in the Music and Pictures businesses. Sony intends to make further use of EVA® throughout the group.

Forecast of Consolidated Results

Factors which may affect Sony's financial performance include the following: general market factors in major areas where Sony conducts its businesses such as general economic conditions and levels of consumer spending, foreign exchange fluctuations, taxation policies of individual countries, and trading tariffs as well as subjective and changing consumer preferences and changing demographics, penetration ratios of products, Sony's ability to continue to design, develop, manufacture, sell, and win acceptance of its products and services, procurement of key devices, research and development expenses and depreciation expenses for capital expenditures for making high value-added and digital network products, and various costs including expenses for raw materials, personnel, and royalty.

Regarding the forecast of consolidated results for the fiscal year ending March 31, 2002, a more severe business environment is expected due to such factors as the remaining uncertainty in the progress of economic structural reform and recovery in Japan, the possibility that the negative effects of the economic slowdown in the U.S. will spread to other countries, oversupply, and price competition. However, Sony's consolidated sales, operating income, and income before income taxes are expected to be higher than that in the fiscal year ended March 31, 2001. Regarding net income, profit performance is expected to improve significantly primarily due to the one time effect of the adoption of the new film accounting standard (refer to Note 2 of Notes to Consolidated Financial Statements) in the fiscal year ended March 31, 2001. This forecast assumes that the yen for the fiscal year ending March 31, 2002 will continue to be weak against the U.S. dollar and euro compared with the fiscal year ended March 31, 2001. Also, this forecast does not include the effects relating to the proposed new company between Sony and Ericsson, which is expected to be formed after completion of definitive documentation and satisfaction of applicable regulatory requirements (refer to page 81).

The aforementioned consolidated forecast for the fiscal year ending March 31, 2002 includes the following factors. Research and development expenses for the fiscal year ending March 31, 2002 are expected to increase compared with those in the fiscal year ended March 31, 2001. This reflects, in the Electronics business, Sony's research and development activities especially in such areas as semiconductors, next-generation displays, optical/magnetic data storage, and communications and, in the Game business, Sony's development and introductions of PlayStation 2 software and research and development activities corresponding to broadband networks. Capital expenditures (additions to fixed assets) for the fiscal year ending March 31, 2002 are expected to decrease by approximately 65 billion yen, or approximately 14%, to approximately 400 billion yen, compared with those in the fiscal year ended March 31, 2001. This is primarily because capital expenditures for manufacturing equipment for semiconductors in the Game business are expected to decrease significantly while those in the Electronics business are expected to increase only slightly. Among expenditures in the Electronics business, the largest focus is on manufacturing equipment for electronic devices including semiconductors and LCDs. Depreciation and amortization expenses, including amortization of deferred insurance acquisition costs, for the fiscal year ending March 31, 2002 are expected to increase by approximately 62 billion yen, or approximately 18%, to approximately 410 billion yen compared with those in the fiscal year ended March 31, 2001. This reflects capital expenditures for the past several years especially in the Electronics business. Depreciation expenses for the fiscal year ending March 31, 2002 are expected to increase by approximately 60 billion yen, or approximately 22%, to approximately 330 billion yen, compared with those in the fiscal year ended March 31, 2001.

In the Electronics business, overall sales are expected to increase due to the introduction of high-value-added digital equipment, which is suitable for network environments. Regarding sales by product categories, sales of such products as PCs, mobile phones, televisions, digital still cameras, DVD-Video players, projectors, and LCDs are expected to increase. On the other hand, sales of such products as PC-related equipment and such related devices are expected to decrease. Regarding profit performance, operating income is expected to decrease. This is primarily due to severe price competition, Sony's intention to continue to strengthen research and development activities, increases in depreciation expenses reflecting capital expenditures for the past several years, and expenses relating to realignment of businesses.

In the Game business, regarding hardware, Sony intends to achieve production shipments of 20 million units of PlayStation 2 and over 10 million units of PS one. Regarding software, the amount of sales is expected to increase primarily due to greater hardware penetration of PlayStation 2 and an increase in the number of software titles available for it. As a result, overall sales are expected to increase significantly. Regarding profit performance, an operating profit is expected to be recorded because of an anticipated significant improvement in profit performance primarily due to achievement of cost reductions by establishing a manufacturing structure for sufficient output of PlayStation 2 hardware, and due to expansion of software sales.

In the Music business, sales are expected to increase primarily due to the strength of albums anticipated for release during the upcoming year. Regarding profit performance, operating income is expected to increase primarily due to higher sales and continued benefits associated with global cost reduction initiatives, including the prior year's reduction in the number of employees at SMEI.

In the Pictures business, sales are expected to increase slightly primarily because revenues from production and distribution in the television business are expected to increase in international markets outside the U.S., although box office revenues from films to be released in the fiscal year ending March 31, 2002 are expected to be flat. Regarding profit performance, operating income is expected to increase primarily due to expected improvement in the profit performance of films to be released in the upcoming year as opposed to the prior year films, and due to cost reduction efforts.

In the Insurance business, revenue is expected to increase because a net increase in insurance-in-force is expected both in the life insurance business and the non-life insurance business. Regarding profit performance, primarily due to the increases in revenues, overall operating income is expected to increase because operating income in the life insurance business is expected to increase and losses in the non-life insurance business are expected to decrease.

In the Other business, operating losses are expected to decrease primarily because losses of location-based entertainment businesses in Japan, the U.S., and Germany are expected to decrease.

Other income in the fiscal year ending March 31, 2002 is expected to decrease primarily because the previous year included gains on sales of securities investments and other, net and gains on issuance of stock by equity investees (refer to page 69).

Regarding Aiwa Co., Ltd., an approximately 51% owned consolidated subsidiary of Sony Corporation, reorganization expenses, such as severance expenses and losses on the sale and disposal of long-lived assets, relating to the execution of the realignment of businesses which was announced in March 2001, are expected to negatively affect Sony's consolidated results in the fiscal year ending March 31, 2002. Aiwa Co., Ltd. also announced its plans to carry out a one-for-one rights issuance to shareholders for such purposes as funding its restructuring measures. The total size of the rights issuance will be approximately 35.0 billion yen and payment for such shares will be due on July 30, 2001. Sony Corporation plans to assume the rights issuance in proportion to its interest in Aiwa Co., Ltd.

Equity in net losses of affiliated companies accounted for under the equity method in the fiscal year ending March 2002 is expected to decrease primarily because of the absence of the negative effect relating to Loews in the previous year (refer to page 71), and results of certain affiliated companies such as CHC and Telemundo are expected to improve.

Dividend Policy

A year-end cash dividend per share of Sony Corporation at the rate of 12.5 yen will be subject to approval at the Ordinary General Meeting of Shareholders, which will be held on June 21, 2001. Sony Corporation has already paid 12.5 yen per share to each shareholder; accordingly the annual cash dividend per share will be 25.0 yen.

As for retained earnings, Sony plans to utilize them to carry out various investments that are important for ensuring future growth and strengthening competitiveness. Sony believes that by continuously increasing corporate value, each shareholder can be rewarded.

NEW STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS

Derivative Instruments and Hedging Activities:

On April 1, 2001, Sony adopted Statement of 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 FASB statement No. 133." FAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments. Specifically, FAS No. 133 requires an entity to recognize all derivatives as either assets or liabilities in the balance sheet and to measure those instruments at fair value. Additionally, the fair value adjustments will affect either stockholders' equity or net income depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity. On April 1, 2001, upon the adoption of the new standard, Sony recorded an unrealized gain of 1.1 billion yen in accumulated other comprehensive income in the consolidated balance sheet and an after-tax gain of 6.0 billion yen as the cumulative effect of an accounting change in the consolidated statements of income for the fiscal year ending March 31, 2002.

May 31, 2001

Teruhisa Tokunaka
Executive Deputy President and Chief Financial Officer

QUARTERLY FINANCIAL AND STOCK INFORMATION

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

	Yen in billions except per share amounts							
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**
Sales and operating revenue	¥1,482.3	**¥1,565.1**	¥1,632.7	**¥1,690.9**	¥1,916.0	**¥2,129.6**	¥1,655.7	**¥1,929.2**
Operating income (loss)	41.2	**30.6**	66.0	**53.1**	161.6	**144.8**	(45.6)	**(3.2)**
Income (loss) before income taxes	42.8	**36.9**	90.0	**76.9**	165.9	**136.2**	(34.4)	**16.0**
Income taxes	17.1	**17.2**	34.7	**38.0**	60.3	**53.0**	(17.4)	**7.3**
Income (loss) before cumulative effect of accounting changes	18.4	**12.0**	46.5	**18.7**	93.6	**74.8**	(36.7)	**15.8**
Net income (loss)	18.4	**(92.4)**	46.5	**18.7**	93.6	**74.8**	(36.7)	**15.8**
Per share data*								
Income (loss) before cumulative effect of accounting changes								
— Basic	¥ 22.46	**¥ 13.21**	¥ 56.48	**¥ 20.43**	¥ 113.31	**¥ 81.72**	¥ (40.80)	**¥ 17.20**
— Diluted	20.57	**12.71**	50.84	**19.38**	101.62	**75.82**	(40.80)	**16.46**
Net income (loss)								
— Basic	22.46	**(101.48)**	56.48	**20.43**	113.31	**81.72**	(40.80)	**17.20**
— Diluted	20.57	**(92.34)**	50.84	**19.38**	101.62	**75.82**	(40.80)	**16.46**
Depreciation and amortization**	¥ 68.5	**¥ 79.8**	¥ 72.9	**¥ 83.0**	¥ 77.5	**¥ 87.2**	¥ 87.6	**¥ 98.2**
Capital expenditures (additions to fixed assets)	93.4	**81.6**	99.0	**88.2**	95.5	**90.5**	148.0	**205.0**
R&D expenses	90.2	**90.3**	103.8	**108.1**	90.6	**100.0**	109.9	**118.3**
Tokyo Stock Exchange price per share of Common Stock*:								
High	¥ 6,650	**¥ 15,000**	¥ 8,625	**¥ 12,480**	¥ 15,150	**¥ 10,800**	¥ 16,300	**¥ 9,370**
Low	5,425	**9,490**	6,690	**9,900**	7,605	**7,560**	11,725	**8,040**
New York Stock Exchange price per American Depositary Share*:								
High	$ 55.19	**$ 137.56**	$ 78.69	**$ 116.25**	$ 144.97	**$ 98.69**	$ 156.75	**$ 76.90**
Low	44.72	**90.25**	55.56	**90.44**	72.47	**69.38**	108.00	**65.95**

* *All per share data have been adjusted for all periods to reflect the two-for-one stock split that has been completed on May 19, 2000. Stock price data are based on daily closing prices.*

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

Notes: 1. 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." The provision of SOP 00-2 is effective for fiscal years starting on or after December 16, 2000 with early application encouraged. Sony adopted SOP 00-2 in the first quarter ended June 30, 2000, effective as of April 1, 2000. As a result, Sony's net income for the fiscal year ended March 31, 2001 decreased by ¥101.7 billion ($813 million), reflecting a one-time non-cash cumulative effect adjustment in the income statement directly above the caption of "net income" for a change in accounting principle in the first quarter ended June 30, 2000.

2. In December 1999, the United States of America 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, effective as of April 1, 2000. As a result, a one-time non-cash cumulative effect adjustment of ¥2.8 billion ($23 million) was recorded in the income statement directly above the caption of "net income" for a change in accounting principle. Sony has restated its financial results for the first three quarters of the year ended March 31, 2001. The accounting change did not have a material effect on Sony's consolidated financial results.

3. Effective with the fourth quarter ended March 31, 2001, net loss on sale, disposal or impairment of long-lived assets, which was previously included in other income/expense and shown below operating income, is included in selling, general and administrative expense and shown above operating income. As a result, operating income for the first three quarters of the year ended March 31, 2001 and all quarters of the year ended March 31, 2000 has been restated to conform to the presentation for the fourth quarter ended March 31, 2001.

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Sony Corporation and Consolidated Subsidiaries · Year ended March 31

	Yen in millions except per share amounts					Dollars in millions except per share amounts
	1997	1998	1999	2000	**2001**	**2001**
FOR THE YEAR						
Sales and operating revenue	¥5,658,253	¥6,761,004	¥6,804,182	¥6,686,661	**¥7,314,824**	**$58,518**
Operating income	352,475	514,094	338,061	223,204	**225,346**	**1,803**
Income before income taxes	307,548	459,263	377,691	264,310	**265,868**	**2,127**
Income taxes	163,570	214,868	176,973	94,644	**115,534**	**924**
Income before cumulative effect of accounting changes	139,460	222,068	179,004	121,835	**121,227**	**970**
Net income	139,460	222,068	179,004	121,835	**16,754**	**134**
Per share data*:						
Income before cumulative effect of accounting changes						
— Basic	¥ 183.87	¥ 278.85	¥ 218.43	¥ 144.58	**¥ 132.64**	**$ 1.06**
— Diluted	154.58	241.68	195.51	131.70	**124.36**	**0.99**
Net income						
— Basic	183.87	278.85	218.43	144.58	**18.33**	**0.15**
— Diluted	154.58	241.68	195.51	131.70	**19.28**	**0.15**
Cash dividends	27.50	30.00	25.00	25.00	**25.00**	**0.20**
Depreciation and amortization**	¥ 266,532	¥ 301,665	¥ 307,173	¥ 306,505	**¥ 348,268**	**$ 2,786**
Capital expenditures (additions to fixed assets)	298,078	387,955	353,730	435,887	**465,209**	**3,722**
R&D expenses	282,569	318,044	375,314	394,479	**416,708**	**3,334**
AT YEAR-END						
Net working capital	¥ 754,648	¥1,045,943	¥1,030,463	¥ 861,674	**¥ 830,734**	**$ 6,646**
Stockholders' equity	1,459,332	1,815,555	1,823,665	2,182,906	**2,315,453**	**18,524**
Stockholders' equity per share*	¥ 1,899.31	¥ 2,230.69	¥ 2,224.35	¥ 2,409.36	**¥ 2,521.19**	**$ 20.17**
Total assets	¥5,680,246	¥6,403,043	¥6,299,053	¥6,807,197	**¥7,827,966**	**$62,624**
Number of shares issued at year-end (thousands of shares)*	384,185	407,195	410,439	453,639	**919,617**	

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

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

Notes:
1. *U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥125=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 30, 2001.*
2. *Cash dividends per share for the year ended March 31, 2001 include a dividend which is subject to approval of the Ordinary General Meeting of Shareholders to be held on June 21, 2001.*
3. *Effective as of April 1, 2000, Sony adopted Statement of Position ("SOP") 00-2, "Accounting by Producers or Distributors of Films" issued by the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants. As a result, Sony's operating income, income before income taxes, and net income for the year ended March 31, 2001 each decreased by approximately ¥28.5 billion ($228 million). Additionally, Sony's net income for the fiscal year ended March 31, 2001 decreased by ¥101.7 billion ($813 million), reflecting a one-time non-cash cumulative effect adjustment in the income statement directly above the caption of "net income" for a change in accounting principle.*
4. *As a result of the adoption of SOP 00-2, film costs related to theatrical and television product at prior year-ends, which were previously recorded in inventories in accordance with Statement of Financial Accounting Standards No. 53, have been reclassified to film costs which are included in non-current assets. Also as a result, net working capital at all prior year-ends have been restated to conform to the presentation at March 31, 2001.*
5. *Effective as of April 1, 2000, Sony adopted Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements" issued by the United States of America Securities and Exchange Commission. As a result, a one-time non-cash cumulative effect adjustment of ¥2.8 billion ($23 million) was recorded in the income statement directly above the caption of "net income" for a change in accounting principle. The accounting change did not have a material effect on Sony's consolidated financial results.*
6. *Effective with the year ended March 31, 2001, net loss on sale, disposal or impairment of long-lived assets, which was previously included in other income/expense and shown below operating income, is included in selling, general and administrative expense and shown above operating income. As a result, operating income for all prior years has been restated to conform to the presentation for the fiscal year ended March 31, 2001.*

COMPOSITION OF SALES AND OPERATING REVENUE BY BUSINESS AND GEOGRAPHIC SEGMENT

Sony Corporation and Consolidated Subsidiaries · Year ended March 31

	Yen in millions					Dollars in millions**
	1997	1998	1999	2000	**2001**	**2001**
BY BUSINESS SEGMENT*						
Electronics	¥3,930,614	¥4,380,084	¥4,356,254	¥4,395,906	**¥4,998,688**	**$39,989**
	69.5%	64.8%	64.0%	65.7%	**68.4%**	
Game	408,335	699,574	760,071	630,662	**646,147**	**5,169**
	7.2	10.4	11.2	9.4	**8.8**	
Music	564,364	658,381	717,297	665,047	**571,003**	**4,568**
	10.0	9.7	10.5	10.0	**7.8**	
Pictures	438,399	644,183	545,956	494,332	**555,227**	**4,442**
	7.7	9.5	8.0	7.4	**7.6**	
Insurance	227,920	291,061	339,368	380,317	**426,913**	**3,415**
	4.0	4.3	5.0	5.7	**5.8**	
Other	88,621	87,721	85,236	120,397	**116,846**	**935**
	1.6	1.3	1.3	1.8	**1.6**	
Consolidated total	¥5,658,253	¥6,761,004	¥6,804,182	¥6,686,661	**¥7,314,824**	**$58,518**

** Sales and operating revenue to customers*

Notes: 1. As a result of a change in the accounting period in Pictures, results for the year ended March 31, 1998 in the segment include the thirteen-month period from March 1, 1997 to March 31, 1998.

2. Sales and operating revenue of the Pictures segment and the Other segment for the prior years have been restated to conform to the reportable segmentation for the year ended March 31, 2001.

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

	1997	1998	1999	2000	**2001**	**2001**
Audio	¥1,029,961	¥1,127,788	¥1,072,621	¥ 934,865	**¥ 923,968**	**$ 7,391**
	26.2%	25.7%	24.6%	21.3%	**18.5%**	
Video	816,582	870,854	969,129	976,705	**1,097,847**	**8,783**
	20.8	19.9	22.3	22.2	**22.0**	
Televisions	704,075	709,043	702,620	714,188	**805,028**	**6,440**
	17.9	16.2	16.1	16.2	**16.1**	
Information and communications	764,512	894,810	914,140	1,052,707	**1,332,619**	**10,661**
	19.4	20.4	21.0	24.0	**26.6**	
Electronic components and other	615,484	777,589	697,744	717,441	**839,226**	**6,714**
	15.7	17.8	16.0	16.3	**16.8**	
Total	¥3,930,614	¥4,380,084	¥4,356,254	¥4,395,906	**¥4,998,688**	**$39,989**

Note: The above table is a breakdown of Electronics sales and operating revenue to customers by product category. The Electronics business is managed as a single operating segment by Sony's management. However, Sony believes that the information in this table is useful to investors in understanding the sales contributions of the products in this business segment. Operating income information by product category is not available.

	1997	1998	1999	2000	**2001**	**2001**
BY GEOGRAPHIC SEGMENT						
Japan	¥1,589,521	¥1,848,023	¥1,917,028	¥2,121,249	**¥2,400,777**	**$19,206**
	28.1%	27.3%	28.2%	31.7%	**32.8%**	
United States	1,635,044	2,101,222	2,158,006	2,027,129	**2,179,833**	**17,439**
	28.9	31.1	31.7	30.3	**29.8**	
Europe	1,305,195	1,568,830	1,667,010	1,470,447	**1,473,780**	**11,790**
	23.1	23.2	24.5	22.0	**20.2**	
Other Areas	1,128,493	1,242,929	1,062,138	1,067,836	**1,260,434**	**10,083**
	19.9	18.4	15.6	16.0	**17.2**	
Consolidated total	¥5,658,253	¥6,761,004	¥6,804,182	¥6,686,661	**¥7,314,824**	**$58,518**

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

*** U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥125=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 30, 2001.*

CONSOLIDATED BALANCE SHEETS

Sony Corporation and Consolidated Subsidiaries · March 31

	Yen in millions		Dollars in millions (Note 3)
	2000	**2001**	**2001**
ASSETS			
Current assets:			
Cash and cash equivalents (Note 13)	¥ 626,064	**¥ 607,245**	**$ 4,858**
Time deposits (Note 13)	6,138	**5,909**	**47**
Marketable securities (Note 8)	107,499	**90,094**	**721**
Notes and accounts receivable, trade (Note 7)	1,156,065	**1,404,952**	**11,239**
Allowance for doubtful accounts and sales returns	(100,596)	**(109,648)**	**(877)**
Inventories (Note 5)	746,550	**942,876**	**7,543**
Deferred income taxes (Note 20)	117,258	**141,473**	**1,132**
Prepaid expenses and other current assets	363,038	**394,573**	**3,157**
Total current assets	3,022,016	**3,477,474**	**27,820**
Film costs (Note 6)	339,011	**297,617**	**2,381**
Investments and advances:			
Affiliated companies (Note 7)	114,670	**104,032**	**832**
Securities investments and other (Notes 8 and 11)	960,924	**1,284,956**	**10,280**
	1,075,594	**1,388,988**	**11,112**
Property, plant and equipment (Note 9)**:**			
Land	185,736	**190,394**	**1,523**
Buildings	774,372	**828,554**	**6,629**
Machinery and equipment	1,955,015	**2,113,005**	**16,904**
Construction in progress	92,787	**165,047**	**1,320**
	3,007,910	**3,297,000**	**26,376**
Less—Accumulated depreciation	1,752,340	**1,862,701**	**14,902**
	1,255,570	**1,434,299**	**11,474**
Other assets:			
Intangibles, net (Note 10)	218,496	**221,289**	**1,770**
Goodwill, net (Note 10)	293,777	**305,159**	**2,441**
Deferred insurance acquisition costs (Note 11)	239,981	**270,022**	**2,160**
Other (Note 20)	362,752	**433,118**	**3,466**
	1,115,006	**1,229,588**	**9,837**
	¥6,807,197	**¥7,827,966**	**$62,624**

The accompanying notes are an integral part of these statements.

	Yen in millions		Dollars in millions (Note 3)
	2000	2001	2001
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings (Notes 12 and 13)	¥ 56,426	**¥ 185,535**	**$ 1,484**
Current portion of long-term debt (Notes 9, 12 and 13)	158,509	**170,838**	**1,367**
Notes and accounts payable, trade (Note 7)	811,031	**925,021**	**7,400**
Accounts payable, other and accrued expenses (Note 14)	681,458	**807,532**	**6,460**
Accrued income and other taxes	87,520	**133,031**	**1,064**
Other (Note 20)	365,398	**424,783**	**3,399**
Total current liabilities	2,160,342	**2,646,740**	**21,174**
Long-term liabilities:			
Long-term debt (Notes 9, 12 and 13)	813,828	**843,687**	**6,749**
Accrued pension and severance costs (Note 14)	129,604	**220,787**	**1,766**
Deferred income taxes (Note 20)	184,020	**175,148**	**1,401**
Future insurance policy benefits and other (Note 11)	1,124,873	**1,366,013**	**10,928**
Other	177,059	**241,101**	**1,930**
	2,429,384	**2,846,736**	**22,774**
Minority interest in consolidated subsidiaries	34,565	**19,037**	**152**
Stockholders' equity (Notes 4 and 15):			
Subsidiary tracking stock, ¥50 par value (Note 15)—			
2001—Authorized 100,000,000 shares, none outstanding		**—**	**—**
Common stock, ¥50 par value—			
2000—Authorized 1,350,000,000 shares, outstanding 453,639,163 shares	451,550		
2001—Authorized 3,500,000,000 shares, outstanding 919,617,134 shares		**472,002**	**3,776**
Additional paid-in capital	940,716	**962,401**	**7,699**
Retained earnings	1,223,761	**1,217,110**	**9,737**
Accumulated other comprehensive income (Note 15)—			
Unrealized gains on securities (Note 8)	61,915	**44,516**	**356**
Minimum pension liability adjustment (Note 14)	(3,678)	**(49,812)**	**(398)**
Foreign currency translation adjustments	(483,553)	**(323,271)**	**(2,586)**
	(425,316)	**(328,567)**	**(2,628)**
Treasury stock, at cost			
(2000—633,139 shares, 2001—1,221,934 shares)	(7,805)	**(7,493)**	**(60)**
	2,182,906	**2,315,453**	**18,524**
Commitments and contingent liabilities (Notes 9 and 22)			
	¥6,807,197	**¥7,827,966**	**$62,624**

CONSOLIDATED STATEMENTS OF INCOME

Sony Corporation and Consolidated Subsidiaries · Year ended March 31

	Yen in millions			Dollars in millions (Note 3)
	1999	2000	2001	2001
Sales and operating revenue:				
Net sales (Note 7)	¥6,415,418	¥6,238,401	**¥6,829,003**	**$54,632**
Insurance revenue	339,368	380,317	**426,913**	**3,415**
Other operating revenue	49,396	67,943	**58,908**	**471**
	6,804,182	6,686,661	**7,314,824**	**58,518**
Costs and expenses:				
Cost of sales (Notes 17 and 18)	4,633,787	4,595,086	**5,046,694**	**40,374**
Selling, general and administrative (Notes 16, 17 and 18)	1,511,014	1,508,983	**1,634,007**	**13,071**
Insurance expenses	321,320	359,388	**408,777**	**3,270**
	6,466,121	6,463,457	**7,089,478**	**56,715**
Operating income	338,061	223,204	**225,346**	**1,803**
Other income:				
Interest and dividends (Note 7)	23,313	17,700	**18,541**	**148**
Royalty income	19,720	21,704	**29,302**	**234**
Foreign exchange gain, net	2,895	27,466	**—**	**—**
Gain on securities contribution to employee retirement benefit trust (Note 8)	58,698	—	**11,120**	**89**
Gain on sales of securities investments and other, net (Note 8)	2,464	28,099	**41,708**	**334**
Gain on issuances of stock by equity investees (Note 19)	5,181	727	**18,030**	**144**
Other	37,426	50,603	**48,953**	**392**
	149,697	146,299	**167,654**	**1,341**
Other expenses:				
Interest	48,275	42,030	**43,015**	**344**
Foreign exchange loss, net	—	—	**15,660**	**125**
Other	61,792	63,163	**68,457**	**548**
	110,067	105,193	**127,132**	**1,017**
Income before income taxes	377,691	264,310	**265,868**	**2,127**
Income taxes (Note 20)**:**				
Current	158,386	120,803	**121,113**	**969**
Deferred	18,587	(26,159)	**(5,579)**	**(45)**
	176,973	94,644	**115,534**	**924**
Income before minority interest, equity in net losses of affiliated companies and cumulative effect of accounting changes	200,718	169,666	**150,334**	**1,203**
Minority interest in income (loss) of consolidated subsidiaries	12,151	10,001	**(15,348)**	**(123)**
Equity in net losses of affiliated companies (Note 7)	9,563	37,830	**44,455**	**356**
Income before cumulative effect of accounting changes	179,004	121,835	**121,227**	**970**
Cumulative effect of accounting changes (Including ¥491 million income tax expense) (Note 2)	—	—	**(104,473)**	**(836)**
Net income	¥ 179,004	¥ 121,835	**¥ 16,754**	**$ 134**

(Continued on following page.)

	Yen			Dollars (Note 3)
	1999	2000	**2001**	**2001**
Per share data (Note 21)**:**				
Income before cumulative effect of accounting changes				
— Basic	¥218.43	¥144.58	**¥ 132.64**	**$ 1.06**
— Diluted	195.51	131.70	**124.36**	**0.99**
Cumulative effect of accounting changes				
— Basic	—	—	**(114.31)**	**(0.91)**
— Diluted	—	—	**(105.08)**	**(0.84)**
Net income				
— Basic	218.43	144.58	**18.33**	**0.15**
— Diluted	195.51	131.70	**19.28**	**0.15**
Cash dividends	25.00	25.00	**25.00**	**0.20**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Sony Corporation and Consolidated Subsidiaries · Year ended March 31

	Yen in millions			Dollars in millions (Note 3)
	1999	2000	**2001**	**2001**
Cash flows from operating activities:				
Net income	¥ 179,004	¥ 121,835	**¥ 16,754**	**$ 134**
Adjustments to reconcile net income to net cash provided by operating activities—				
Depreciation and amortization, including amortization of deferred insurance acquisition costs	307,173	306,505	**348,268**	**2,786**
Amortization of film costs	387,614	376,067	**244,649**	**1,957**
Accrual for pension and severance costs, less payments	25,817	22,860	**21,759**	**174**
Loss on sale, disposal or impairment of long-lived assets, net	10,151	17,423	**24,304**	**194**
Gain on securities contribution to employee retirement benefit trust (Note 8)	(58,698)	—	**(11,120)**	**(89)**
Gain on sales of securities investments and other, net	(2,464)	(28,099)	**(41,708)**	**(334)**
Gain on issuances of stock by equity investees (Note 19)	(5,181)	(727)	**(18,030)**	**(144)**
Deferred income taxes	18,587	(26,159)	**(5,579)**	**(45)**
Equity in net losses of affiliated companies, net of dividends	14,580	38,699	**47,219**	**378**
Cumulative effect of accounting changes (Note 2)	—	—	**104,473**	**836**
Changes in assets and liabilities:				
(Increase) decrease in notes and accounts receivable	38,942	(132,566)	**(177,484)**	**(1,420)**
(Increase) decrease in inventories	62,160	(34,792)	**(103,085)**	**(825)**
Increase in film costs (after adjusted cumulative effect of an accounting change)	(406,184)	(411,103)	**(269,004)**	**(2,152)**
Increase (decrease) in notes and accounts payable	(24,063)	110,207	**95,213**	**762**
Increase (decrease) in accrued income and other taxes	(30,125)	(15,433)	**38,749**	**310**
Increase in future insurance policy benefits and other	199,967	210,936	**241,140**	**1,929**
Increase in deferred insurance acquisition costs	(57,417)	(62,821)	**(68,927)**	**(551)**
Changes in other current assets and liabilities, net	55,286	87,328	**71,193**	**570**
Other	(51,882)	(697)	**(14,017)**	**(112)**
Net cash provided by operating activities	¥ 663,267	¥ 579,463	**¥ 544,767**	**$ 4,358**

(Continued on following page.)

	Yen in millions 1999	Yen in millions 2000	Yen in millions 2001	Dollars in millions (Note 3) 2001
Cash flows from investing activities:				
Payments for purchases of fixed assets	¥(368,355)	¥(403,013)	**¥(468,019)**	**$(3,744)**
Proceeds from sales of fixed assets	28,783	29,077	**26,704**	**214**
Payments for investments and advances by insurance business	(651,226)	(178,866)	**(319,149)**	**(2,553)**
Payments for investments and advances (other than insurance business)	(89,827)	(105,031)	**(122,563)**	**(981)**
Proceeds from sales of securities investments and other and collections of advances by insurance business	498,738	97,200	**87,493**	**700**
Proceeds from sales of securities investments and other and collections of advances (other than insurance business)	31,359	86,493	**65,098**	**521**
Proceeds from merger of Loews Theatres exhibition business (Note 19)	53,007	—	**—**	**—**
Payments for purchases of marketable securities	(121,483)	(70,053)	**(24,425)**	**(196)**
Proceeds from sales of marketable securities	171,868	78,370	**34,899**	**279**
Decrease in time deposits	79,876	15,930	**914**	**7**
Net cash used in investing activities	(367,260)	(449,893)	**(719,048)**	**(5,753)**
Cash flows from financing activities:				
Proceeds from issuance of long-term debt	54,208	30,783	**195,118**	**1,561**
Payments of long-term debt	(69,889)	(99,454)	**(143,258)**	**(1,146)**
Increase (decrease) in short-term borrowings	(71,601)	19,824	**106,245**	**850**
Dividends paid	(24,501)	(20,589)	**(22,774)**	**(182)**
Other	(445)	1,361	**(889)**	**(7)**
Net cash provided by (used in) financing activities	(112,228)	(68,075)	**134,442**	**1,076**
Effect of exchange rate changes on cash and cash equivalents	(14,855)	(27,641)	**21,020**	**168**
Net increase (decrease) in cash and cash equivalents	168,924	33,854	**(18,819)**	**(151)**
Cash and cash equivalents at beginning of year	423,286	592,210	**626,064**	**5,009**
Cash and cash equivalents at end of year	¥ 592,210	¥ 626,064	**¥ 607,245**	**$ 4,858**
Supplemental data:				
Cash paid during the year for—				
Income taxes	¥ 191,378	¥ 132,891	**¥ 93,629**	**$ 749**
Interest	49,096	43,668	**47,806**	**382**
Non-cash investing and financing activities—				
Integration of three listed subsidiaries through exchange offerings (Note 4)				
Fair value of assets acquired	—	¥ 282,488	**—**	**—**
Deferred tax liabilities thereon	—	(46,794)	**—**	**—**
Minority interest eliminated	—	112,242	**—**	**—**
Net	—	¥ 347,936	**—**	**—**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Sony Corporation and Consolidated Subsidiaries · Year ended March 31

	Yen in millions					
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total
Balance at March 31, 1998	¥406,196	¥548,422	¥ 965,083	¥(101,266)	¥(2,880)	¥1,815,555
Exercise of stock purchase warrants	81	80				161
Conversion of convertible bonds	10,096	10,094				20,190
Common stock warrants		640				640
Comprehensive income:						
Net income			179,004			179,004
Other comprehensive income, net of tax (Note 15)—						
Unrealized gains on securities:						
Unrealized holding gains arising during the period				9,009		9,009
Less: Reclassification adjustment for gains included in net income				(30,699)		(30,699)
Minimum pension liability adjustment				(3,285)		(3,285)
Foreign currency translation adjustments				(143,655)		(143,655)
Total comprehensive income						10,374
Dividends declared			(20,496)			(20,496)
Purchase of treasury stock					(4,084)	(4,084)
Reissuance of treasury stock					1,325	1,325
Balance at March 31, 1999	416,373	559,236	1,123,591	(269,896)	(5,639)	1,823,665
Exercise of stock purchase warrants	1,025	1,025				2,050
Conversion of convertible bonds	32,503	32,494				64,997
Stock issued under exchange offerings (Note 4)	1,649	346,287				347,936
Common stock warrants		686				686
Comprehensive income:						
Net income			121,835			121,835
Other comprehensive income, net of tax (Note 15)—						
Unrealized gains on securities:						
Unrealized holding gains arising during the period				52,819		52,819
Less: Reclassification adjustment for gains included in net income				(14,387)		(14,387)
Minimum pension liability adjustment				5,321		5,321
Foreign currency translation adjustments				(199,173)		(199,173)
Total comprehensive income						(33,585)
Dividends declared			(21,665)			(21,665)
Purchase of treasury stock					(8,697)	(8,697)
Reissuance of treasury stock		988			6,531	7,519
Balance at March 31, 2000	¥451,550	¥940,716	¥1,223,761	¥(425,316)	¥(7,805)	¥2,182,906

(Continued on following page.)

	Yen in millions					
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total
Balance at March 31, 2000	¥451,550	¥940,716	¥1,223,761	¥(425,316)	¥(7,805)	¥2,182,906
Exercise of stock purchase warrants	**297**	**297**				**594**
Conversion of convertible bonds	**20,151**	**20,143**				**40,294**
Stock issued under exchange offerings	**4**	**1,069**				**1,073**
Comprehensive income:						
Net income			**16,754**			**16,754**
Other comprehensive income, net of tax (Note 15)—						
Unrealized gains on securities:						
Unrealized holding gains arising during the period				**(7,490)**		**(7,490)**
Less: Reclassification adjustment for gains included in net income				**(9,909)**		**(9,909)**
Minimum pension liability adjustment				**(46,134)**		**(46,134)**
Foreign currency translation adjustments				**160,282**		**160,282**
Total comprehensive income						**113,503**
Common stock issue costs, net of tax			**(466)**			**(466)**
Dividends declared			**(22,939)**			**(22,939)**
Purchase of treasury stock					**(2,123)**	**(2,123)**
Reissuance of treasury stock		**176**			**2,435**	**2,611**
Balance at March 31, 2001	**¥472,002**	**¥962,401**	**¥1,217,110**	**¥(328,567)**	**¥(7,493)**	**¥2,315,453**

	Dollars in millions (Note 3)					
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total
Balance at March 31, 2000	$3,612	$7,526	$9,790	$(3,402)	$(62)	$17,464
Exercise of stock purchase warrants	**2**	**2**				**4**
Conversion of convertible bonds	**162**	**161**				**323**
Stock issued under exchange offerings	**0**	**9**				**9**
Comprehensive income:						
Net income			**134**			**134**
Other comprehensive income, net of tax (Note 15)—						
Unrealized gains on securities:						
Unrealized holding gains arising during the period				**(60)**		**(60)**
Less: Reclassification adjustment for gains included in net income				**(79)**		**(79)**
Minimum pension liability adjustment				**(369)**		**(369)**
Foreign currency translation adjustments				**1,282**		**1,282**
Total comprehensive income						**908**
Common stock issue costs, net of tax			**(4)**			**(4)**
Dividends declared			**(183)**			**(183)**
Purchase of treasury stock					**(17)**	**(17)**
Reissuance of treasury stock		**1**			**19**	**20**
Balance at March 31, 2001	**$3,776**	**$7,699**	**$9,737**	**$(2,628)**	**$(60)**	**$18,524**

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Sony Corporation and Consolidated Subsidiaries

1. Nature of operations

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

2. Summary of significant accounting policies

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

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(1) Accounting changes:

Film accounting—

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

Sony has adopted SOP 00-2 retroactively to April 1, 2000. As a result, Sony's operating income, income before income taxes, and net income for the year ended March 31, 2001 each decreased by ¥28,547 million ($228 million). Additionally, Sony's net income for the year ended March 31, 2001 included a one-time, non-cash charge with no tax effect of ¥101,653 million ($813 million), primarily to reduce the carrying value of its film inventory. The charge has been reflected as a cumulative effect of an accounting change in the accompanying consolidated statements of income.

Pursuant to SOP 00-2, pro forma financial information for prior years is not required.

Revenue recognition—

During the year ended March 31, 2001, Sony adopted Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements" issued by the United States of America Securities and Exchange Commission retroactively to April 1, 2000. As a result, Sony has changed its method of accounting for revenues from electronics, game and music sales. Revenues from electronics, game and music sales are recognized upon delivery which is considered to have occurred when the customer has taken title to the product and the risk and rewards of ownership have been substantively transferred. Following SAB No. 101, revenues are recognized when the product is delivered to the customer delivery site. Previously Sony followed the guidance of FASB Statement of Financial Accounting Concept ("SFAC") No. 5 "Recognition and Measurement in Financial Statements of Business Enterprises" in which revenues were recognized when Sony had substantially completed all of its obligations pursuant to the terms of the sales contract. Under the guidance of SFAC No. 5, Sony viewed its obligation under the sales contract to be substantially completed when products were shipped and recognized revenues at that time. In accordance with SAB No. 101, Sony has recorded a one-time non-cash charge of ¥2,821 million ($23 million), including ¥491 million ($4 million) income tax expense, which represents the net impact of sales that were previously recognized in the year ended March 31, 2000. These sales were subsequently recognized in the year ended March 31, 2001 due to the adoption of SAB No. 101. The charge has been reflected as a cumulative effect of an accounting change in the accompanying consolidated statements of income. The accounting change did not have a material effect on Sony's consolidated statements of income for the year ended March 31, 2001. Sony has not disclosed pro forma financial information for prior years as if SAB No. 101 had been applied retroactively due to immateriality.

(2) Significant accounting policies:

Basis of consolidation and accounting for investments in affiliated companies—

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

On occasion, a subsidiary or affiliated company accounted for by the equity method may issue its shares to third parties as either a public offering or upon conversion of convertible debt to common stock at amounts per share in excess of or less than Sony's average per share carrying value. With respect to such transactions, the resulting gains or losses arising from the change in interest are recorded in income for the year the change in interest transaction occurs.

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

Translation of foreign currencies—
All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at appropriate year-end current rates and all income and expense accounts are translated at rates that approximate those rates prevailing at the time of the transactions. The resulting translation adjustments are accumulated as a component of accumulated other comprehensive income.

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

Revenue recognition—
As a result of the adoption of SAB No. 101, revenues from electronics, game and music sales are recognized upon delivery which is considered to have occurred when the customer has taken title to the product and the risk and rewards of ownership have been substantively transferred. Previously, such revenues were recognized when Sony's obligations pursuant to the sales contract were substantially completed which was considered to have occurred when product was shipped. If the sales contract contains a customer acceptance provision, then sales are recognized after customer acceptance occurs or the acceptance provisions lapse.

Revenues from the theatrical exhibition of motion pictures are recognized as the customer exhibits the film. Revenues from the licensing of feature films and television programming are recorded when the material is available for telecast by the licensee and when any restrictions regarding the exhibition or exploitation of the product lapse. Revenues from the sale of home videocassettes and DVDs are recognized upon availability of sale to the public.

Insurance premiums are reported as revenue when due from policyholders. Benefits and expenses are associated with earned insurance premiums so as to result in the recognition of profits over the life of the contracts. This association is accomplished through a provision for liabilities for future benefits and amortization of acquisition costs.

Cash and cash equivalents—
Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

Marketable debt and equity securities—
Debt securities and equity securities designated as available-for-sale, whose fair values are readily determinable, are carried at fair value with unrealized gains or losses included as a component of accumulated other comprehensive income, net of applicable taxes. Debt and equity securities classified as trading securities are carried at fair value with unrealized gains or losses included in income. Debt securities that are expected to be held-to-maturity are carried at amortized cost. Individual securities classified as either available-for-sale or held-to-maturity are reduced to net realizable value by a charge to income for other than temporary declines in fair value. Realized gains and losses are determined on the average cost method and are reflected in income.

Inventories—
Inventories in electronics, game and music are valued at cost, not in excess of market, cost being determined on the "average cost" basis except for the cost of finished products carried by certain subsidiary companies which is determined on the "first-in, first-out" basis.

Film costs—
Film costs related to theatrical and television product (which includes direct production costs, production overhead and acquisition costs) are stated at the lower of amortized cost or net realizable value. Film costs are amortized, and the estimated liabilities for residuals and participations are accrued, for an individual product based on the proportion that current period actual revenues bear to the estimated remaining total lifetime revenues. These estimates are reviewed on a periodic basis. As a result of the adoption of SOP 00-2, film costs are classified as non-current assets.

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

Intangibles and goodwill—
Intangibles, which mainly consist of artist contracts, music catalogs and trademarks, are being amortized on a straight-line basis principally over 16 years, 21 years and 20 years, respectively.

Goodwill recognized in acquisitions accounted for as purchases is being amortized on a straight-line basis principally over a 20 or 40-year period.

Sony evaluates the amortization period of intangibles and goodwill on an ongoing basis in light of changes in any business conditions, events or circumstances that may indicate potential impairment of those assets.

Deferred insurance acquisition costs—
Costs that vary with and are primarily related to acquiring new insurance policies are deferred as long as they are recoverable. The deferred insurance acquisition costs are being amortized mainly over the premium-paying period of the related insurance policies using assumptions consistent with those used in computing policy reserves.

Future insurance policy benefits—
Future insurance policy benefits are computed based on actuarial assumptions.

Accounting for the impairment of long-lived assets—
Long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. When the sum of expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized, based on the fair value of the asset. The fair value of goodwill is determined using a discounted cash flows analysis.

Goodwill not identified with assets that are subject to an impairment loss is evaluated by using discounted cash flow method.

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

During the year ended March 31, 2001, Sony began expensing advertising costs for theatrical and television product as incurred in accordance with SOP 00-2. Prior to the adoption of SOP 00-2, in accordance with Statement of Financial Accounting Standards ("FAS") No. 53, "Financial Reporting by Producers and Distributors of Motion Picture Films" issued by Financial Accounting Standards Board ("FASB"), advertising costs for theatrical and television product were capitalized and amortized over the related revenue streams in each market that such costs were intended to benefit.

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

Derivative financial instruments—
Derivative financial instruments, which include foreign exchange forward contracts, foreign currency option contracts, interest rate swap agreements, and interest rate and currency swap agreements, are used in Sony's risk management of foreign currency and interest rate risk exposures of its financial assets and liabilities.

a) Foreign exchange forward contracts:
Sony enters into foreign exchange forward contracts primarily to limit exposure, affected by changes in foreign currency exchange rates, on inter-company accounts receivable and payable and cash flows generated from anticipated transactions denominated in foreign currencies. Foreign exchange forward contracts which are designated and effective as hedges of such currency exchange rate risk on existing assets and liabilities are marked to market and included as an offset to foreign exchange gains or losses recorded on the existing assets and liabilities. Such contracts on anticipated transactions, including contracts used to hedge inter-company foreign currency commitments, which do not qualify as firm commitments, are marked to market with changes in value recognized in foreign exchange gains or losses.

b) Foreign currency option contracts:
Sony enters into purchased foreign currency option contracts primarily to limit exposure, affected by changes in foreign currency exchange rates, on cash flows generated from anticipated inter-company transactions denominated in foreign currencies. Sony also enters into written foreign currency option contracts, of which the majority are part of range forward contracts corresponding to the purchased foreign currency option contracts. In addition to the range forward contracts, Sony enters into written foreign currency option contracts to minimize its hedging costs. The carrying values of all foreign currency option contracts are marked to market with changes in value recognized in foreign exchange gains or losses.

c) Interest rate swap agreements and interest rate and currency swap agreements:
Sony enters into interest rate swap agreements or interest rate and currency swap agreements in order to lower funding costs, to diversify sources of funding and to limit Sony's exposure in relation to underlying debt instruments resulting from adverse fluctuations in interest rates or foreign currency exchange rates. The related interest differentials paid or received under the interest rate swap agreements and under the interest rate and currency swap agreements are recognized over the terms of the agreements in interest expense. Currency swap portions of the interest rate and currency swap agreements which are designated and effective as hedges of exposure resulting from changes in foreign currency exchange rates on underlying debt denominated in foreign currency are marked to market and included as an offset to foreign exchange gains or losses on the underlying debt.

After an underlying hedged transaction is settled or ceases to exist, all changes in fair value of related derivatives which have not been settled are recognized in foreign exchange gains or losses.

Stock-based compensation—
In accordance with Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees", stock-based compensation cost is recognized in income based on the excess, if any, of the quoted market price of the stock at the grant date of the award or other measurement date over the stated exercise price of the award.

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

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

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

Net income per share—
Basic net income per share ("EPS") is computed based on the average number of shares of common stock outstanding during each period and diluted EPS assumes the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock. EPS for all periods is appropriately adjusted for any free distributions of common stock which have been completed.

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

(3) Recent pronouncements:

Derivative instruments and hedging activities—
On April 1, 2001, Sony adopted FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by FAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities — an Amendment of FASB statement No. 133". FAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments. Specifically, FAS No. 133 requires an entity to recognize all derivatives as either assets or liabilities in the balance sheet and to measure those instruments at fair value. Additionally, the fair value adjustments will affect either stockholders' equity or net income depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity. On April 1, 2001, upon the adoption of the new standard, Sony recorded an unrealized gain of ¥1,089 million ($9 million) in accumulated other comprehensive income and an after-tax gain of ¥5,978 million ($48 million) as the cumulative effect of an accounting change in the consolidated statement of income for the year ending March 31, 2002.

(4) Reclassifications:

Simultaneous with the adoption of SAB No. 101, gains and losses on the sale and disposal, net and losses from impairment of long-lived assets, which were previously recorded in other income and expenses, are now recorded in selling, general and administrative expenses. As a result of the reclassification, operating income for the year ended March 31, 1999 and 2000 decreased by ¥10,151 million and ¥17,423 million, respectively.

As a result of the adoption of SOP 00-2, ¥112,624 million of film costs related to theatrical and television product at March 31, 2000, which were previously recorded in inventories in accordance with FAS No. 53, have been reclassified to film costs which is included in non-current assets.

In addition to the above, certain reclassifications of the financial statements for the years ended March 31, 1999 and 2000 have been made to conform to the presentation for the year ended March 31, 2001.

3. U.S. dollar amounts

U.S. dollar amounts presented in the financial statements are included solely for the convenience of the reader. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into U.S. dollars. As the amounts shown in U.S. dollars are for convenience only, the rate of ¥125=U.S.$1, the approximate current rate at March 30, 2001, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

4. Integration of three listed subsidiaries

On January 5, 2000, Sony Corporation made three listed subsidiaries, Sony Music Entertainment (Japan) Inc. ("SMEJ"), Sony Chemicals Corporation ("SCC") and Sony Precision Technology Inc. ("SPT"), wholly owned subsidiary companies through exchange offer procedures. Prior to the exchange offer procedures, Sony Corporation owned 71.0%, 69.6% and 69.2% of common stock of SMEJ, SCC and SPT, respectively. SMEJ operates primarily in the recording business; SCC is engaged in manufacturing and sale of recording media, electrical parts and joint materials; and SPT is engaged in manufacturing and sale of precise measuring and recording machines and equipment. Sony Computer Entertainment Inc., which is owned by Sony Corporation and SMEJ, also became a wholly owned subsidiary company of Sony Corporation.

The share exchange ratios were one share of SMEJ, SCC and SPT for 0.835 shares, 0.565 shares and 0.203 shares of Sony Corporation, respectively. As a result, approximately 26,156 thousand, 5,606 thousand and 1,218 thousand shares of Sony Corporation's common stock were issued, respectively.

All of the exchanges were accounted for as purchases. The fair value of the acquired minority interests were determined based on the quoted market price of ¥10,550 per share of Sony Corporation for a few days before and after March 9, 1999 when the terms of the acquisition were agreed to and announced. The costs of the acquired minority interest were ¥276,169 million, ¥59,174 million and ¥12,868 million for SMEJ, SCC and SPT, respectively. The direct costs were included in the cost of acquisition. The excess of the purchase price of each subsidiary over the net assets acquired has been allocated to identifiable assets such as land and intangible assets (primarily the PlayStation trade name, PlayStation format, music distribution agreements and artist contracts), based upon the estimated fair value of such assets, and relevant deferred tax liabilities. The excess of the acquisition costs over the sum of the amounts assigned to identifiable assets less liabilities assumed is recognized as goodwill. Goodwill on this transaction is being amortized on a straight-line basis over a 20-year period.

Prior to the exchange those three subsidiaries were consolidated subsidiaries, and Sony's consolidated financial statements include operating results of those subsidiaries for the full year. After the date of the exchange, minority interest income or losses relating to these subsidiaries were no longer recognized in Sony's consolidated financial statements. The following unaudited consolidated pro forma information shows the results of Sony's consolidated operations for the years ended March 31, 1999 and 2000 as though the exchanges were made as of the beginning of each year presented.

	Unaudited Year ended March 31 1999	2000
	Yen in millions	
Net sales (No change)	¥6,415,418	¥6,238,401
Net income	174,870	123,183
	Yen	
Net income per common share:		
Basic	¥197.49	¥138.07
Diluted	178.37	126.50

The pro forma results of operations are not necessarily indicative of the actual results of operations that would have occurred had the exchanges been consummated at the beginning of the respective years, or of results that may occur in the future. The pro forma net income per common share for the years ended March 31, 1999 and 2000 reflects the two-for-one stock split that has become effective on May 19, 2000.

5. Inventories

Inventories comprise the following:

	Yen in millions March 31 2000	2001	Dollars in millions March 31, 2001
Finished products	¥473,935	**¥624,055**	**$4,992**
Work in process	106,749	**125,198**	**1,002**
Raw materials, purchased components and supplies	165,866	**193,623**	**1,549**
	¥746,550	**¥942,876**	**$7,543**

6. Film costs

Film costs comprise the following:

	Yen in millions March 31 2000	2001	Dollars in millions March 31, 2001
Theatrical:			
Released (including acquired film libraries)	¥178,131	**¥169,522**	**$1,356**
In production and development	106,976	**77,876**	**623**
Television licensing:			
Released (including acquired film libraries)	42,634	**37,700**	**302**
In production and development	11,270	**12,519**	**100**
	¥339,011	**¥297,617**	**$2,381**

As described in Note 2, Sony adopted SOP 00-2 for the year ended March 31, 2001. As a result, film cost balances at March 31, 2001 are presented under the new accounting rule, while those at March 31, 2000 are presented in accordance with the old accounting rule, FAS No. 53.

Sony estimates that approximately 90% of unamortized costs of released films (excluding amounts allocated to acquired film libraries) at March 31, 2001 will be amortized within the next three years. Approximately ¥113,766 million ($910 million) of released film costs are expected to be amortized during the next twelve months. As of March 31, 2001, unamortized acquired film libraries of approximately ¥29,092 million ($233 million) remain to be amortized on a straight-line basis over an average of the remaining life of 9 years. Approximately ¥84,508 million ($676 million) of accrued participation liabilities are expected to be paid during the next twelve months.

7. Investments in and transactions with affiliated companies

Sony accounts for its investments in affiliated companies over which Sony has significant influence or ownership of more than 20% but less than or equal to 50% under the equity method. Such investments include but are not limited to Sony's interest in ST Liquid Crystal Display Corporation (50%), The Columbia House Company (50%), Loews Cineplex Entertainment Corporation ("Loews") (39.5%), Telemundo Group (39.5%), BE-ST Bellevuestrasse Development GmbH & Co. First Real Estate KG, Berlin (50%), and Crosswave Communications Inc. (23.9%).

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

	Yen in millions		Dollars in millions
	March 31		March 31,
	2000	**2001**	**2001**
Current assets	¥217,419	**¥209,419**	**$1,675**
Property, plant and equipment	263,895	**164,076**	**1,313**
Other assets	207,338	**146,519**	**1,172**
Total assets	¥688,652	**¥520,014**	**$4,160**
Current liabilities	¥288,838	**¥215,966**	**$1,728**
Long-term liabilities	228,938	**153,876**	**1,231**
Stockholders' equity	170,876	**150,172**	**1,201**
Total liabilities and stockholders' equity	¥688,652	**¥520,014**	**$4,160**
Number of companies at end of year	81	**86**	

	Yen in millions			Dollars in millions
	Year ended March 31			Year ended March 31,
	1999	2000	**2001**	**2001**
Sales and revenue	¥459,168	¥503,186	**¥418,213**	**$3,346**
Gross profit	146,678	135,828	**134,388**	**1,075**
Net income (loss)	(36,862)	(89,207)	**(65,229)**	**(522)**

During the year ended March 31, 2000, additional costs relating to shortened amortization periods and an impairment of deferred direct-response advertising and member acquisition expenses in The Columbia House Company and the devaluation of real estate for sale in BE-ST Bellevuestrasse Development GmbH & Co. First Real Estate KG, Berlin, which develops and operates commercial- and other-use facility, negatively affected the equity in net losses of affiliated companies by approximately ¥7,632 million and ¥5,154 million, respectively.

During the year ended March 31, 2001, ¥25,026 million ($200 million) of equity in net losses of Loews were recorded, principally due to continued losses as well as the impairment loss recorded against the entire carrying value of Sony's investment in Loews. In February 2001, Loews filed petitions for corporate reorganization in the United States of America under Chapter 11 of the Federal Bankruptcy Code, and in Canada under the Companies-Creditors Agreement Act, and signed a letter of intent with a group of investors regarding a proposed acquisition of Loews and a restructuring of its indebtedness. When the reorganization is completed, it is expected that Sony will no longer be a shareholder in Loews and Loews will be excluded from Sony's equity affiliates. Under such situation, the financial position of Loews as of March 31, 2001 is not included in the above summarized combined balance sheet.

Affiliated companies accounted for under the equity method with an aggregate carrying amount of ¥10,670 million ($85 million) at March 31, 2001, were quoted on established markets at an aggregate value of ¥32,408 million ($259 million).

Account balances and transactions with affiliated companies are presented below:

	Yen in millions		Dollars in millions
	March 31		**March 31,**
	2000	**2001**	**2001**
Accounts receivable, trade	¥14,453	**¥19,717**	**$158**
Accounts payable, trade	1,085	**9,964**	**80**

	Yen in millions			Dollars in millions
	Year ended March 31			**Year ended March 31,**
	1999	2000	**2001**	**2001**
Sales	¥25,885	¥32,045	**¥31,239**	**$250**
Purchases	1,932	5,301	**75,379**	**603**

Dividends from affiliated companies accounted for under the equity method for the years ended March 31, 1999, 2000 and 2001 were ¥5,017 million, ¥869 million and ¥2,764 million ($22 million), respectively.

8. Marketable securities and securities investments and other

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

	Yen in millions							
	March 31, 2000				**March 31, 2001**			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:								
Debt securities	¥697,237	¥ 40,646	¥7,268	¥730,615	**¥883,571**	**¥53,264**	**¥ 2,396**	**¥ 934,439**
Equity securities	25,759	66,905	2,594	90,070	**45,868**	**32,555**	**8,119**	**70,304**
Held-to-maturity securities	—	—	—	—	**16,493**	**63**	**—**	**16,556**
Total	¥722,996	¥107,551	¥9,862	¥820,685	**¥945,932**	**¥85,882**	**¥10,515**	**¥1,021,299**

	Dollars in millions			
	March 31, 2001			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:				
Debt securities	**$7,069**	**$426**	**$19**	**$7,476**
Equity securities	**367**	**260**	**65**	**562**
Held-to-maturity securities	**131**	**1**	**—**	**132**
Total	**$7,567**	**$687**	**$84**	**$8,170**

At March 31, 2001, debt securities classified as available-for-sale securities and held-to-maturity securities mainly consist of Japanese government and municipal bonds and corporate debt securities due within 1 to 17 years.

Proceeds from sales of available-for-sale securities were ¥571,330 million, ¥186,093 million and ¥91,424 million ($731 million) for the years ended March 31, 1999, 2000 and 2001, respectively. On those sales, gross realized gains computed on the average cost basis were ¥6,705 million, ¥18,887 million and ¥5,291 million ($42 million) and gross realized losses were ¥1,851 million, ¥2,394 million and ¥416 million ($3 million), respectively.

In March 2001, Sony Corporation and consolidated subsidiaries contributed certain marketable equity securities, not including those of its subsidiaries and affiliated companies, to an employee retirement benefit trust, with no cash proceeds thereon. The fair value of these securities at the time of contribution was ¥14,316 million ($115 million).

In the fourth quarter of the year ended March 31, 2001, due to a change in the partial investment policy of a life insurance subsidiary, certain amounts previously included in marketable securities as short-term investments in money market funds have been transferred to available-for-sale securities and included in securities investments and other on the balance sheet as of March 31, 2001. At March 31, 2000, marketable securities on the balance sheet included ¥34,525 million of short-term investments in money market funds relevant to the change.

Marketable securities as of March 31, 2000 and 2001 included short-term investments in money market funds of ¥85,928 million and ¥72,152 million ($577 million), respectively.

In the ordinary course of business, Sony maintains long-term investment securities, included in securities investments and other, issued by a number of nonpublic companies. The aggregate carrying amounts of the investments in nonpublic companies at March 31, 2000 and 2001, which were valued at cost, were ¥38,826 million and ¥92,565 million ($741 million), respectively. The corresponding fair values of the investments in nonpublic companies were not computed as such estimation was not readily determinable. If the value of an investment has declined and is judged to be other than temporary, the investment is written down to its fair value.

The net change in the unrealized gains or losses on trading securities that has been included in earnings during the years ended March 31, 1999, 2000 and 2001 was insignificant.

Securities investments and other as of March 31, 2000 and 2001 also included separate account's assets (Note 11) in the life insurance business, which were carried at fair value. Although the separate account's assets consist primarily of debt and equity securities, they are excluded from the above table due to a nature of the assets. Proceeds from sales of available-for-sale securities and gross realized gains or losses described above also exclude the amounts related to the separate account's assets. Separate account's assets at March 31, 2000 and 2001 were ¥71,888 million and ¥91,956 million ($736 million), respectively.

9. Leased assets

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

An analysis of leased assets under capital leases is as follows:

	Yen in millions		Dollars in millions
	March 31		March 31,
Class of property	2000	**2001**	**2001**
Land	¥ 1,799	**¥ 1,936**	**$ 16**
Buildings	15,713	**16,762**	**134**
Machinery, equipment and others	28,059	**37,773**	**302**
Accumulated amortization	(19,981)	**(22,850)**	**(183)**
	¥ 25,590	**¥ 33,621**	**$ 269**

The following is a schedule by year of the future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of March 31, 2001:

	Yen in millions	Dollars in millions
Year ending March 31:		
2002	¥13,396	$107
2003	11,896	95
2004	7,808	62
2005	5,354	43
2006	3,200	26
Later years	11,737	94
Total minimum lease payments	53,391	427
Less—Amount representing interest	8,997	72
Present value of net minimum lease payments	44,394	355
Less—Current obligations	11,681	93
Long-term capital lease obligations	¥32,713	$262

Minimum lease payments have not been reduced by minimum sublease income of ¥12,274 million ($98 million) due in the future under noncancelable subleases.

Rental expenses under operating leases for the years ended March 31, 1999, 2000 and 2001 were ¥98,925 million, ¥91,340 million and ¥93,727 million ($750 million), respectively. The minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at March 31, 2001 are as follows:

	Yen in millions	Dollars in millions
Year ending March 31:		
2002	¥ 49,659	$ 397
2003	41,041	328
2004	35,261	282
2005	22,128	177
2006	21,430	172
Later years	106,260	850
Total minimum future rentals	¥275,779	$2,206

10. Accumulated amortization of intangibles and goodwill

Accumulated amortization of intangibles and goodwill amounted to ¥202,750 million and ¥263,510 million ($2,108 million) at March 31, 2000 and 2001, respectively.

11. Insurance-related accounts

Sony's life and non-life insurance subsidiaries in Japan maintain their accounting records as described in Note 2 in accordance with the accounting principles and practices generally accepted in Japan, which vary in some respects from U.S. GAAP.

Those differences are mainly that insurance acquisition costs are charged to income when incurred in Japan whereas in the United States of America those costs are deferred and amortized generally over the premium-paying period of the insurance policies, and that future policy benefits calculated locally under the authorization of the supervisory administrative agencies are comprehensively adjusted to a net level premium method with certain adjustments of actuarial assumptions for U.S. GAAP purposes. For purposes of preparing the consolidated financial statements, appropriate adjustments have been made to reflect such items in accordance with U.S. GAAP.

The amounts of statutory net equity of the subsidiaries as of March 31, 2000 and 2001 were ¥49,791 million and ¥101,106 million ($809 million), respectively.

(1) Deferred insurance acquisition costs:

Insurance acquisition costs, such as commission expenses, medical examination and inspection report fees, advertising costs, etc., that vary with and are primarily related to acquiring new insurance policies are deferred as long as they are recoverable. The deferred insurance acquisition costs are amortized mainly over the premium-paying period of the related insurance policies using assumptions consistent with those used in computing policy reserves. Amortization charged to income for the years ended March 31, 1999, 2000 and 2001 amounted to ¥20,669 million, ¥22,708 million and ¥38,886 million ($311 million), respectively.

(2) Future insurance policy benefits:

Liabilities for future policy benefits are established in amounts adequate to meet the estimated future obligations of policies in force. These liabilities are computed by the net level premium method based upon estimates as to future investment yield, mortality and withdrawals. Future policy benefits are computed using interest rates ranging from approximately 1.75% to 5.5%, generally graded down after 10 to 20 years. Mortality, morbidity and withdrawal assumptions for all policies are based on either the life insurance subsidiary's own experience or various actuarial tables. At March 31, 2000 and 2001, future insurance policy benefits amounted to ¥1,070,303 million and ¥1,217,972 million ($9,744 million), respectively.

(3) Separate account assets:

Separate account assets are funds on which investment income and gains or losses accrue directly to certain policyholders. Separate account assets are legally segregated. They are not subject to the claims that may arise out of any other business of a life insurance subsidiary. Separate account assets, which consist primarily of debt and equity securities, are carried at fair value and included in securities investments and other. The related liabilities are recognized as separate account liabilities and included in future insurance benefits and other. Fees earned for administrative and contract-holder services performed for the separate accounts are recognized as insurance revenue.

12. Short-term borrowings and long-term debt

Short-term borrowings comprise the following:

	Yen in millions		Dollars in millions
	March 31		March 31,
	2000	**2001**	**2001**
Loans, principally from banks:			
with weighted-average interest rate of 3.72 % per annum	¥54,566		
with weighted-average interest rate of 4.93 % per annum		**¥ 68,240**	**$ 546**
Commercial paper:			
with an interest rate of 10.50% per annum issued by a consolidated subsidiary in India	1,860		
with weighted-average interest rate of 4.86% per annum		**117,295**	**938**
	¥56,426	**¥185,535**	**$1,484**

Long-term debt comprises the following:

	Yen in millions		Dollars in millions
	March 31		March 31,
	2000	**2001**	**2001**
Unsecured loans, representing obligations principally to banks:			
Due 2000 to 2018 with interest ranging from 1.0% to 6.39% per annum	¥ 80,868		
Due 2001 to 2018 with interest ranging from 0.8% to 6.69% per annum		**¥ 59,908**	**$ 479**
Secured loans, representing obligations principally to banks:			
Due 2000 to 2009 with an interest rate of 6.25% per annum	2,158		
Due 2001 to 2009 with interest ranging from 6.75% to 7.25% per annum		**2,277**	**18**
Medium-term notes of consolidated subsidiaries:			
Due 2000 to 2006 with interest ranging from 3.21% to 7.55% per annum	123,625		
Due 2001 to 2006 with interest ranging from 4.82% to 7.55% per annum		**79,296**	**634**
Unsecured 2.0% convertible bonds, due 2000	53	**—**	**—**
Unsecured 0.15% convertible bonds, due 2001	34,114	**—**	**—**
Unsecured 1.5% convertible bonds, due 2002, convertible currently at ¥2,194.0 ($18) for one common share, redeemable before due date	338	**316**	**3**
Unsecured 1.4% convertible bonds, due 2003, convertible currently at ¥2,707.8 ($22) for one common share, redeemable before due date	9,380	**8,310**	**67**
Unsecured 1.4% convertible bonds, due 2005, convertible currently at ¥3,995.5 ($32) for one common share, redeemable before due date	293,120	**287,883**	**2,303**
Unsecured 0.1% bonds, due 2000 with detachable warrants	2,000	**—**	**—**
Unsecured 0.1% bonds, due 2001 with detachable warrants	3,500	**3,500**	**28**
Unsecured 0.03% bonds, due 2004 with detachable warrants, net of unamortized discount	3,733	**3,795**	**30**
Unsecured 0.1% bonds, due 2005 with detachable warrants, net of unamortized discount	3,696	**3,753**	**30**
Unsecured 1.55% bonds, due 2006 with detachable warrants	—	**12,000**	**96**
Unsecured 4.4% bonds, due 2001	80,000	**80,000**	**640**
Unsecured 1.42% bonds, due 2005, net of unamortized discount	—	**99,982**	**800**
Unsecured 2.04% bonds, due 2010, net of unamortized discount	—	**49,972**	**400**
Unsecured 6.125% U.S. dollar notes, due 2003, net of unamortized discount	193,186	**193,268**	**1,546**
Unsecured 2.55% notes of a consolidated subsidiary, due 2000	5,000	**—**	**—**

(Continued on following page.)

	Yen in millions March 31 2000	Yen in millions March 31 2001	Dollars in millions March 31, 2001
Unsecured 5.01% yen/U.S. dollar dual currency notes of a consolidated subsidiary, due 2000	¥ 20,465	—	—
Unsecured 2.0% bonds of a consolidated subsidiary, due 2001	15,000	—	—
Unsecured 1.35% bonds of a consolidated subsidiary, due 2001	15,000	¥ **15,000**	**$ 120**
Unsecured 2.5% bonds of a consolidated subsidiary, due 2003	15,000	**15,000**	**120**
Unsecured 2.0% bonds of a consolidated subsidiary, due 2005	15,000	**15,000**	**120**
Unsecured 1.99% bonds of a consolidated subsidiary, due 2007	—	**15,000**	**120**
Unsecured 2.35% bonds of a consolidated subsidiary, due 2010	—	**5,000**	**40**
Unsecured fixed coupon U.S. dollar notes linked to the Yen/U.S. dollar rate of a consolidated subsidiary, due 2001	690	**805**	**6**
Secured 3.8% bonds of a consolidated subsidiary, due 2001	3,000	—	—
Long-term capital lease obligations:			
Due 2000 to 2013 with interest ranging from 1.20% to 11.67% per annum	35,808		
Due 2001 to 2014 with interest ranging from 1.90% to 9.30% per annum		**44,394**	**355**
Guarantee deposits received	17,603	**20,066**	**161**
	972,337	**1,014,525**	**8,116**
Less—Portion due within one year	158,509	**170,838**	**1,367**
	¥813,828	**¥ 843,687**	**$6,749**

A summary of the exercise rights of the detachable warrants as of March 31, 2001 is as follows:

Issued on	Exercisable during	Exercise price Yen	Exercise price Dollars	Number of shares per warrant	Status of exercise
October 13, 1997	November 2, 1998 through October 12, 2001	¥ 5,894	$ 47	339 shares of common stock of Sony Corporation	894 warrants exercised; 856 warrants outstanding
August 17, 1998	September 1, 1999 through August 16, 2004	¥ 6,264	$ 50	319 shares of common stock of Sony Corporation	206 warrants exercised; 1,794 warrants outstanding
August 23, 1999	September 1, 2000 through August 22, 2005	¥ 7,167	$ 57	279 shares of common stock of Sony Corporation	2,000 warrants outstanding
October 19, 2000	November 1, 2001 through October 18, 2006	¥12,457	$100	100 shares of common stock of Sony Corporation	9,600 warrants outstanding

Aggregate amounts of annual maturities of long-term debt during the next five years are as follows:

Year ending March 31	Yen in millions	Dollars in millions
2002	¥170,838	$1,367
2003	232,375	1,859
2004	33,198	266
2005	322,000	2,576
2006	140,211	1,122

At March 31, 2001, Sony had unused committed lines of credit amounting to ¥474,879 million ($3,799 million) and can borrow up to generally 90 days from the banks with whom Sony has committed line contracts. Furthermore, Sony has Commercial Paper Programs, the size of which was ¥1,252,425 million ($10,019 million). At March 31, 2001, the total outstanding balance of commercial paper was ¥117,295 million ($938 million). In the United States of America, Sony set up a ¥111,510 million ($892 million) accounts receivable financing facility to enhance its short-term financing capacity. Under those programs and the facility, Sony can issue commercial paper and sell receivables for the period not in excess of generally 270 days up to the size of the programs and the facility. In addition, for non-current financing purposes, Sony has Medium Term Notes programs, the size of which was ¥805,350 million ($6,443 million). At March 31, 2001, the total outstanding balance of Medium Term Notes was ¥79,296 million ($634 million).

The basic agreements with certain banks in Japan include provisions that collateral (including sums on deposit with such banks) or guarantors will be furnished upon the banks' request and that any collateral furnished, pursuant to such agreements or otherwise, will be applicable to all present or future indebtedness to such banks.

13. Financial instruments

Sony has certain financial instruments including financial assets and liabilities and off-balance-sheet financial instruments incurred in the normal course of business. In applying a consistent risk management strategy, Sony manages the exposure to market rate movements of its financial assets and liabilities through the use of derivative financial instruments which include foreign exchange forward contracts, foreign currency option contracts, interest rate swap agreements and interest rate and currency swap agreements designated as hedges. These instruments are executed with creditworthy financial institutions, and virtually all foreign currency contracts are denominated in U.S. dollars, euros and other currencies of major countries. Although Sony may be exposed to losses in the event of nonperformance by counterparties or interest and currency rate movements, it does not anticipate significant losses due to the nature of its counterparties or the hedging arrangements.

Following are explanatory notes regarding the financial assets and liabilities and off-balance-sheet financial instruments.

(1) Cash and cash equivalents and time deposits:

In the normal course of business, substantially all cash and cash equivalents and time deposits are highly liquid and are carried at amounts which approximate fair value.

(2) Short-term borrowings and long-term debt:

The fair values of short-term borrowings and total long-term debt, including the current portion, were estimated based on either the market value or the discounted amounts of future cash flows using Sony's current incremental borrowing rates for similar liabilities.

(3) Derivative financial instruments:

Sony utilizes foreign exchange forward contracts and foreign currency option contracts primarily to fix the cash flow value resulting from inter-company accounts receivable and payable and future transactions denominated in foreign currencies in relation to the core currencies (Japanese yen, U.S. dollars and euros) of Sony's major operating units.

Sony has entered into foreign exchange forward contracts in the contracted amounts of ¥822,644 million and ¥1,189,710 million ($9,518 million) at March 31, 2000 and 2001, respectively. The majority of these contracts mature within four months. The fair values of these contracts were estimated based on market quotations.

Sony has entered into purchased foreign currency option contracts in the notional principal amounts of ¥495,949 million and ¥479,132 million ($3,833 million) at March 31, 2000 and 2001, respectively. The majority of these contracts expire up to three months after the balance sheet date. Sony has also entered into written foreign currency option contracts in the notional principal amounts of ¥574,656 million and ¥724,091 million ($5,793 million) at March 31, 2000 and 2001, respectively. The majority of these contracts are part of range forward contract arrangements and expire in the same month with the corresponding purchased foreign currency option contracts described above. In addition to the range forward contracts, Sony enters into written foreign currency option contracts in order to minimize its hedging costs. The fair values of such foreign currency options were estimated based on market quotations.

Sony has entered into interest rate swap agreements and interest rate and currency swap agreements which mature from 2001 to 2015 to reduce its exposure resulting from adverse fluctuations in interest rates or foreign currency exchange rates on underlying debt instruments. At March 31, 2000 and 2001, the aggregate notional principal amounts of the interest rate swap agreements were ¥225,801 million and ¥215,971 million ($1,728 million), respectively, and those of the interest rate and currency swap agreements were ¥362,437 million and ¥278,573 million ($2,229 million), respectively. The fair values of such agreements were estimated based on the discounted amounts of net future cash flows.

Sony's life insurance subsidiary often enters into written government bond futures option contracts in order to secure the yields of bond investments on hand. Their notional principal amounts were ¥102,580 million at March 31, 2000. The subsidiary did not have such contracts at March 31, 2001. For accounting purposes, those transactions do not qualify for hedge accounting. Accordingly, those written bond futures option contracts were marked to market. The fair values of such written bond futures option contracts were estimated based on market quotations. The average fair value and the net gain or loss from those written bond futures option contracts during the years ended March 31, 1999, 2000 and 2001 were insignificant.

The estimated fair values of Sony's financial instruments, both on and off the balance sheets excluding cash and cash equivalents, time deposits, notes and accounts receivable, trade, short-term borrowings and notes and accounts payable, trade that are carried at amounts which approximate fair value and excluding debt and equity securities disclosed in Note 8, are summarized as follows:

	Yen in millions				Dollars in millions	
	March 31				**March 31, 2001**	
	2000		**2001**			
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Long-term debt including the current portion	¥(972,337)	¥(1,893,521)	**¥(1,014,525)**	**¥(1,395,706)**	**$(8,116)**	**$(11,166)**
Forward exchange contracts	986	2,479	**(7,864)**	**(17,226)**	**(63)**	**(138)**
Currency option contracts purchased	7,422	7,422	**5,964**	**5,964**	**48**	**48**
Currency option contracts written	(2,892)	(2,892)	**(6,897)**	**(6,897)**	**(55)**	**(55)**
Interest rate swap agreements	(253)	(457)	**(2,469)**	**(3,797)**	**(20)**	**(30)**
Interest rate and currency swap agreements	—	(32,362)	**—**	**(9,032)**	**—**	**(72)**
Bond futures option contracts written	(179)	(179)	**—**	**—**	**—**	**—**

14. Pension and severance plans

Upon terminating employment, employees of Sony Corporation and subsidiaries in Japan are entitled, under most circumstances, to lump-sum indemnities or pension payments as described below. For employees voluntarily retiring, under normal circumstances, minimum payment is an amount based on current rates of pay and lengths of service. In calculating the minimum payment for employees involuntarily retiring, including employees retiring due to meeting mandatory retirement age requirements, Sony may grant additional benefits. With respect to directors' and statutory auditors' resignations, lump-sum severance indemnities are calculated using a similar formula and are normally paid subject to the approval of Sony's shareholders.

Sony Corporation and most subsidiaries in Japan have contributory funded defined benefit pension plans, which are pursuant to the Japanese Welfare Pension Insurance Law. The contributory pension plans cover a portion of the governmental welfare pension program, under which the contributions are made by the companies and their employees, and an additional portion representing the substituted noncontributory pension plans. Under the contributory pension plans, the defined benefits representing the noncontributory portion of the plans, in general, cover 60% of the indemnities under the existing regulations to employees. The remaining indemnities are covered by severance payments by the companies. The pension benefits are determined based on years of service and the compensation amounts, as stipulated in the aforementioned regulations, are payable at the option of the retiring employee in a lump-sum amount or on a monthly pension. Contributions to the plans are funded through several financial institutions in accordance with the applicable laws and regulations.

The majority of foreign subsidiaries have defined benefit pension plans or severance indemnity plans which substantially cover all of their employees, under which the cost of benefits is currently funded or accrued. Benefits awarded under these plans are based primarily on the current rate of pay and length of service.

The components of net pension and severance costs for the years ended March 31, 1999, 2000 and 2001 were as follows:

Japanese plans:

	Yen in millions			Dollars in millions
	Year ended March 31			**Year ended March 31,**
	1999	2000	**2001**	**2001**
Service cost	¥41,743	¥ 46,306	**¥ 46,400**	**$ 371**
Interest cost	14,020	14,898	**19,040**	**152**
Expected return on plan assets	(9,618)	(11,236)	**(26,216)**	**(209)**
Amortization of net transition asset	(375)	(375)	**(375)**	**(3)**
Recognized actuarial loss	8,032	5,733	**7,447**	**60**
Amortization of prior service cost	1,234	1,335	**783**	**6**
Net periodic benefit cost	¥55,036	¥ 56,661	**¥ 47,079**	**$ 377**

Foreign plans:

	Yen in millions			Dollars in millions
	Year ended March 31			**Year ended March 31,**
	1999	2000	**2001**	**2001**
Service cost	¥15,842	¥17,836	**¥16,841**	**$135**
Interest cost	5,333	6,095	**6,805**	**55**
Expected return on plan assets	(4,475)	(4,989)	**(6,492)**	**(52)**
Amortization of net transition asset	(122)	(108)	**(36)**	**(0)**
Recognized actuarial (gain) loss	342	(46)	**555**	**4**
Amortization of prior service cost	(274)	(142)	**(341)**	**(3)**
Net periodic benefit cost	¥16,646	¥18,646	**¥17,332**	**$139**

The changes in benefit obligation and plan assets, funded status and composition of amounts recognized in the consolidated balance sheets were as follows:

	Japanese plans			Foreign plans		
	Yen in millions		Dollars in millions	Yen in millions		Dollars in millions
	March 31		**March 31,**	March 31		**March 31,**
	2000	**2001**	**2001**	2000	**2001**	**2001**
Change in benefit obligation:						
Benefit obligation at beginning of year	¥562,861	**¥729,803**	**$5,839**	¥ 92,970	**¥103,992**	**$ 832**
Service cost	46,306	**46,400**	**371**	17,836	**16,841**	**135**
Interest cost	14,898	**19,040**	**152**	6,095	**6,805**	**55**
Plan participants' contributions	4,806	**5,865**	**47**	821	**755**	**6**
Amendments	(7,665)	**1,156**	**9**	161	**(1,708)**	**(14)**
Actuarial (gain) loss	122,021	**27,963**	**224**	11,564	**(326)**	**(3)**
Foreign currency exchange rate changes	—	**—**	**—**	(13,861)	**15,114**	**121**
Benefits paid	(13,424)	**(28,905)**	**(231)**	(11,594)	**(13,311)**	**(107)**
Benefit obligation at end of year	729,803	**801,322**	**6,411**	103,992	**128,162**	**1,025**
Change in plan assets:						
Fair value of plan assets at beginning of year	369,321	**507,943**	**4,064**	60,297	**78,842**	**631**
Actual return on plan assets	109,355	**(85,468)**	**(684)**	18,748	**(2,567)**	**(21)**
Foreign currency exchange rate changes	—	**—**	**—**	(8,332)	**8,363**	**67**
Employer contribution	30,721	**44,923**	**359**	12,302	**7,853**	**63**
Plan participants' contributions	4,806	**5,865**	**47**	821	**755**	**6**
Benefits paid	(6,260)	**(13,096)**	**(105)**	(4,994)	**(6,895)**	**(55)**
Fair value of plan assets at end of year	507,943	**460,167**	**3,681**	78,842	**86,351**	**691**
Funded status	221,860	**341,155**	**2,730**	25,150	**41,811**	**334**
Unrecognized actuarial loss	(121,184)	**(236,747)**	**(1,894)**	(811)	**(9,943)**	**(79)**
Unrecognized net transition asset	1,979	**1,604**	**13**	210	**143**	**1**
Unrecognized prior service cost	(3,805)	**(4,178)**	**(34)**	2,110	**2,163**	**17**
Net amount recognized	¥ 98,850	**¥101,834**	**$ 815**	¥ 26,659	**¥ 34,174**	**$ 273**
Amounts recognized in the consolidated balance sheet consist of:						
Accrued pension and severance costs, including current portion	¥106,022	**¥189,283**	**$1,514**	¥ 26,659	**¥ 34,174**	**$ 273**
Intangibles	(820)	**(1,419)**	**(11)**	—	**—**	**—**
Accumulated other comprehensive income	(6,352)	**(86,030)**	**(688)**	—	**—**	**—**
Net amount recognized	¥ 98,850	**¥101,834**	**$ 815**	¥ 26,659	**¥ 34,174**	**$ 273**

Assumptions used as of March 31, 1999, 2000 and 2001 were as follows:

Japanese plans:

	March 31		
	1999	2000	**2001**
Discount rate	2.7%	2.7%	**2.7%**
Expected return on plan assets	4.0	4.0	**4.0**
Rate of compensation increase	3.0	3.0	**3.0**

Foreign plans:

	March 31		
	1999	2000	**2001**
Discount rate	4.4–7.3%	4.5–7.5%	**4.0–7.5%**
Expected return on plan assets	6.9–9.8	6.5–9.1	**5.0–9.0**
Rate of compensation increase	2.8–4.8	2.0–4.8	**2.5–5.1**

As required under FAS No. 87 "Employers' Accounting for Pensions", the assumptions are reviewed in accordance with changes in circumstances. Amount arising from the actuarial loss for the year ended March 31, 2000 was primarily due to the change in the method of calculating the benefit obligation to adjust for the backloading of the benefits as well as to a review of certain assumptions.

Under FAS No. 87, Sony has recorded a pension liability to cover the amount of the projected benefit obligation in excess of plan assets, considering unrealized items and the minimum pension liability. The minimum pension liability represents the excess of the accumulated benefit obligation over plan assets and accrued pension and severance costs already recognized before recording the minimum pension liability. A corresponding amount was recognized as an intangible asset to the extent of the unrecognized prior service cost, and the balance was recorded as a component of accumulated other comprehensive income, net of tax.

As of March 31, 2000, the accumulated benefit obligations and the fair value of plan assets for which Sony has recognized the minimum pension liability on substantially all of the Japanese subsidiaries' plans were ¥232,624 million and ¥140,147 million, respectively. As of March 31, 2001, the accumulated benefit obligations and the fair value of plan assets for which Sony has recognized the minimum pension liability on Sony Corporation and substantially all of the Japanese subsidiaries' plans were ¥592,876 million ($4,743 million) and ¥425,554 million ($3,404 million), respectively.

As discussed in Note 8, in March 2001, Sony Corporation and consolidated subsidiaries contributed certain marketable equity securities to an employee retirement benefit trust, which is included in plan assets.

15. Stockholders' equity

Changes in the number of shares issued and outstanding during the years ended March 31, 1999, 2000 and 2001 have resulted from the following:

	Number of shares
Balance at March 31, 1998	407,195,271
Exercise of stock purchase warrants	26,774
Conversion of convertible bonds	3,217,066
Balance at March 31, 1999	410,439,111
Exercise of stock purchase warrants	192,162
Conversion of convertible bonds	10,028,119
Stock issued under exchange offerings	32,979,771
Balance at March 31, 2000	453,639,163
Stock split	**453,639,163**
Exercise of stock purchase warrants	**111,209**
Conversion of convertible bonds	**12,145,253**
Stock issued under exchange offerings	**82,346**
Balance at March 31, 2001	**919,617,134**

At March 31, 2001, 78,130,252 shares of common stock would be issued upon conversion or exercise of all convertible bonds and warrants outstanding.

On May 19, 2000, Sony Corporation completed a two-for-one stock split. The number of shares issued was 453,639,163 shares. There was no increase in the common stock account because the new shares were distributed from the portion of previously issued shares accounted for as excess of par value in the common stock account in accordance with the Japanese Commercial Code.

On November 20, 1991, Sony Corporation made a free share distribution of 33,908,621 shares in ratios of one share for each ten shares held for which no accounting entry was required in Japan. Had the distribution been accounted for in the manner adopted by companies in the United States of America, ¥201,078 million would have been transferred from retained earnings to the appropriate capital accounts. This has been the only free distribution of common stock where no accounting entry was required in Japan.

Conversions of convertible bonds into common stock are accounted for in accordance with the provisions of the Japanese Commercial Code by crediting approximately one-half of the conversion proceeds to the common stock account and the remainder to the additional paid-in capital account.

The amount of statutory retained earnings of Sony Corporation available for the payments of dividends to shareholders as of March 31, 2001 was ¥635,530 million ($5,084 million). The appropriation of retained earnings for the year ended March 31, 2001, which has been incorporated in the accompanying consolidated financial statements, will be proposed for approval at the Ordinary General Meeting of Shareholders to be held on June 21, 2001 and will be recorded in the statutory books of account, in accordance with the Japanese Commercial Code, after shareholders' approval. The above statutory amount available for dividends includes cash dividends for the six-month period ended March 31, 2001, which has been incorporated in the accompanying consolidated financial statements.

Retained earnings include Sony's equity in undistributed earnings of affiliated companies accounted for by the equity method in the amount of ¥7,699 million and ¥9,617 million ($77 million) at March 31, 2000 and 2001, respectively.

The Ordinary General Meeting of Shareholders held on June 27, 1997 authorized Sony Corporation, pursuant to the Japanese regulations, to acquire and retire up to a total not exceeding 30 million outstanding shares of its common stock with its profit, whenever deemed necessary by the Board of Directors in view of general economic conditions, Sony's business performance and financial condition and other factors. Subsequently, the Ordinary General Meeting of Shareholders held on June 29, 2000 increased the maximum number of shares to 90 million shares on and after June 30, 2000. At March 31, 2001, no common stock had been acquired under this authorization.

The Ordinary General Meeting of Shareholders held on June 26, 1998 approved that (a) in addition to the shares discussed in the preceding paragraph, Sony Corporation may, by a resolution of the Board of Directors, acquire and retire up to a total not exceeding 30 million outstanding shares of its common stock with its additional paid-in capital at prices in total not exceeding ¥400 billion ($3,200 million) and (b) Sony Corporation may grant share subscription rights to directors and/or employees pursuant to the Japanese regulations. At March 31, 2001, no common stock had been acquired nor had any share subscription rights been granted under this approval.

Other comprehensive income for the years ended March 31, 1999, 2000 and 2001, were as follows:

	Yen in millions		
	Pre-tax amount	Tax expense	Net-of-tax amount
For the year ended March 31, 1999:			
Unrealized gains on securities—			
Unrealized holding gains arising during the period	¥ 7,484	¥ 1,525	¥ 9,009
Less: Reclassification adjustment for gains included in net income	(58,698)	27,999	(30,699)
Minimum pension liability adjustment	(4,617)	1,332	(3,285)
Foreign currency translation adjustments	(151,971)	8,316	(143,655)
Other comprehensive income	¥(207,802)	¥ 39,172	¥(168,630)
For the year ended March 31, 2000:			
Unrealized gains on securities—			
Unrealized holding gains arising during the period	¥ 79,822	¥(27,003)	¥ 52,819
Less: Reclassification adjustment for gains included in net income	(17,196)	2,809	(14,387)
Minimum pension liability adjustment	9,190	(3,869)	5,321
Foreign currency translation adjustments	(202,596)	3,423	(199,173)
Other comprehensive income	¥(130,780)	¥(24,640)	¥(155,420)
For the year ended March 31, 2001:			
Unrealized gains on securities—			
Unrealized holding gains arising during the period	**¥ (6,290)**	**¥ (1,200)**	**¥ (7,490)**
Less: Reclassification adjustment for gains included in net income	**(16,095)**	**6,186**	**(9,909)**
Minimum pension liability adjustment	**(79,678)**	**33,544**	**(46,134)**
Foreign currency translation adjustments	**169,144**	**(8,862)**	**160,282**
Other comprehensive income	**¥ 67,081**	**¥ 29,668**	**¥ 96,749**

	Dollars in millions		
	Pre-tax amount	Tax expense	Net-of-tax amount
For the year ended March 31, 2001:			
Unrealized gains on securities—			
Unrealized holding gains arising during the period	**$ (50)**	**$ (10)**	**$ (60)**
Less: Reclassification adjustment for gains included in net income	**(129)**	**50**	**(79)**
Minimum pension liability adjustment	**(637)**	**268**	**(369)**
Foreign currency translation adjustments	**1,353**	**(71)**	**1,282**
Other comprehensive income	**$ 537**	**$237**	**$ 774**

The Extraordinary General Meeting of Shareholders held on January 25, 2001 approved the amendment of the Articles of Incorporation which authorizes the issuance of shares of subsidiary tracking stock, a new class of stock, which is intended to be linked to the economic value of Sony Communication Network Corporation, a wholly-owned Japanese subsidiary engaged in internet related services.

Subsequently, Sony Corporation resolved at the meeting of its Board of Directors held on May 15, 2001 to issue 3,072,000 shares of the subsidiary tracking stock to general public in Japan. The subsidiary tracking stock is currently scheduled to be issued in June 2001.

16. Stock-based compensation plans

The number of shares and the exercise prices in the following information have been adjusted for all periods to reflect the two-for-one stock split that became effective on May 19, 2000.

Sony has three types of stock-based compensation plans as incentive plans for directors and selected employees.

(1) Warrant plan:

Upon issuance of unsecured bonds with detachable warrants which are described in Note 12, Sony Corporation has purchased all of the detachable warrants and distributed them to the directors and selected employees of Sony Corporation. By exercising a warrant, directors and selected employees can purchase the common stock of Sony Corporation, the number of which is designated by each plan. The warrants generally vest ratably over a period of three years, and are generally exercisable up to six years from the date of grant.

(2) Convertible Bond plan:

In April 2000, Sony adopted a new equity-based compensation plan for selected executives of Sony's United States of America subsidiaries using U.S. dollar-denominated non-interest bearing convertible bonds which have characteristics similar to that of an option plan. Each convertible bond can be converted into 100 shares of the common stock of Sony Corporation at an exercise price based on the prevailing market rate shortly before the date of grant. The convertible bonds vest ratably over a three-year period and are exercisable up to ten years from the date of grant. As the convertible bonds were issued in exchange for a non-interest bearing employee loan, no accounting recognition was given to either the convertible bonds or the employee loans in Sony's consolidated balance sheet as a right of offset exists between the convertible bonds and the employee loans.

Presented below is a summary of the activity for both the warrant and convertible bond plans for the years shown:

	Year ended March 31						
	1999		2000		**2001**		
	Number of Shares	Weighted-average exercise price	Number of Shares	Weighted-average exercise price	Number of Shares	Weighted-average exercise price	
		Yen		Yen		Yen	Dollars
Outstanding at beginning of year	773,078	¥5,306	1,357,568	¥5,846	**1,531,573**	**¥ 6,456**	**$ 51.65**
Granted	638,000	6,264	558,000	7,167	**1,420,900**	**12,788**	**102.30**
Exercised	(53,510)	3,025	(383,995)	5,333	**(111,103)**	**5,341**	**42.73**
Forfeited	—	—	—	—	**(41,100)**	**12,544**	**100.35**
Outstanding at end of year	1,357,568	¥5,846	1,531,573	¥6,456	**2,800,270**	**¥ 9,911**	**$ 79.29**
Exercisable at end of year	719,568	¥5,476	541,966	¥5,877	**825,265**	**¥ 6,332**	**$ 50.66**

A summary of warrants and convertible bond options outstanding and exercisable at March 31, 2001 is as follows:

	Outstanding				Exercisable		
Exercise price range	Number of Shares	Weighted-average exercise price		Weighted-average remaining life	Number of Shares	Weighted-average exercise price	
Yen		Yen	Dollars	Years		Yen	Dollars
¥ 5,894 – 10,000	**1,420,470**	**¥ 6,543**	**$ 52.34**	**3.23**	**825,265**	**¥ 6,332**	**$ 50.66**
10,001 – 15,237	**1,379,800**	**13,379**	**107.03**	**6.74**	**—**	**—**	**—**
¥ 5,894 – 15,237	**2,800,270**	**¥ 9,911**	**$ 79.29**	**4.96**	**825,265**	**¥ 6,332**	**$ 50.66**

As the exercise prices for both the warrant and convertible bond plans were determined based on the prevailing market price shortly before the date of grant, the compensation expense for these plans were not significant for the years ended March 31, 1999, 2000 and 2001, respectively.

In accordance with FAS No. 123 "Accounting for Stock-Based Compensation", Sony has elected to account for stock-based compensation under the provisions of APB No. 25 for both the warrant and convertible bond plans. Had compensation for Sony's warrant and convertible bond plans been recognized based on the fair value on the grant date under the methodology prescribed by FAS No. 123, Sony's net income and net income per share for the years ended March 31, 1999, 2000 and 2001 would have been impacted as shown in the following table:

	Year ended March 31			
	1999	2000	**2001**	**2001**
	Yen in millions			Dollars in millions
Income before cumulative effect of accounting changes:				
As reported	¥179,004	¥121,835	**¥121,227**	**$970**
Pro forma	178,505	121,191	**118,524**	**948**
Net income:				
As reported	¥179,004	¥121,835	**¥ 16,754**	**$134**
Pro forma	178,505	121,191	**14,051**	**112**
	Yen			Dollars
Income before cumulative effect of accounting changes:				
—Basic EPS:				
As reported	¥ 218.43	¥ 144.58	**¥ 132.64**	**$1.06**
Pro forma	217.82	143.82	**129.69**	**1.04**
—Diluted EPS:				
As reported	195.51	131.70	**124.36**	**0.99**
Pro forma	194.97	131.02	**121.64**	**0.97**
Net income:				
—Basic EPS:				
As reported	¥ 218.43	¥ 144.58	**¥ 18.33**	**$0.15**
Pro forma	217.82	143.82	**15.37**	**0.12**
—Diluted EPS:				
As reported	195.51	131.70	**19.28**	**0.15**
Pro forma	194.97	131.02	**16.56**	**0.13**

The weighted-average fair value per share at the date of grant for warrants and convertible bond options granted during the years ended March 31, 1999, 2000 and 2001 was ¥896, ¥1,398 and ¥4,111 ($32.89), respectively. The fair value of warrants and convertible bond options granted on the date of grant, which is amortized to expense over the vesting period in determining the pro forma impact, is estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year ended March 31		
Weighted-average assumptions	1999	2000	**2001**
Risk-free interest rate	0.80%	0.60%	**2.68%**
Expected lives	2.78 Years	2.78 Years	**3.26 Years**
Expected volatility	24.42%	33.12%	**44.07%**
Expected dividend	0.46%	0.40%	**0.21%**

(3) SAR plan:

Sony grants stock appreciation rights ("SARs") in Japan, Europe and the United States of America for selected employees. Under the terms of these plans, employees on exercise receive cash equal to the amount that the market price of Sony Corporation's common stock exceeds the strike price of the SARs. The SARs generally vest ratably over a period of three years, and are generally exercisable up to six to ten years from the date of grant. Sony holds treasury stock for the SAR plan in Japan to minimize cash flow exposure associated with the SARs. In addition, Sony uses various strategies to minimize the compensation expense associated with the SAR plans in the United States of America and Europe.

The status of the SAR plans is summarized as follows:

	Year ended March 31						
	1999		2000		**2001**		
	Number of SARs	Weighted-average exercise price	Number of SARs	Weighted-average exercise price	Number of SARs	Weighted-average exercise price	
		Yen		Yen		Yen	Dollars
Outstanding at beginning of year	484,400	¥6,106	2,190,750	¥5,426	**4,046,490**	**¥5,443**	**$ 43.54**
Granted	1,725,850	5,234	2,306,610	5,896	**154,700**	**9,801**	**78.41**
Exercised	—	—	(439,736)	5,308	**(588,092)**	**5,198**	**41.58**
Expired or forfeited	(19,500)	5,275	(11,134)	5,502	**(47,852)**	**5,869**	**46.95**
Outstanding at end of year	2,190,750	¥5,426	4,046,490	¥5,443	**3,565,246**	**¥6,218**	**$ 49.74**
Exercisable at end of year	—	—	745,496	¥5,711	**1,397,216**	**¥5,966**	**$ 47.73**

A summary of SARs outstanding and exercisable at March 31, 2001 is as follows:

	Outstanding				Exercisable		
Exercise price range	Number of SARs	Weighted-average exercise price		Weighted-average remaining life	Number of SARs	Weighted-average exercise price	
Yen		Yen	Dollars	Years		Yen	Dollars
¥ 3,732 – 5,000	**241,134**	**¥ 4,599**	**$ 36.79**	**3.75**	**103,727**	**¥ 4,596**	**$ 36.77**
5,001 – 10,000	**3,268,662**	**6,217**	**49.74**	**3.87**	**1,289,564**	**6,049**	**48.39**
10,001 – 15,488	**55,450**	**13,287**	**106.30**	**8.58**	**3,925**	**15,105**	**120.84**
¥ 3,732 – 15,488	**3,565,246**	**¥ 6,218**	**$ 49.74**	**3.94**	**1,397,216**	**¥ 5,966**	**$ 47.73**

In accordance with APB No. 25 and its related interpretations, the SARs compensation expense is measured as the excess of the quoted market price of Sony Corporation's common stock over the SARs strike price, which is consistent with the accounting treatment prescribed for SAR plans in FAS No. 123. For the years ended March 31, 1999 and 2000, Sony recognized ¥886 million and ¥19,174 million of SARs compensation expense, respectively. For the year ended March 31, 2001, Sony recognized a reduction in SARs compensation expense of ¥5,587 million ($45 million) due to the decline in Sony's stock price during the year.

17. Restructuring charges and assets impairment

Significant restructuring charges and assets impairment are as follows;

In September 1999, Sony discontinued its engineering, sales, and marketing operations for the cellular phone business in North America and focused its effort on the research and development of next-generation telecommunications technology. As a result, Sony recorded a one-time expense totaling ¥9,646 million in the year ended March 31, 2000 which is included in the Electronics segment. This charge consisted of facility closing costs of ¥7,420 million; machinery and equipment write-downs of ¥1,802 million and personnel related costs of ¥424 million.

In December 2000, Sony announced the shutdown of a CD and audio cassette manufacturing plant in the United States of America. As a result of this announcement, Sony recorded a one-time expense totaling ¥4,623 million ($37 million) in the year ended March 31, 2001 which is included in the Music segment. This charge consisted of facility closing costs of ¥1,001 million ($8 million), building write-downs of ¥3,145 million ($25 million) and personnel related costs of ¥477 million ($4 million).

18. Research and development expenses and advertising costs

(1) Research and development expenses:

Research and development expenses charged to cost of sales for the years ended March 31, 1999, 2000 and 2001 were ¥375,314 million, ¥394,479 million and ¥416,708 million ($3,334 million), respectively.

(2) Advertising costs:

Advertising costs included in selling, general and administrative expenses for the years ended March 31, 1999, 2000 and 2001 were ¥315,310 million, ¥293,303 million and ¥389,359 million ($3,115 million), respectively.

As described in Note 2, advertising costs for the year ended March 31, 2001 included those for theatrical and television product. Previously, advertising costs for theatrical and television product were capitalized into film inventory and amortized in cost of sales.

19. Gain on issuances of stock by equity investees

During the year ended March 31, 1999, Sony merged its Loews Theatres exhibition business with Cineplex Odeon Corporation to create Loews Cineplex Entertainment Corporation ("Loews"). As a result of the merger, Sony no longer consolidated the results of Loews; Loews' results are reported on an equity basis. Subsequent to the merger, Loews completed a public offering of its common stock. After these transactions, Sony's ownership in Loews was 39.5%. In connection with the merger and the subsequent public offering, Sony received proceeds of ¥53,007 million and recorded a gain of ¥5,181 million (Note 7).

In August 2000, Monex Inc., which provides on-line security trading services, issued 150,000 shares valued at ¥6,278 million ($50 million) in connection with its initial public offering. As a result of this issuance, Sony recorded a gain of ¥1,900 million ($15 million). Sony provided deferred taxes on this gain. This issuance reduced Sony's ownership interest from 36.6% to 32.8%.

In August 2000, Crosswave Communications Inc., which provides high-capacity/high-speed network services, issued 101,960 shares valued at ¥28,958 million ($232 million) in connection with its initial public offering. As a result of this issuance, Sony recorded a gain of ¥6,406 million ($51 million). Sony provided deferred taxes on this gain. This issuance reduced Sony's ownership interest from 30.0% to 23.9%.

In October 2000, SKY Perfect Communications Inc., which provides satellite broadcasting services, issued 400,000 shares valued at ¥121,600 million ($973 million) in connection with its initial public offering. In connection with this issuance, Sony recorded a gain of ¥9,551 million ($76 million). Sony provided deferred taxes on this gain. This issuance reduced Sony's ownership interest from 9.9% to 8.1%. As a result of this transaction, SKY Perfect Communications Inc. is no longer accounted for under the equity method, as Sony no longer has significant influence.

20. Income taxes

Income before income taxes and income tax expense comprise the following:

	Yen in millions			Dollars in millions
	Year ended March 31			Year ended March 31,
	1999	2000	**2001**	**2001**
Income before income taxes:				
Sony Corporation and subsidiaries in Japan	¥203,944	¥ 70,892	**¥158,987**	**$1,272**
Foreign subsidiaries	173,747	193,418	**106,881**	**855**
	¥377,691	¥264,310	**¥265,868**	**$2,127**
Income taxes—Current:				
Sony Corporation and subsidiaries in Japan	¥ 85,970	¥ 59,239	**¥ 89,708**	**$ 718**
Foreign subsidiaries	72,416	61,564	**31,405**	**251**
	¥158,386	¥120,803	**¥121,113**	**$ 969**
Income taxes—Deferred:				
Sony Corporation and subsidiaries in Japan	¥ 16,433	¥ (17,977)	**¥ (106)**	**$ (1)**
Foreign subsidiaries	2,154	(8,182)	**(5,473)**	**(44)**
	¥ 18,587	¥ (26,159)	**¥ (5,579)**	**$ (45)**

Sony is subject to a number of different income taxes. Due to a change in Japanese income tax regulations, effective April 1, 1999, the statutory tax rate was reduced from 48% to 42% and such rate was used in calculating the future expected tax effects of temporary differences as of March 31, 1999. The effect of the change in the tax rate on the balance of deferred tax assets and liabilities reduced the net deferred tax liability and income tax expense by approximately ¥13,400 million as of March 31, 1999.

Reconciliation of the differences between the statutory tax rate and the effective income tax rate is as follows:

	Year ended March 31		
	1999	2000	**2001**
Statutory tax rate	48.0%	42.0%	**42.0%**
Increase (reduction) in taxes resulting from:			
Income tax credit	(1.3)	(1.3)	**(1.7)**
Valuation allowance recognized on current losses of subsidiaries	5.4	2.8	**10.5**
Decrease in deferred tax liabilities on undistributed earnings of foreign subsidiaries	(2.8)	(5.6)	**(6.5)**
Changes in Japanese income tax rates	(3.5)	—	**—**
Other	1.1	(2.1)	**(0.8)**
Effective income tax rate	46.9%	35.8%	**43.5%**

The significant components of deferred tax assets and liabilities are as follows:

	Yen in millions		Dollars in millions
	March 31		March 31,
	2000	**2001**	**2001**
Deferred tax assets:			
Accrued pension and severance costs	¥ 63,490	¥ **97,084**	$ **777**
Operating loss carryforwards for tax purposes	63,761	**90,014**	**720**
Warranty reserve and accrued expenses	61,049	**68,619**	**549**
Inventory—intercompany profits and write-down	45,293	**39,560**	**316**
Film costs	—	**38,866**	**311**
Accrued bonus	19,912	**34,341**	**275**
Future insurance policy benefits	40,774	**18,317**	**147**
Other	95,261	**146,105**	**1,168**
Gross deferred tax assets	389,540	**532,906**	**4,263**
Less: Valuation allowance	(112,191)	**(198,613)**	**(1,589)**
Total deferred tax assets	277,349	**334,293**	**2,674**
Deferred tax liabilities:			
Insurance acquisition costs	(86,873)	**(97,345)**	**(779)**
Undistributed earnings of foreign subsidiaries	(60,518)	**(68,941)**	**(552)**
Intangible assets acquired through exchange offerings	(45,872)	**(42,385)**	**(339)**
Unrealized gains on securities	(35,437)	**(30,451)**	**(244)**
Gain on securities contribution to employee retirement benefit trust	(23,097)	**(29,967)**	**(240)**
Other	(55,778)	**(53,428)**	**(426)**
Gross deferred tax liabilities	(307,575)	**(322,517)**	**(2,580)**
Net deferred tax assets (liabilities)	¥ (30,226)	¥ **11,776**	$ **94**

The valuation allowance mainly relates to deferred tax assets of consolidated subsidiaries with operating loss carryforwards for tax purposes that are not expected to be realized. The net changes in the total valuation allowance for the years ended March 31, 1999 and 2000 were decreases of ¥3,252 million and ¥10,465 million, respectively, and for the year ended March 31, 2001 was an increase of ¥86,422 million ($691 million). During the year ended March 31, 2001, approximately ¥16,000 million ($128 million) of tax benefits have been realized through utilization of operating loss carryforwards.

Net deferred tax assets (liabilities) are included in the consolidated balance sheets as follows:

	Yen in millions		Dollars in millions
	March 31		March 31,
	2000	**2001**	**2001**
Current assets—Deferred income taxes	¥ 117,258	¥ **141,473**	$ **1,132**
Other assets—Other	42,852	**51,914**	**415**
Current liabilities—Other	(6,316)	**(6,463)**	**(52)**
Long-term liabilities—Deferred income taxes	(184,020)	**(175,148)**	**(1,401)**
Net deferred tax assets (liabilities)	¥ (30,226)	¥ **11,776**	$ **94**

At March 31, 2001, no deferred income taxes have been provided on undistributed earnings of foreign subsidiaries not expected to be remitted in the foreseeable future totaling ¥500,155 million ($4,001 million), and on the gain of ¥61,544 million on a subsidiary's sale of stock arising from the issuance of common stock of Sony Music Entertainment (Japan) Inc. in a public offering to third parties in November 1991, as Sony does not anticipate any significant tax consequences on possible future disposition of its investment based on its tax planning strategies. The unrecognized deferred tax liabilities as of March 31, 2001 for such temporary differences amounted to ¥110,387 million ($883 million).

Operating loss carryforwards for tax purposes of consolidated subsidiaries at March 31, 2001 amounted to approximately ¥258,800 million ($2,070 million) and are available as an offset against future taxable income of such subsidiaries. These carryforwards, except for ¥55,300 million ($442 million) with no expiration period, expire at various dates primarily up to 11 years. Realization is dependent on such subsidiaries generating sufficient taxable income prior to expiration of the loss carryforwards. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets, less valuation allowance, will be realized. The amount of such net deferred tax assets considered realizable, however, could be changed in the near term if estimates of future taxable income during the carryforward period are changed.

21. Reconciliation of the differences between basic and diluted net income per share ("EPS")

Basic and diluted EPS as well as the number of shares in the following table have been adjusted to reflect the two-for-one stock split that was completed on May 19, 2000. Reconciliation of the differences between basic and diluted EPS for the years ended March 31, 1999, 2000 and 2001 is as follows:

	Year ended March 31			Year ended March 31, 2001
	1999	2000	**2001**	
		Yen in millions		Dollars in millions
Income before cumulative effect of accounting changes	¥179,004	¥121,835	**¥121,227**	**$ 970**
Effect of dilutive securities:				
Convertible bonds	2,361	2,537	**2,417**	**19**
Income before cumulative effect of accounting changes for diluted EPS computation	¥181,365	¥124,372	**¥123,644**	**$ 989**
		Thousands of shares		
Weighted-average shares	819,506	842,679	**913,932**	
Effect of dilutive securities:				
Warrants	60	500	**472**	
Convertible bonds	108,095	101,174	**79,830**	
Weighted-average shares for diluted EPS computation	927,661	944,353	**994,234**	
		Yen		Dollars
Basic EPS	¥ 218.43	¥ 144.58	**¥ 132.64**	**$1.06**
Diluted EPS	¥ 195.51	¥ 131.70	**¥ 124.36**	**$0.99**

In accordance with FAS No. 128, "Earnings Per Share", the computation of diluted net income per share for the year ended March 31, 2001 uses the same weighted-average shares used for the computation of diluted net income before cumulative effect of accounting changes per share, and reflects the effect of assumed conversion of convertible bonds in diluted net income.

22. Commitments and contingent liabilities

Commitments outstanding at March 31, 2001 for the purchase of property, plant and equipment and other assets amounted to ¥71,412 million ($571 million). In November 2000, Sony notified the third-party owner of the building used as an operating lease for the corporate headquarters of Sony's United States of America subsidiaries, that it was going to exercise its option to purchase the building. Under the terms of the purchase option, Sony must make a cash payment totaling $236 million in December 2001 to complete the purchase.

Certain subsidiaries in the music business have entered into long-term contracts with recording artists and companies for the production and/or distribution of prerecorded music and videos. These contracts cover various periods mainly through March 31, 2005. As of March 31, 2001, these subsidiaries were committed to make payments under such long-term contracts of ¥56,731 million ($454 million).

Contingent liabilities for guarantees given in the ordinary course of business and for employee loans amounted to ¥109,175 million ($873 million) at March 31, 2001.

Sony Corporation and certain of its subsidiaries are defendants in several pending lawsuits. However, based upon the information currently available to both Sony and its legal counsel, management of Sony believes that damages from such lawsuits, if any, would not have a material effect on Sony's consolidated financial statements.

23. Business segment information

The operating segments reported below are the segments of Sony for which separate financial information is available and for which operating profit or loss amounts are evaluated regularly by executive management in deciding how to allocate resources and in assessing performance.

The Electronics segment designs, develops, manufactures and distributes audiovisual, informational and communicative equipment, instruments and devices throughout the world. The Game segment designs, develops and sells PlayStation game consoles and related software mainly in Japan, the United States of America and Europe, manufactures semiconductors used in the game consoles in Japan, and licenses to third party software developers. The Music segment is mainly engaged worldwide in the development, production, manufacture, and distribution of recorded music, in all commercial formats and musical genres. The Pictures segment develops, produces and manufactures image-based software, including film, video, and television mainly in the United States of America, and markets, distributes and broadcasts in the worldwide market. The Insurance segment represents the insurance-related underwriting business, primarily individual life insurance and non-life insurance businesses in the Japanese market. The Other segment consists of various operating activities, primarily including leasing and credit financing businesses, a business focused on parts trading services within the Sony group, advertising agency business, satellite distribution services including program supplying businesses in Japan, and location-based entertainment businesses in Japan, the United States of America and Germany. Sony's products and services are generally unique to a single operating segment.

Effective for the year ended March 31, 2001, gains and losses on the sale and disposal, net and losses from impairment of long-lived assets, which were previously recorded in other income and expenses, are now included in selling, general and administrative expense. As a result, operating income (loss) for the years ended March 31, 1999 and 2000 have been restated to conform to the presentation for the year ended March 31, 2001.

Additionally, Sales and operating revenue and Segment operating income (loss) of the Pictures segment and the Other segment for the years ended March 31, 1999 and 2000 have been restated to conform to the reportable segmentation for the year ended March 31, 2001.

Business segments—
Sales and operating revenue:

	Yen in millions			Dollars in millions
	Year ended March 31			**Year ended March 31,**
	1999	2000	**2001**	**2001**
Sales and operating revenue:				
Electronics—				
Customers	¥4,356,254	¥4,395,906	**¥4,998,688**	**$39,989**
Intersegment	313,448	323,719	**525,222**	**4,202**
Total	4,669,702	4,719,625	**5,523,910**	**44,191**
Game—				
Customers	760,071	630,662	**646,147**	**5,169**
Intersegment	23,751	24,074	**14,769**	**118**
Total	783,822	654,736	**660,916**	**5,287**
Music—				
Customers	717,297	665,047	**571,003**	**4,568**
Intersegment	41,394	41,837	**41,110**	**329**
Total	758,691	706,884	**612,113**	**4,897**
Pictures—				
Customers	545,956	494,332	**555,227**	**4,442**
Intersegment	59	394	**0**	**0**
Total	546,015	494,726	**555,227**	**4,442**
Insurance—				
Customers	339,368	380,317	**426,913**	**3,415**
Intersegment	1	2	**4**	**0**
Total	339,369	380,319	**426,917**	**3,415**
Other—				
Customers	85,236	120,397	**116,846**	**935**
Intersegment	206,137	241,095	**288,269**	**2,306**
Total	291,373	361,492	**405,115**	**3,241**
Elimination	(584,790)	(631,121)	**(869,374)**	**(6,955)**
Consolidated total	¥6,804,182	¥6,686,661	**¥7,314,824**	**$58,518**

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

Segment profit or loss:

	Yen in millions			Dollars in millions
	Year ended March 31			Year ended March 31,
	1999	2000	**2001**	**2001**
Operating income (loss):				
Electronics	¥120,951	¥101,397	**¥ 248,652**	**$ 1,989**
Game	136,418	76,935	**(51,118)**	**(409)**
Music	36,527	28,293	**20,502**	**164**
Pictures	38,959	35,920	**4,315**	**35**
Insurance	18,013	20,855	**17,892**	**143**
Other	(352)	(9,860)	**(11,276)**	**(90)**
Total	350,516	253,540	**228,967**	**1,832**
Elimination	10,282	10,362	**13,376**	**107**
Unallocated amounts:				
Corporate expenses	(22,737)	(40,698)	**(16,997)**	**(136)**
Consolidated operating income	338,061	223,204	**225,346**	**1,803**
Other income	149,697	146,299	**167,654**	**1,341**
Other expenses	(110,067)	(105,193)	**(127,132)**	**(1,017)**
Consolidated income before income taxes	¥377,691	¥264,310	**¥ 265,868**	**$ 2,127**

Operating income is sales and operating revenue less costs and operating expenses. The decrease in unallocated corporate expenses in the year ended March 31, 2001 was primarily due to a decrease in stock-based compensation expenses (Note 16).

Assets:

	Yen in millions			Dollars in millions
	March 31			March 31,
	1999	2000	**2001**	**2001**
Total assets:				
Electronics	¥3,058,355	¥3,074,917	**¥3,554,615**	**$28,437**
Game	188,796	446,085	**690,737**	**5,526**
Music	755,765	742,678	**747,360**	**5,979**
Pictures	836,504	807,033	**887,806**	**7,103**
Insurance	1,129,005	1,383,717	**1,749,294**	**13,994**
Other	388,127	473,083	**534,508**	**4,276**
Total	6,356,552	6,927,513	**8,164,320**	**65,315**
Elimination	(215,732)	(273,514)	**(464,403)**	**(3,715)**
Corporate assets	158,233	153,198	**128,049**	**1,024**
Consolidated total	¥6,299,053	¥6,807,197	**¥7,827,966**	**$62,624**

Unallocated corporate assets consist of primarily of cash and cash equivalents and marketable securities maintained for general corporate purposes.

Other significant items:

	Yen in millions			Dollars in millions
	Year ended March 31			Year ended March 31,
	1999	2000	**2001**	**2001**
Depreciation and amortization:				
Electronics	¥218,608	¥212,275	**¥214,769**	**$1,718**
Game	3,895	13,414	**37,497**	**300**
Music	34,523	32,807	**34,648**	**277**
Pictures	11,377	10,599	**11,853**	**95**
Insurance, including deferred insurance acquisition costs	21,085	23,699	**40,278**	**322**
Other	15,354	10,666	**7,218**	**58**
Total	304,842	303,460	**346,263**	**2,770**
Corporate	2,331	3,045	**2,005**	**16**
Consolidated total	¥307,173	¥306,505	**¥348,268**	**$2,786**
Capital expenditures for segment assets:				
Electronics	¥252,363	¥227,322	**¥287,883**	**$2,303**
Game	3,941	118,960	**108,168**	**865**
Music	45,222	24,644	**37,776**	**302**
Pictures	10,988	11,947	**11,020**	**88**
Insurance	836	2,979	**1,586**	**13**
Other	36,333	47,801	**17,086**	**137**
Total	349,683	433,653	**463,519**	**3,708**
Corporate	4,047	2,234	**1,690**	**14**
Consolidated total	¥353,730	¥435,887	**¥465,209**	**$3,722**

The capital expenditures in the above table represent the additions to fixed assets of each segment.

The following table is a breakdown of Electronics sales and operating revenue to external customers by product category. The Electronics business is managed as a single operating segment by Sony's management.

	Yen in millions			Dollars in millions
	Year ended March 31			Year ended March 31,
	1999	2000	**2001**	**2001**
Audio	¥1,072,621	¥ 934,865	**¥ 923,968**	**$ 7,391**
Video	969,129	976,705	**1,097,847**	**8,783**
Televisions	702,620	714,188	**805,028**	**6,440**
Information and Communications	914,140	1,052,707	**1,332,619**	**10,661**
Electronic components and other	697,744	717,441	**839,226**	**6,714**
Total	¥4,356,254	¥4,395,906	**¥4,998,688**	**$39,989**

Geographic information—

Sales and operating revenue which are attributed to countries based on location of customers and long-lived assets for the years ended March 31, 1999, 2000 and 2001 are as follows:

	Yen in millions			Dollars in millions
	Year ended March 31			**Year ended March 31,**
	1999	2000	**2001**	**2001**
Sales and operating revenue:				
Japan	¥1,917,028	¥2,121,249	**¥2,400,777**	**$19,206**
U.S.A.	2,158,006	2,027,129	**2,179,833**	**17,439**
Europe	1,667,010	1,470,447	**1,473,780**	**11,790**
Other	1,062,138	1,067,836	**1,260,434**	**10,083**
Total	¥6,804,182	¥6,686,661	**¥7,314,824**	**$58,518**

	Yen in millions			Dollars in millions
	March 31			**March 31,**
	1999	2000	**2001**	**2001**
Long-lived assets:				
Japan	¥ 903,345	¥1,321,357	**¥1,433,038**	**$11,464**
U.S.A.	703,208	614,294	**766,148**	**6,129**
Europe	181,621	162,019	**188,174**	**1,506**
Other	143,006	131,785	**160,249**	**1,282**
Total	¥1,931,180	¥2,229,455	**¥2,547,609**	**$20,381**

There are not any individually material countries with respect to the sales and operating revenue and long-lived assets included in Europe and Other areas.

Transfers between reportable business or geographic segments are made at arms-length prices.

There are no sales and operating revenue with a single major external customer for the years ended March 31, 1999, 2000 and 2001.

The following information shows sales and operating revenue and operating income by geographic origin for the years ended March 31, 1999, 2000 and 2001. In addition to the disclosure requirements under FAS No. 131, Sony discloses this supplemental information in accordance with disclosure requirements of the Japanese Securities and Exchange Law, to which Sony, as a Japanese public company, is subject.

	Yen in millions			Dollars in millions
	Year ended March 31			Year ended March 31,
	1999	2000	**2001**	**2001**
Sales and operating revenue:				
Japan—				
Customers	¥ 2,345,717	¥ 2,560,839	**¥ 2,753,063**	**$ 22,024**
Intersegment	1,822,282	1,837,048	**2,322,037**	**18,576**
Total	4,167,999	4,397,887	**5,075,100**	**40,600**
U.S.A.—				
Customers	2,232,816	2,082,505	**2,315,985**	**18,528**
Intersegment	140,239	170,889	**184,581**	**1,477**
Total	2,373,055	2,253,394	**2,500,566**	**20,005**
Europe—				
Customers	1,480,076	1,302,917	**1,305,013**	**10,440**
Intersegment	65,466	48,751	**48,991**	**392**
Total	1,545,542	1,351,668	**1,354,004**	**10,832**
Other—				
Customers	745,573	740,400	**940,763**	**7,526**
Intersegment	724,240	718,321	**852,648**	**6,821**
Total	1,469,813	1,458,721	**1,793,411**	**14,347**
Elimination	(2,752,227)	(2,775,009)	**(3,408,257)**	**(27,266)**
Consolidated total	¥ 6,804,182	¥ 6,686,661	**¥ 7,314,824**	**$ 58,518**
Operating income:				
Japan	¥ 207,704	¥84,630	**¥ 155,674**	**$ 1,245**
U.S.A.	77,728	97,295	**23,131**	**185**
Europe	81,013	51,218	**11,641**	**93**
Other	46,627	73,249	**71,059**	**569**
Corporate and elimination	(75,011)	(83,188)	**(36,159)**	**(289)**
Consolidated total	¥ 338,061	¥ 223,204	**¥ 225,346**	**$ 1,803**

REPORT OF INDEPENDENT ACCOUNTANTS

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Kasumigaseki Bldg., 32nd Floor
3-2-5, Kasumigaseki, Chiyoda-ku
Tokyo 100-6088, Japan

To the Stockholders and Board of Directors of
Sony Corporation (Sony Kabushiki Kaisha)

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, cash flows and changes in stockholders' equity present fairly, in all material respects, the financial position of Sony Corporation and its consolidated subsidiaries at March 31, 2000 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note 2 to the consolidated financial statements, in the year ended March 31, 2001, the Company changed its method of film accounting.

PricewaterhouseCoopers

April 27, 2001, except as to
the last paragraph of Note 15,
which is as of May 15, 2001

NEW DIRECTORS

Assuming shareholders' approval, the appointments will become official at the meeting of the Board of Directors to be held immediately after the Ordinary General Meeting of Shareholders to be held on June 21, 2001.

From left to right:

Minoru Morio
Vice Chairman, Director

Teruo Masaki
Corporate Senior Executive Vice President, Director

Howard Stringer
Director (Chairman and Chief Executive Officer of Sony Corporation of America)

Ken Kutaragi
Director (President and Chief Executive Officer of Sony Computer Entertainment Inc.)

From left to right:

Norio Ohga
Chairman of the Board, Director

Nobuyuki Idei
Chairman and Chief Executive Officer, Representative Director

Kunitake Ando
President and Chief Operating Officer, Representative Director

Teruhisa Tokunaka
Executive Deputy President and Chief Financial Officer, Representative Director

NEW STATUTORY AUDITOR

Assuming shareholders' approval, Masasuke Ohmori will be elected an auditor at the Ordinary General Meeting of Shareholders to be held on June 21, 2001.

STATUTORY AUDITORS

Auditors Akihisa Ohnishi and Takafumi Abe were elected at the June 29, 2000, and an auditor Takashi Hayashi was elected at the June 29, 1999 Ordinary General Meetings of Shareholders, respectively.

From left to right:

Peter G. Peterson
Director (Chairman of The Blackstone Group)

Kenichi Suematsu
Director (Advisor of Sumitomo Mitsui Banking Corporation)

Iwao Nakatani
Director (Director of Research, Sanwa Research Institute and Consulting Corporation)

Göran Lindahl
Director (Former President and Chief Executive Officer of ABB Limited)

From left to right:

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

Akihisa Ohnishi
Standing Statutory Auditor

Takashi Hayashi
Standing Statutory Auditor

Takafumi Abe
Standing Statutory Auditor

INVESTOR INFORMATION

SONY CORPORATION
7-35, Kitashinagawa 6-chome, Shinagawa-ku,
Tokyo 141-0001, Japan
Phone: 03-5448-2111
Facsimile: 03-5448-2244

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

Japan
SONY CORPORATION
Investor Relations
7-35, Kitashinagawa 6-chome, Shinagawa-ku,
Tokyo 141-0001
Phone: 03-5448-2180
Facsimile: 03-5448-2183

U.S.A.
SONY CORPORATION OF AMERICA
Investor Relations
550 Madison Avenue, 9th Floor,
New York, NY 10022-3211
Phone: 212-833-6849
Facsimile: 212-833-6938

U.K.
SONY GLOBAL TREASURY SERVICES PLC.
Investor Relations
St. Helens, 1 Undershaft, London EC3A 8NP
Phone: 020-7426-8606
Facsimile: 020-7426-8677

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

Printed on 100% recycled magazine paper (pages 55–134), and 100% recycled paper (cover pages and pages 1-54).
Printed using VOC (volatile organic compound)-free vegetable oil based ink.

ORDINARY GENERAL MEETING OF SHAREHOLDERS
The Ordinary General Meeting of Shareholders will be held in June in Tokyo.

INDEPENDENT ACCOUNTANTS
PricewaterhouseCoopers
Tokyo, Japan

DEPOSITARY, TRANSFER AGENT, AND REGISTRAR FOR AMERICAN DEPOSITARY RECEIPTS
Morgan Guaranty Trust Company of New York
Shareholder Relations
P.O. Box 842006, Boston, MA 02284-2006, U.S.A.
Phone: 800-360-4522

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

TRANSFER AGENT OF COMMON SHARES HANDLING OFFICE
The Toyo Trust and Banking Company, Limited
Corporate Agency Department
10-11, Higashisuna 7-chome, Koto-ku,
Tokyo 137-8081, Japan
Phone: 03-5683-5111

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

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

NUMBER OF SHAREHOLDERS
(As of March 31, 2001)
617,888

ENVIRONMENTAL REPORT
If you would like a copy of the above report, please direct your request to:
Sony Corporation
Corporate Environmental Affairs
Phone: 03-5448-3533
Facsimile: 03-5448-7838
This report is also available on the World Wide Web.
Sony's environmental showroom, "Sony Eco Plaza," can also be visited at the same URL.
http://www.world.sony.com/eco

Sony Corporation

do you dream in Sony?

Printed in Japan