SONY

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FINANCIAL RESULTS FOR THE FIRST QUARTER ENDED JUNE 30, 2001

FOR IMMEDIATE RELEASE

Tokyo, July 26, 2001 -- Sony Corporation announced today its consolidated results for the first quarter ended June 30, 2001.

Consolidated Results for the First Quarter

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

	First quarter ended June 30			
	2000	**2001**	Change	**2001**
Sales and operating revenue	¥ 1,565,130	**¥ 1,637,779**	+4.6%	**$ 13,209**
Operating income	30,589	**3,003**	-90.2	**24**
Income (loss) before income taxes	36,871	**(14,327)**	—	**(116)**
Income (loss) before cumulative effect of accounting changes	12,031	**(36,056)**	—	**(291)**
Net income (loss)	(92,442)	**(30,078)**	—	**(243)**
Per share data*				
Common stock				
Income (loss) before cumulative effect of accounting changes				
— Basic	¥ 13.21	**¥ (39.26)**	—	**$ (0.32)**
— Diluted	12.71	**(39.26)**	—	**(0.32)**
Net income (loss)				
— Basic	¥ (101.48)	**¥ (32.75)**	—	**$ (0.26)**
— Diluted	(92.34)	**(32.75)**	—	**(0.26)**
Subsidiary tracking stock				
Net income (loss)				
— Basic	¥ —	**¥ (0.26)**	—	**$ (-)**
— Diluted	—	**(0.26)**	—	**(-)**

Note I:

i) In the first quarter ended June 30, 2000, Sony adopted Statement of Position 00-2, "Accounting by Producers or Distributors of Films" issued by the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants. As a result, in the first quarter ended June 30, 2000, a ¥101.7 billion loss (net-of-tax) derived from a one-time non-cash cumulative effect adjustment was recorded in the income statement directly above the caption of "Net income (loss)" for a change in accounting principle.

ii) In the fourth quarter ended March 31, 2001, Sony adopted Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements" issued by the Securities and Exchange Commission, retroactively as of April 1, 2000. As a result, in the first quarter ended June 30, 2000, a ¥2.8 billion loss (net-of-tax) derived from a one-time non-cash cumulative effect adjustment was recorded in the income statement directly above the caption of "Net income (loss)" for a change in accounting principle. In connection with the adoption of SAB 101, consolidated results in the first quarter ended June 30, 2000 have been restated.

iii) From the fourth quarter 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 included in operating income within selling, general and administrative expenses. Such amounts in the first quarter ended June 30, 2000 have been reclassified to conform to the presentation for the first quarter ended June 30, 2001.

iv) In the first quarter ended June 30, 2001, Sony adopted Statement of Financial Accounting Standards ("FAS") No.133, "Accounting for Derivative Instruments and Hedging Activities" (refer to Note 7 on page 16). As a result, in the first quarter ended June 30, 2001, a ¥6.0 billion ($48 million) profit (net-of-tax) derived from a one-time non-cash cumulative effect adjustment was recorded in the income statement directly above the caption of "Net income (loss)" for a change in accounting principle.

v) In the first quarter ended June 30, 2001, Sony adopted FAS No.142, "Goodwill and Other Intangible Assets" (refer to Note 7 on pages 16 and 17) and, as of April 1, 2001, Sony ceased amortizing goodwill and identified approximately ¥76.0 billion ($613 million) of intangible assets with indefinite lives. As a result, in the first quarter ended June 30, 2001, the effects for this change in accounting standard were an approximately ¥5.1 billion ($41 million) positive impact on operating income and loss before income taxes, and an approximately ¥4.8 billion ($39 million) positive impact on loss before cumulative effect of accounting change and net loss. (The effects on operating income by segment were approximately ¥0.8 billion ($6 million) in the Electronics business, approximately ¥2.6 billion ($21 million) in the Game business, approximately ¥0.8 billion ($6 million) in the Music business, and approximately ¥0.9 billion ($7 million) in the Pictures business.)

vi) *On June 20, 2001, Sony Corporation issued shares of Subsidiary tracking stock in Japan, the economic value of which is intended to be linked to the economic value of Sony Communication Network Corporation ("SCN"), a directly and indirectly wholly owned subsidiary of Sony Corporation which is engaged in Internet-related services. Sony calculates and presents per share data separately for Sony's Common stock and for Subsidiary tracking stock, based on FAS No.128, "Earnings per Share." Holders of tracking stock have the right to participate in earnings, together with common stock holders. Accordingly, Sony calculates per share data by the "two-class" method based on FAS No.128. Under this method, basic net income per share for each class of stock is calculated based on the earnings allocated to each class of stock for the applicable period, divided by the weighted-average number of outstanding shares in each class during the applicable period (refer to Note 3 on page 15). The earnings allocated to Subsidiary tracking stock are determined by the portion of SCN's earnings available for dividends from the date of issuance attributable to Subsidiary tracking stock holders. The earnings allocated to Common stock are calculated by subtracting the earnings allocated to Subsidiary tracking stock from Sony's net income for the period.

Operating Performance Highlights

Note II: During the first quarter ended June 30, 2001, the average value of the yen was ¥121.7 against the U.S. dollar and ¥105.7 against the euro, which was 13.2% lower against the U.S. dollar and 7.1% lower against the euro, respectively, compared with the level of the first quarter of the previous year. Operating results on a local currency basis described in "Operating Performance" reflect sales and operating revenue (herein referred to as "sales") and operating income (loss) obtained by applying the yen's average monthly exchange rate in the first quarter of the previous year to local currency-denominated monthly sales, cost of sales, and selling, general and administrative expenses, assuming the value of the yen had remained the same. Regarding the U.S. based Music and Pictures businesses, results of worldwide subsidiaries (in the case of Music, excluding those of Japan) are consolidated on a U.S. dollar basis and translated into yen. Therefore, regarding such businesses, discussion of operating results on a 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.

During the first quarter ended June 30, 2001, conditions in the economic environment in which Sony operates became more difficult, reflecting economic slowdowns in major regions such as the

U.S., Europe, Japan, and Asia, resulting in decreases in demand, an oversupply of products, and severe price competition. In such an environment, results on a local currency basis (refer to Note II on page 2) during the quarter were weak, especially in the Electronics business. Consolidated sales decreased approximately 3% compared with the first quarter of the previous year, due to sales decreases in the Electronics and Other businesses, although sales increased in the Game, Music, Pictures, and Financial Services businesses. On such a local currency basis, regarding profit performance, an operating loss was recorded compared with an operating profit in the first quarter of the previous year, due to losses in the Electronics business, in which profit performance deteriorated significantly, in addition to losses in the Game, Pictures, and Other businesses.

In Sony's financial statements, which in accordance with U.S. GAAP reflect the impact of the translation of financial results and conditions into yen, the currency in which the financial statements are prepared, sales increased 4.6% to ¥1,637.8 billion ($13,209 million) and operating income decreased 90.2% to ¥3.0 billion ($24 million), compared with the first quarter of the previous year. This reflected the aforementioned results offset in part by the positive impact of the yen's depreciation against the U.S. dollar and the euro. Moreover, results during the quarter included positive effects from the adoption of FAS No.142, "Goodwill and Other Intangible Assets", which Sony adopted during the quarter. This adoption resulted in an approximately ¥5.1 billion ($41 million) positive impact on operating income (refer to Note I - v on page 2).

During the quarter, the ratio of cost of sales to sales decreased slightly due to the yen's depreciation. However, on a local currency basis, such ratio increased slightly. The increase was primarily due to an increase in such ratio in the Electronics business, although such ratio in the Game business decreased. Selling, general, and administrative expenses increased primarily due to approximately ¥13.1 billion ($106 million) of expenses recorded to correct quality issues with respect to mobile phones in Japan during the quarter and increases in personnel expenses, offset to a certain extent by the positive effect from the adoption of the accounting standard regarding goodwill and other intangible assets. The higher personnel expenses were primarily due to severance-related expenses recorded for the restructuring at Aiwa Co., Ltd. and a decrease in the amount of reversal of a stock-price-linked incentive compensation charge formerly incurred. As a result, consolidated operating profit performance during the quarter deteriorated significantly.

Operating Performance Highlights by Business Segment

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

Realignment of Business Segment Configuration

Commencing with the first quarter ended June 30, 2001, Sony has partly realigned its business segment configuration, used for disclosing the breakdown of operating results, and its product category configuration in the Electronics business, used for disclosing the breakdown of sales and operating revenue, as described below. Regarding results based on the new configurations, refer to "Business Segment Information" on page 10 and "Electronics Sales and Operating Revenue to Customers by Product Category" on page 11. Results in the first quarter of the previous year have been reclassified to conform to the presentations for the current quarter.

(Changes in the Business Segment Configuration)

- Sony renamed the former "Insurance" segment the "Financial Services" segment. The "Financial Services" segment includes results of Sony Life Insurance Co., Ltd. and Sony Assurance Inc. which were previously included in the former "Insurance" segment. The "Financial Services" segment also includes results of Sony Finance International, Inc., which is a subsidiary focused on leasing and credit financing business and has been moved from the "Other" segment to the "Financial Services" segment, and results of Sony Bank Inc., which started operations in June 2001.
- Results of Sony Communication Network Corporation, which is a subsidiary focused on Internet-related services business, have been moved from the "Electronics" segment to the "Other" segment.
- Results of Sony Trading International Corporation, which is a subsidiary focused on parts trading services business within the Sony group, have been moved from the "Other" segment to the "Electronics" segment.

(Changes in the Product Category Configuration in the Electronics business)

- Sony divided the former "Electronic components and other" category into the "Semiconductors", "Components", and "Other" categories. The "Components" category includes sales of optical pickups, batteries, and cathode ray tubes ("CRTs"). The category also includes sales of audio recording media, which were previously included in the former "Audio" category; video recording media, which were previously included in the former "Video" category; and data recording media/data recording systems, which were previously included in the former "Information and communications" category.
- Sales of Aiwa Co., Ltd., which were previously included in the former "Audio", "Video", "Televisions", "Information and communications", and "Electronic components and other" categories by the nature of products, have been integrated into the "Other" category.
- Sales of broadcast- and professional-use audio equipment, which were previously included in the former "Audio" category; broadcast- and professional-use video equipment, which were previously included in the former "Video" category; broadcast- and professional-use monitors, which were previously included in the former "Televisions" category; and other professional-use equipment, which were previously included in the "Electronic components and other" category, have been integrated into the "Information and Communications" category.
- Sales of computer projectors, which were previously included in the former "Televisions" category, are now included in the "Information and Communications" category.
- Sales of car navigation systems and home telephones, which were previously included in the former "Information and communications" category, are now included in the "Audio" category.
- Sales of set-top-boxes such as digital broadcasting reception systems and Internet terminals, which were previously included in the former "Information and communications" category, are now included in the "Televisions" category.

New Business Segment Configuration

Electronics	Electronics business composed of "Audio", "Video", "Televisions", "Information and Communications", "Semiconductors", "Components", and "Other" categories
Game	Home entertainment system business principally through Sony Computer Entertainment ("SCE")
Music	Music business principally through Sony Music Entertainment Inc. ("SMEI") and Sony Music Entertainment (Japan) Inc. ("SMEJ")
Pictures	Motion picture and television business, as well as digital entertainment business such as digital production, online distribution, and broadband services, principally through Sony Pictures Entertainment ("SPE")
Financial Services	Life insurance business principally through Sony Life Insurance Co., Ltd., non-life insurance business through Sony Assurance Inc., leasing and credit financing business through Sony Finance International, Inc., banking business through Sony Bank Inc.
Other	Internet-related services business through Sony Communication Network Corporation; location-based entertainment business primarily in Japan and the U.S.; and advertising agency business in Japan

New Product Categories Configuration in the Electronics business

Audio	Home audio, portable audio, car audio, car navigation systems, and home telephones
Video	Video cameras, digital still cameras, video decks, and DVD-Video players/recorders
Televisions	CRT-based televisions, projection televisions, and set-top-boxes such as digital broadcasting reception systems and Internet terminals
Information and Communications	PCs; computer displays; computer projectors; printer systems; mobile phones; personal digital assistants; and broadcast- and professional-use audio/video/monitors and other professional-use equipment
Semiconductors	LCDs, CCDs, and other semiconductors
Components	Optical pickups, batteries, CRTs, audio/video/data recording media, and data recording systems
Other	Aiwa Co., Ltd., Sony Trading International Corporation, and products and services which are not included in the above categories

Electronics

During the first quarter ended June 30, 2001, on a local currency basis, sales in the Electronics business decreased approximately 1% and an operating loss was recorded, compared with an operating profit in the first quarter of the previous year. (Sales to customers, which exclude intersegment sales to the Game business, decreased approximately 9% compared with the first quarter of the previous year, on a local currency basis.) The significant deterioration in profit performance was primarily due to decreases in sales on a local currency basis in all geographic segments as well as continued reductions in production, as a result of lower consumer demand and falling prices in major markets such as the U.S., Europe, Japan, and Asia. Also, expenses were recorded to correct quality issues with respect to mobile phones in Japan and severance related costs were recorded for the restructuring at Aiwa Co., Ltd.

Regarding sales by product on a local currency basis, sales of a number of products, including computer displays, CRT-based televisions, CD-R/RW drives, and mobile phones decreased, although sales of several products including video cameras, PCs, LCDs, and Memory Stick recording media increased.

Regarding sales by geographic segment on a local currency basis, sales decreased in all segments. In Japan, sales of mobile phones, which were negatively impacted by quality issues, and video cameras decreased, although sales of PCs and digital still cameras increased. In the U.S., sales of computer displays, digital still cameras, and broadcast- and professional-use equipment decreased, although sales of video cameras increased. In Europe, sales of CRT-based televisions, computer displays, PCs, and CRTs decreased. In Other areas, sales of CD-R/RW drives and CRT-based televisions decreased, although sales of video cameras and LCDs increased.

On a U.S. GAAP basis, due to the aforementioned factors and the impact of the yen's depreciation, sales increased 5.8% to ¥1,227.3 billion ($9,898 million) and an operating loss of ¥0.8 billion ($7 million) was recorded, compared with an operating profit of ¥53.4 billion recorded in the first quarter of the previous year.

Regarding "Electronics Sales and Operating Revenue to Customers by Product Category" (refer to page 11), "Audio" sales increased 5.1% to ¥170.1 billion ($1,372 million) primarily due to higher sales of headphone stereos, "Video" sales increased 10.3% to ¥201.3 billion ($1,623 million) primarily due to higher sales of video cameras, "Televisions" sales decreased 4.5% to ¥132.4 billion ($1,068 million) primarily due to lower sales of CRT-based televisions and digital broadcasting reception systems, "Information and Communications" sales decreased 1.5% to ¥277.4 billion ($2,237 million) primarily due to lower sales of computer displays and mobile phones, offset to a certain extent by higher sales of PCs, "Semiconductors" sales increased 2.3% to ¥52.3 billion ($422 million) primarily due to higher sales of LCDs, "Components" sales decreased 3.1% to ¥132.4 billion ($1,068 million) primarily due to lower sales of CD-R/RW drives and CRTs, and "Other" sales decreased 19.6% to ¥108.9 billion ($878 million) primarily due to lower sales of Aiwa Co., Ltd. Sales of Aiwa Co., Ltd., which were previously included in each product category as determined by the nature of the product, were integrated into the "Other" category in the Electronics business from the first quarter ended June 30, 2001 (refer to page 4).

Regarding profit performance by product, although profits were recorded in video cameras, digital still cameras, and other products, the profit performance of many products deteriorated compared with the first quarter of the previous year, when production shipments were strong. In particular, losses were recorded in mobile phones primarily due to factors noted above.

Inventories at June 30, 2001 in the Electronics business were approximately ¥882.1 billion ($7,114 million), an increase of approximately ¥91.1 billion compared with those at March 31, 2001.

Game

During the first quarter ended June 30, 2001, on a local currency basis, sales in the Game business increased approximately 29% and operating loss decreased approximately 39% compared with the first quarter of the previous year.

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

On a U.S. GAAP basis, due to the aforementioned factors and the impact of the yen's depreciation, sales increased 38.6% to ¥154.9 billion ($1,250 million) compared with the first quarter of the previous year. Correspondingly, operating loss decreased from ¥18.0 billion in the first quarter of the previous year to ¥3.1 billion ($25 million).

During the quarter, although profit performance improved compared with the first quarter of the previous year, primarily due to favorable sales of PlayStation 2 software, reflecting such hit titles as *Gran Turismo 3* from Sony, and further cost reductions for PlayStation 2 hardware, an operating loss was recorded primarily due to PlayStation 2 hardware manufacturing-related expenses.

Total worldwide production shipments of PlayStation and PS one hardware were 3.21 million units for the quarter compared with 0.63 million units for the first quarter of the previous year, resulting in cumulative shipments of 85.44 million units as of June 30, 2001. Worldwide production shipments of PlayStation 2 hardware were 4.34 million units for the quarter compared with 1.13 million units for the first quarter of the previous year, resulting in cumulative shipments of 14.95 million units as of June 30, 2001. Worldwide production shipments of PlayStation software (including those from both Sony and third parties under Sony licenses) were 18 million units for the quarter compared with 20 million units for the first quarter of the previous year, resulting in cumulative shipments of 783 million units as of June 30, 2001. In addition, worldwide production shipments of PlayStation 2 software (including those from both Sony and third parties under Sony licenses) were 11.5 million units for the quarter compared with 1.7 million units for the first quarter of the previous year, resulting in cumulative shipments of 49.8 million units as of June 30, 2001.

Inventories at June 30, 2001 in the Game business were approximately ¥188.9 billion ($1,523 million), an increase of approximately ¥84.2 billion compared with those at March 31, 2001.

Music

During the first quarter ended June 30, 2001, on a local currency basis, sales in the Music business increased approximately 3% and an operating profit was recorded, compared with an operating loss incurred in the first quarter of the previous year.

Regarding the results of Sony Music Entertainment Inc. (herein referred to as “SMEI”), the U.S. based operation, on a local currency basis, sales decreased and an operating loss was recorded, although the amount of loss was smaller than that in the first quarter of the previous year. Results in the first quarter were negatively impacted primarily by the timing of new releases, continued soft market conditions in a number of territories, and the continued strengthening of the U.S. dollar against foreign currencies. Additionally, increased operating costs associated with digital media investments and various legal matters contributed to the operating loss. Despite lower sales, the operating loss decreased due to the benefit of continuing global cost reduction initiatives. Best sellers during the quarter included Destiny’s Child’s *Survivor,* Travis’ *The Invisible Band* and Jessica Simpson’s *Irresistible.*

In Japan, regarding the results of Sony Music Entertainment (Japan) Inc. (herein referred to as “SMEJ”) and its subsidiaries, sales and operating income increased compared with the first quarter of the previous year. The increase in sales was primarily due to contributions from several successful albums at SMEJ. The increase in operating income was primarily due to decreased advertising expenses and a gain from the sale of a studio facility, in addition to the higher sales noted above. Best sellers during the quarter included GOSPELLERS’ *Love Notes* and JUDY AND MARY’s greatest hits album *The Great Escape.*

On a U.S. GAAP basis, sales increased 12.7% to ¥147.3 billion ($1,188 million) and operating income of ¥4.4 billion ($36 million) was recorded, compared with an operating loss of ¥5.0 billion recorded in the first quarter of the previous year, due to the aforementioned factors and the impact of the yen’s depreciation.

Pictures

During the first quarter ended June 30, 2001, on a local currency basis, sales in the Pictures business increased approximately 9% and operating loss decreased 63% compared with the first quarter of the previous year. The results in the Pictures business consist of the results of Sony Pictures Entertainment, the U.S. based operation.

The sales increase was primarily due to the strong carryover performance of prior year films, including *Crouching Tiger, Hidden Dragon* and *Vertical Limit*, higher home entertainment and international syndication revenues for catalog product, as well as continued growth of third party home entertainment DVD sales. The decrease in the operating loss was primarily due to improved motion picture performance combined with an extension of a licensing agreement for *Wheel of Fortune*. Partially offsetting these improvements were increased marketing costs for yet to be released films and higher expenses incurred related to strategic investments in new digital entertainment initiatives.

On a U.S. GAAP basis, due to the aforementioned factors and the impact of the yen’s depreciation, sales increased 25.6% to ¥136.3 billion ($1,099 million) compared with the first quarter of the previous year. Correspondingly, operating loss decreased from ¥5.6 billion in the first quarter of the previous year to ¥2.7 billion ($22 million).

Financial Services

Financial Services revenue increased 10.7% to ¥126.6 billion ($1,021 million) and operating income increased 37.0% to ¥9.6 billion ($78 million), compared with the first quarter of the previous year. This was primarily due to the increases in revenue and operating income in the life insurance business.

During the first quarter ended June 30, 2001, regarding the results of Sony Life Insurance Co., Ltd., revenue and operating income increased compared with the first quarter of the previous year. This was primarily due to a net increase in life insurance-in-force from individual life insurance products such as term-life and medical expense coverage. Regarding the results of Sony Assurance Inc., revenue increased due to a net increase in automobile insurance-in-force. However, an operating loss was recorded primarily because costs, such as advertising expenses and payments for insurance benefits, were higher than revenue, although the loss decreased compared with the first quarter of the previous year primarily due to the aforementioned sales increase. Regarding the results of Sony Finance International, Inc., which was moved from the "Other" segment to the "Financial Services" segment (refer to pages 3 and 4), revenue and profit increased due to higher leasing and credit financing revenues. In addition, Sony Bank Inc., which started operation in June 2001, recorded a small operating loss due to start-up expenses.

Other

Sales in the Other business decreased 17.7% to ¥34.0 billion ($274 million) compared with the first quarter of the previous year. Operating loss decreased from ¥2.0 billion in the first quarter of the previous year to ¥1.8 billion ($15 million).

The sales decrease was primarily due to lower sales at both Sony Communication Network Corporation ("SCN"), which was moved from the "Electronics" segment to the "Other" segment (refer to pages 3 and 4), and an advertising agency business subsidiary in Japan. At SCN, sales decreased because sales in the first quarter of the previous year included sales of entertainment robots. Excluding this impact, sales at SCN would have increased. The operating loss was primarily due to losses at the aforementioned two subsidiaries and the location-based entertainment businesses in Japan and the U.S.

Consolidated Income (Loss) before Income Taxes and Net Loss

Regarding other income and expenses in consolidated results, other income during the quarter decreased 29.1% to ¥22.3 billion ($180 million) and other expenses increased 57.5% to ¥39.6 billion ($320 million) compared with the first quarter of the previous year. The decrease in other income was primarily because, in the first quarter of the previous year, a ¥15.1 billion gain on sales of securities investments and other, net, was recorded, primarily from the sale of a small portion of the equity of a subsidiary engaged in a television channel operation in India and the sale of a map database service subsidiary in the U.S., while a small loss on sales of securities investments and other, net, was recorded in other expenses-other in the current quarter. The increase in other expenses was primarily because other expenses during the quarter included ¥8.8 billion ($71 million) of write-down of security investments related to investments in venture companies in the U.S. In addition, foreign exchange loss, net, during the quarter increased from ¥1.4 billion in the first quarter of the previous year to ¥4.6 billion ($37 million). This loss was primarily due to the foreign exchange loss realized in connection with foreign exchange forward contracts previously entered into to hedge the foreign currency risk associated with intra-group receivables. This reflected the weakening of the yen's average rate against the U.S. dollar during the quarter.

Regarding income (loss) before income taxes, ¥14.3 billion ($116 million) of loss before income taxes was recorded during the quarter, while ¥36.9 billion of income before income taxes was recorded in the first quarter of the previous year.

Income taxes increased from ¥17.2 billion in the first quarter of the previous year to ¥20.3 billion ($163 million) during the quarter. However, ¥3.2 billion ($26 million) of minority interest in loss of consolidated subsidiaries was recorded primarily due to losses of Aiwa Co., Ltd. during the quarter, which decreased loss before cumulative effect of accounting changes by the same amount, as compared to ¥0.5 billion of minority interest in income of consolidated subsidiaries in the first quarter of the previous year, which decreased income before cumulative effect of accounting changes by the same amount. Also, equity in net losses of affiliated companies decreased from ¥7.2 billion in the first quarter of the previous year to ¥4.7 billion ($38 million) (refer to "**Results of Affiliated Companies Accounted for under the Equity Method**" below). As a result, ¥36.1 billion ($291 million) of loss before cumulative effect of accounting change was recorded compared with ¥12.0 billion of income before cumulative effect of accounting changes in the first quarter of the previous year.

Net loss decreased from ¥92.4 billion in the first quarter of the previous year to ¥30.1 billion ($243 million). The decrease was due to the fact that net loss in the first quarter of the previous year included a ¥104.5 billion loss (net-of-tax) derived from one-time cumulative effect adjustments for changes in accounting principles, caused by the adoptions of the film accounting standard (refer to Note I - i on page 2) and the accounting standard regarding revenue recognition (refer to Note I - ii on page 2), compared with ¥6.0 billion ($48 million) profit (net-of-tax) derived from a one-time cumulative effect adjustment for a change in accounting principles recorded during the quarter under review, caused by the adoption of the accounting standard regarding derivative instruments and hedging activities (refer to Note I - iv on page 2).

Regarding Sony's Common stock, during the quarter, basic net loss per share was ¥32.75 ($0.26) compared with net loss of ¥101.48 in the first quarter of the previous year, and diluted net loss per share was ¥32.75 ($0.26) compared with net loss of ¥92.34 in the first quarter of the previous year. Regarding Sony's Subsidiary tracking stock, during the quarter, basic and diluted net loss per share was ¥0.26 ($ -) (refer to Note I - vi on page 2 and Note 3 on page 15).

Results of Affiliated Companies Accounted for under the Equity Method

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

Equity in net losses of affiliated companies decreased from ¥7.2 billion in the first quarter of the previous year to ¥4.7 billion ($38 million). Equity in net losses during the quarter was primarily due to losses of CHC, CWC, and AVGC. However, the amount of such equity loss decreased compared with the first quarter of the previous year, primarily because: SKY Perfect Communications Inc., which had been included in broadcasting-related businesses in Japan, is now excluded from Sony's equity affiliates as Sony no longer has significant influence, in connection with a public offering of shares in the third quarter of the previous year; no further net losses pertaining to Loews Cineplex Entertainment Corporation ("Loews"), a theatrical exhibition company, will be reflected because Sony wrote off the entire carrying value of its investment in Loews in the previous fiscal year; and performance improved at ST-LCD.

Cash Flows

During the first quarter ended June 30, 2001, regarding cash flows from operating activities, Sony used ¥189.2 billion ($1,526 million), an increase of ¥162.4 billion ($1,310 million) compared with the first quarter of the previous year. Regarding cash flows from investing activities, Sony used ¥146.6 billion ($1,182 million), an increase of ¥0.5 billion ($4 million) compared with the first quarter of the previous year. Regarding cash flows from financing activities, Sony generated ¥270.3 billion ($2,179 million), an increase of ¥156.7 billion ($1,264 million) compared with the first quarter of the previous year. As a result, cash and cash equivalents at the end of the quarter was ¥542.5 billion ($4,375 million), a decrease of ¥22.0 billion ($177 million) compared with the end of the first quarter of the previous year.

The increase in net cash flows used in operating activities during the quarter compared with the first quarter of the previous year was primarily due to the recording of a net loss; decreased accrued income and other taxes; increased inventories; and decreased notes and accounts payable, although notes and accounts receivable decreased. In the first quarter of the previous year, a net loss was recorded due to a non-cash ¥104.5 billion loss (net-of-tax) derived from one-time cumulative effect adjustments for changes in accounting principles, caused by the adoptions of the film accounting standard and the accounting standard regarding revenue recognition (refer to Note I - i and ii on page 2). During the quarter under review, a non-cash ¥6.0 billion ($48 million) profit (net-of-tax) derived from a one-time cumulative effect adjustment for a change in accounting principle, caused by the adoption of the accounting standard regarding derivative instruments and hedging activities, was recorded (refer to Note I - iv on page 2). Regarding cash flows from operating activities during the quarter, a ¥30.1 billion ($243 million) net loss was recorded. Among adjustments to net loss, depreciation and amortization, including amortization of deferred insurance acquisition costs, was ¥80.0 billion ($645 million), primarily in the Electronics and Game businesses. Amortization of film costs was ¥54.7 billion ($441 million). Equity in net losses of affiliated companies, net of dividends was ¥4.7 billion ($38 million). Regarding changes in assets and liabilities, notes and accounts receivable decreased by ¥125.9 billion ($1,015 million), reflecting collections of account receivables primarily in the Electronics business. Notes and accounts payable decreased by ¥6.2 billion ($50 million), reflecting reductions in production primarily in the Electronics business. Inventories increased by ¥172.8 billion ($1,393 million) primarily in the Electronics and Game businesses. Future insurance policy benefits and other increased by ¥72.2 billion ($582 million), reflecting a higher net increase in life insurance-in-force in the Insurance business.

The slight increase in net cash flows used in investing activities during the quarter compared with the first quarter of the previous year was primarily due to increased payments for investment and advances by the Financial Services business, although payments for purchases of fixed assets and payments for investments and advances (other than Financial Services business) decreased. Regarding cash flows from investing activities during the quarter, ¥80.3 billion ($648 million) of payments for purchases of fixed assets were recorded, primarily in the Electronics and Game businesses. Payments for investments and advances (other than Financial Services business) were ¥22.4 billion ($181 million), consisting of approximately ¥8.6 billion ($69 million) for investments and approximately ¥13.8 billion ($111 million) for advances. Payments for investments included additional investments in Telemundo. On the other hand, proceeds from sales of securities investments and other and collections of advances (other than Financial Services business) were ¥8.1 billion ($65 million). Such proceeds from sales of securities investments and other included the partial sale of the equity of Transmeta Corporation. In the Financial Services business, Sony used ¥113.4 billion ($914 million) for payments for investments and advances. Proceeds from sales of securities investments and other and collections of advances by Financial Services business were ¥40.7 billion ($328 million).

The increase in net cash flows provided by financing activities during the quarter compared with the first quarter of the previous year was primarily due to increased short-term borrowings. Regarding cash flows from financing activities during the quarter, short-term borrowings increased by ¥286.3 billion ($2,308 million). The increase in short-term borrowings was primarily due to higher short-term borrowings by financial subsidiaries in the U.S. and Europe, in order to fund cash requirements, primarily for working capital. Payments of long-term debt were ¥27.0 billion ($217 million), primarily due to repayments of long-term debt in the U.S.

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Business Segment Information

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

Sales and operating revenue	Three months ended June 30 2000	2001	Change	2001
Electronics				
Customers	¥ 1,087,665	**¥ 1,074,808**	-1.2%	**$ 8,668**
Intersegment	72,411	**152,465**		**1,230**
Total	1,160,076	**1,227,273**	+5.8	**9,898**
Game				
Customers	108,980	**150,890**	+38.5	**1,217**
Intersegment	2,814	**4,051**		**33**
Total	111,794	**154,941**	+38.6	**1,250**
Music				
Customers	122,073	**135,555**	+11.0	**1,093**
Intersegment	8,585	**11,718**		**95**
Total	130,658	**147,273**	+12.7	**1,188**
Pictures				
Customers	108,552	**136,320**	+25.6	**1,099**
Intersegment	0	**0**		**0**
Total	108,552	**136,320**	+25.6	**1,099**
Financial Services				
Customers	107,689	**119,600**	+11.1	**965**
Intersegment	6,691	**6,973**		**56**
Total	114,380	**126,573**	+10.7	**1,021**
Other				
Customers	30,171	**20,606**	-31.7	**166**
Intersegment	11,161	**13,394**		**108**
Total	41,332	**34,000**	-17.7	**274**
Elimination	(101,662)	**(188,601)**	—	**(1,521)**
Consolidated total	¥ 1,565,130	**¥ 1,637,779**	+4.6%	**$ 13,209**

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

Operating income (loss)	2000	2001	Change	2001
Electronics	¥ 53,351	**¥ (807)**	—	**$ (7)**
Game	(18,005)	**(3,127)**	—	**(25)**
Music	(5,017)	**4,392**	—	**36**
Pictures	(5,577)	**(2,710)**	—	**(22)**
Financial Services	7,022	**9,622**	+37.0%	**78**
Other	(2,012)	**(1,809)**	—	**(15)**
Total	29,762	**5,561**	-81.3	**45**
Corporate and elimination	827	**(2,558)**	—	**(21)**
Consolidated operating income	¥ 30,589	**¥ 3,003**	-90.2%	**$ 24**

Commencing with the first quarter ended June 30, 2001, Sony has partly realigned its business segment configuration. Results in the first quarter of the previous year have been reclassified to conform to the presentation for the current quarter.
For detailed information on these changes, refer to "Changes in the Business Segment Configuration" on pages 3 and 4.

Electronics Sales and Operating Revenue to Customers by Product Category

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

Sales and operating revenue	Three months ended June 30 2000	**2001**	Change	**2001**
Audio	¥ 161,816	**¥ 170,070**	+5.1%	**$ 1,372**
Video	182,547	**201,295**	+10.3	**1,623**
Televisions	138,664	**132,408**	-4.5	**1,068**
Information and Communications	281,525	**277,428**	-1.5	**2,237**
Semiconductors	51,074	**52,254**	+2.3	**422**
Components	136,620	**132,439**	-3.1	**1,068**
Other	135,419	**108,914**	-19.6	**878**
Total	¥ 1,087,665	**¥ 1,074,808**	-1.2%	**$ 8,668**

The above table is a breakdown of Electronics sales and operating revenue to customers in the Business Segment Information on page 10. The Electronics business is managed as a single operating segment by Sony's management. However, Sony believes that the information in this table is useful to investors in understanding the sales contributions of the products in this business segment. In addition, commencing with the first quarter ended June 30, 2001, Sony has partly realigned its product category configuration in the Electronics business.
In accordance with this change, results in the first quarter of the previous year have been reclassified to conform to the presentations for the current quarter.
For detailed information on these changes, refer to "Changes in the Product Category Configuration in the Electronics business" on page 4.

Geographic Segment Information

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

Sales and operating revenue	Three months ended June 30 2000	**2001**	Change	**2001**
Japan	¥ 558,291	**¥ 532,757**	-4.6%	**$ 4,296**
United States	426,563	**507,341**	+18.9	**4,092**
Europe	310,607	**310,193**	-0.1	**2,502**
Other Areas	269,669	**287,488**	+6.6	**2,319**
Total	¥ 1,565,130	**¥ 1,637,779**	+4.6%	**$ 13,209**

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

Consolidated Statements of Income (Unaudited)

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

	Three months ended June 30			
	2000	**2001**	Change	**2001**
Sales and operating revenue:			%	
Net sales	¥ 1,446,549	**¥ 1,510,675**		**$ 12,183**
Financial service revenue	107,689	**119,600**		**965**
Other operating revenue	10,892	**7,504**		**61**
	1,565,130	**1,637,779**	+4.6	**13,209**
Costs and expenses:				
Cost of sales	1,078,179	**1,112,656**		**8,973**
Selling, general and administrative	355,695	**412,142**		**3,325**
Financial service expenses	100,667	**109,978**		**887**
	1,534,541	**1,634,776**		**13,185**
Operating income	30,589	**3,003**	-90.2	**24**
Other income:				
Interest and dividends	4,408	**4,101**		**33**
Royalty income	3,168	**5,176**		**42**
Gain on sales of securities investments and other, net	15,127	**—**		**—**
Other	8,729	**12,993**		**105**
	31,432	**22,270**		**180**
Other expenses:				
Interest	9,476	**12,082**		**97**
Write-down of securities investments	3	**8,803**		**71**
Foreign exchange loss, net	1,355	**4,623**		**37**
Other	14,316	**14,092**		**115**
	25,150	**39,600**		**320**
Income (loss) before income taxes	36,871	**(14,327)**	—	**(116)**
Income taxes	17,228	**20,267**		**163**
Income (loss) before minority interest, equity in net losses of affiliated companies and cumulative effect of accounting changes	19,643	**(34,594)**		**(279)**
Minority interest in income (loss) of consolidated subsidiaries	452	**(3,214)**		**(26)**
Equity in net losses of affiliated companies	7,160	**4,676**		**38**
Income (loss) before cumulative effect of accounting changes	12,031	**(36,056)**	—	**(291)**
Cumulative effect of accounting changes (2000:Including ¥491 million income tax expense 2001:Net of income taxes of ¥2,975 million)	(104,473)	**5,978**		**48**
Net income (loss)	¥ (92,442)	**¥ (30,078)**	—	**$ (243)**
Per share data*				
Common stock				
Income (loss) before cumulative effect of accounting changes				
— Basic	¥ 13.21	**¥ (39.26)**	—	**$ (0.32)**
— Diluted	12.71	**(39.26)**	—	**(0.32)**
Net income (loss)				
— Basic	¥ (101.48)	**¥ (32.75)**	—	**$ (0.26)**
— Diluted	(92.34)	**(32.75)**	—	**(0.26)**
Subsidiary tracking stock				
Net income (loss)				
— Basic	¥ —	**¥ (0.26)**	—	**$ (-)**
— Diluted	—	**(0.26)**	—	**(-)**

Condensed Consolidated Balance Sheets (Unaudited)

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

ASSETS	June 30 2000	March 31 2001	**June 30 2001**	**June 30 2001**
Current assets:				
Cash and time deposits	¥ 569,586	¥ 613,154	**¥ 546,818**	**$ 4,410**
Marketable securities	109,634	90,094	**125,045**	**1,008**
Notes and accounts receivable, less allowances	1,021,821	1,295,304	**1,167,508**	**9,415**
Inventories	893,410	942,876	**1,115,398**	**8,995**
Other	447,178	536,046	**573,400**	**4,625**
Total current assets	3,041,629	3,477,474	**3,528,169**	**28,453**
Film costs	240,045	297,617	**318,094**	**2,565**
Investments and advances	1,134,667	1,388,988	**1,454,269**	**11,728**
Property, plant and equipment, less depreciation	1,262,520	1,434,299	**1,435,045**	**11,573**
Other assets:				
Intangibles	215,021	221,289	**218,961**	**1,766**
Goodwill	289,644	305,159	**305,886**	**2,467**
Deferred insurance acquisition costs	245,808	270,022	**279,276**	**2,252**
Other	372,883	433,118	**437,949**	**3,532**
Total other assets	1,123,356	1,229,588	**1,242,072**	**10,017**
	¥ 6,802,217	¥ 7,827,966	**¥ 7,977,649**	**$ 64,336**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Short-term debt	¥ 361,519	¥ 356,373	**¥ 619,762**	**$ 4,998**
Notes and accounts payable, trade	862,542	925,021	**920,070**	**7,420**
Accounts payable, other and accrued expenses	606,363	807,532	**708,766**	**5,716**
Accrued income and other taxes	95,045	133,031	**75,278**	**607**
Other	306,899	424,783	**430,421**	**3,471**
Total current liabilities	2,232,368	2,646,740	**2,754,297**	**22,212**
Long-term liabilities:				
Long-term debt	769,138	843,687	**822,009**	**6,629**
Accrued pension and severance costs	137,845	220,787	**223,643**	**1,804**
Deferred income taxes	172,328	175,148	**176,686**	**1,425**
Future insurance policy benefits and other	1,189,327	1,366,013	**1,438,189**	**11,598**
Other	176,527	241,101	**251,588**	**2,029**
Total long-term liabilities	2,445,165	2,846,736	**2,912,115**	**23,485**
Minority interest in consolidated subsidiaries	33,610	19,037	**24,594**	**198**
Stockholders' equity:				
Capital stock	461,713	472,002	**475,974**	**3,839**
Additional paid-in capital	951,965	962,401	**968,091**	**7,807**
Retained earnings	1,131,027	1,217,110	**1,186,968**	**9,572**
Accumulated other comprehensive income	(445,867)	(328,567)	**(336,960)**	**(2,717)**
Treasury stock, at cost	(7,764)	(7,493)	**(7,430)**	**(60)**
Total stockholders' equity	2,091,074	2,315,453	**2,286,643**	**18,441**
	¥ 6,802,217	¥ 7,827,966	**¥ 7,977,649**	**$ 64,336**

Consolidated Statements of Cash Flows (Unaudited)

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

	Three months ended June 30		
	2000	**2001**	**2001**
Cash flows from operating activities:			
Net income (loss)	¥ (92,442)	**¥ (30,078)**	**$ (243)**
Adjustments to reconcile net loss to net cash used in operating activities -			
Depreciation and amortization, including amortization of deferred insurance acquisition costs	79,816	**80,045**	**645**
Amortization of film costs	50,501	**54,655**	**441**
Accrual for pension and severance costs, less payments	8,440	**2,963**	**24**
Gain or loss on sale, disposal or impairment of long-lived assets, net	889	**(859)**	**(7)**
Deferred income taxes	(31,662)	**(4,108)**	**(33)**
Equity in net losses of affiliated companies, net of dividends	7,694	**4,676**	**38**
Cumulative effect of accounting changes	104,473	**(5,978)**	**(48)**
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable	(6,584)	**125,880**	**1,015**
Increase in inventories	(121,605)	**(172,787)**	**(1,393)**
Increase in film costs (after adjusted cumulative effect of an accounting change)	(55,427)	**(73,014)**	**(589)**
Increase (decrease) in notes and accounts payable	53,578	**(6,234)**	**(50)**
Increase (decrease) in accrued income and other taxes	5,929	**(71,372)**	**(576)**
Increase in future insurance policy benefits and other	64,454	**72,176**	**582**
Increase in deferred insurance acquisition costs	(16,394)	**(17,708)**	**(143)**
Changes in other current assets and liabilities, net	(58,166)	**(115,692)**	**(933)**
Other	(20,241)	**(31,753)**	**(256)**
Net cash used in operating activities	(26,747)	**(189,188)**	**(1,526)**
Cash flows from investing activities:			
Payments for purchases of fixed assets	(102,870)	**(80,319)**	**(648)**
Proceeds from sales of fixed assets	3,617	**14,989**	**121**
Payments for investments and advances by financial service business	(54,317)	**(113,400)**	**(914)**
Payments for investments and advances (other than financial service business)	(40,563)	**(22,396)**	**(181)**
Proceeds from sales of securities investments and other and collections of advances by financial service business	16,519	**40,719**	**328**
Proceeds from sales of securities investments and other and collections of advances (other than financial service business)	22,810	**8,059**	**65**
Payments for purchases of marketable securities	(2,023)	**(416)**	**(3)**
Proceeds from sales of marketable securities	9,671	**4,425**	**36**
Decrease in time deposits	1,025	**1,723**	**14**
Net cash used in investing activities	(146,131)	**(146,616)**	**(1,182)**
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	2,391	**1,119**	**9**
Payments of long-term debt	(14,007)	**(26,963)**	**(217)**
Increase in short-term borrowings	136,409	**286,255**	**2,308**
Proceeds from issuance of subsidiary tracking stock	—	**9,529**	**77**
Dividends paid	(11,354)	**(11,514)**	**(93)**
Other	83	**11,825**	**95**
Net cash provided by financing activities	113,522	**270,251**	**2,179**
Effect of exchange rate changes on cash and cash equivalents	(2,184)	**836**	**7**
Net decrease in cash and cash equivalents	(61,540)	**(64,717)**	**(522)**
Cash and cash equivalents at beginning of the first quarter	626,064	**607,245**	**4,897**
Cash and cash equivalents at end of the first quarter	¥ 564,524	**¥ 542,528**	**$ 4,375**
Supplemental data:			
Cash paid during the three months ended June 30 for -			
Income taxes	¥ 44,597	**¥ 84,704**	**$ 683**
Interest	¥ 8,130	**¥ 17,982**	**$ 145**
Non-cash investing and financing activities -			
Conversions of convertible debt into common stock and additional paid-in capital	¥ 19,987	**¥ 96**	**$ 1**

(Notes)

1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥124=U.S$1, the approximate Tokyo foreign exchange market rate as of June 29, 2001.
2. As of June 30, 2001, Sony had 1,069 consolidated subsidiaries. It has applied the equity accounting method in respect to its 90 affiliated companies.
3. Weighted-average shares used for computation of earnings per share of Common stock are as follows. The dilutive effect mainly resulted from convertible bonds. In accordance with Statement of Financial Accounting Standards ("FAS") No.128, "Earnings per Share" the computation of diluted net loss per share for the three months ended June 30, 2000 uses the same weighted-average shares used for the computation of diluted income before cumulative effect of accounting changes per share, and reflects the effect of assumed conversion of convertible bonds in diluted net income. No additional shares were included in the computation of diluted loss before cumulative effect of accounting changes per share and in the computation of diluted net loss per share for the three months ended June 30, 2001 because to do so would have been antidilutive.

Weighted-average shares		(Thousands of shares)
	Three months ended June 30	
	2000	**2001**
Income (loss) before cumulative effect of accounting changes and net income (loss)		
— Basic	910,890	**918,415**
— Diluted	994,449	**918,415**

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

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

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

	(Millions of yen, millions of U.S. dollars)		
	Three months ended June 30		
	2000	**2001**	**2001**
Net income (loss)	¥ (92,442)	**¥ (30,078)**	**$ (243)**
Other comprehensive income (loss)	(20,551)	**(8,393)**	**(67)**
Unrealized gains (losses) on securities	(6,777)	**(8,066)**	**(65)**
Unrealized gains on derivative instruments	—	**1,450**	**12**
Foreign currency translation adjustments	(13,774)	**(1,777)**	**(14)**
Comprehensive income (loss)	¥(112,993)	**¥ (38,471)**	**$ (310)**

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

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

7. Adoption of New Accounting Standards

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, as a result of the adoption of the new standard, Sony recorded a one-time non-cash after-tax unrealized gain of ¥1,089 million ($9 million) in accumulated other comprehensive income in the consolidated balance sheet, as well as an after-tax gain of ¥5,978 million ($48 million) in the cumulative effect of an accounting change in the consolidated statement of income. The effect of the accounting change on Sony's consolidated statement of income for the three months ended June 30, 2001 was immaterial.

Accounting for Business Combinations and Goodwill and Other Intangible Assets

In July 2001, the Financial Accounting Standards Board issued FAS No.141 "Business Combinations" and FAS No.142 "Goodwill and Other Intangible Assets." FAS No.141 supersedes Accounting Principles Board Opinion ("APB") No.16 "Business Combinations" and FAS No.38 "Accounting for Preacquisition Contingencies of Purchased Enterprises." Under FAS No.141, all business combinations are required to be accounted for under a single method, the purchase method. This new statement prohibits the use of the pooling-of-interests method, which was previously permitted under APB No.16, for business combinations initiated after June 30, 2001. FAS No.142 supersedes APB No.17 "Intangible Assets." This new statement addresses the accounting for acquired goodwill and other intangible assets. FAS No.142 is effective for fiscal years beginning after December 15, 2001, but allows for early adoption for those companies with fiscal years beginning after March 15, 2001. As FAS No.142 is now considered the preferable basis of accounting for goodwill and intangible assets, Sony has decided to early adopt this new accounting standard retroactive to the beginning of the fiscal year. As a result, the financial results of Sony for the first quarter ended June 30, 2001 have been prepared in accordance with this new accounting standard.

Under FAS No.142, goodwill and certain other intangible assets that are determined to have an indefinite life will no longer be amortized, but rather will be tested for impairment at least annually using a two-step process that begins with an estimation of the fair value of a reporting unit. Upon the adoption of this new Statement, Sony has reassessed the useful lives of its intangible assets and determined that certain intangible assets including trademarks have indefinite lives and as a result, will no longer be amortized. At April 1, 2001, intangible assets having an indefinite life totaled ¥76,029 million ($613 million). Sony has also completed the transitional impairment test for these intangible assets and determined that the fair value of these assets is in excess of the current carrying cost. Accordingly, no impairment loss has been recorded for intangible assets upon the adoption of FAS No.142. Sony is currently in the process of completing the first step of the transitional impairment test for goodwill and will complete this assessment before the end of the second quarter ending September 30, 2001 as required by FAS No.142. Until this assessment is completed, Sony has not determined whether there is any impairment of its existing goodwill.

As a result of the adoption of FAS No.142, Sony's operating income for the first quarter ended June 30, 2001 increased by ¥5,111 million ($41 million) and net loss before income taxes decreased by the same amount. Net loss before cumulative effect of an accounting change and net loss decreased by ¥4,803 million ($39 million).

Amounts previously reported for net income before cumulative effect of accounting changes, net loss, and basic and diluted earnings per share ("EPS") for the first quarter ended June 30, 2000 are reconciled to amounts adjusted to exclude the amortization expense related to goodwill and indefinite life intangible assets as follows:

	(Millions of yen, except per share amounts) Three months ended June 30, 2000
Reported net income before cumulative effect of accounting changes	12,031
Add back:	
Goodwill amortization	3,769
Intangible asset amortization	588
Adjusted net income before cumulative effect of accounting changes	16,388
Reported net income (loss)	(92,442)
Add back:	
Goodwill amortization	3,769
Intangible asset amortization	588
Adjusted net income (loss)	(88,085)
Per share data:	
Income before cumulative effect of accounting changes	
Reported basic EPS	13.21
Add back:	
Goodwill amortization	4.14
Intangible asset amortization	0.64
Adjusted basic EPS	17.99
Reported diluted EPS	12.71
Add back:	
Goodwill amortization	3.79
Intangible asset amortization	0.59
Adjusted diluted EPS	17.09
Net income (loss)	
Reported basic EPS	(101.48)
Add back:	
Goodwill amortization	4.14
Intangible asset amortization	0.64
Adjusted basic EPS	(96.70)
Reported diluted EPS	(92.34)
Add back:	
Goodwill amortization	3.79
Intangible asset amortization	0.59
Adjusted diluted EPS	(87.96)

Other Consolidated Financial Data

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

	Three months ended June 30			
	2000	**2001**	Change	**2001**
Capital expenditures (additions to fixed assets)	¥ 81,616	**¥ 86,094**	+5.5%	**$ 694**
Depreciation and amortization expenses*	79,816	**80,045**	+0.3	**645**
(Depreciation expenses for tangible assets)	(59,260)	**(65,540)**	(+10.6)	**(529)**
R&D expenses	90,337	**103,150**	+14.2	**832**

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

Outlook

Regarding the forecast of consolidated results for the fiscal year ending March 31, 2002, a more difficult business environment is expected in the Electronics business, due to such factors as decreases in demand, oversupply, and falling prices. As a result of this and other factors, Sony has revised downward its forecast as of April 2001 as follows:

		Change from previous year
Sales and operating revenue	¥7,700 billion	+ 5%
Operating income	¥250 billion	+ 11%
Income before income taxes	¥200 billion	- 25%
Net income	¥90 billion	+ 437%

The above forecast includes the following additional factors which were not included in the forecast as of April 2001:

i) Sony used yen-dollar and yen-euro average exchange rates for the period from the second quarter to the end of the fiscal year ending March 31, 2002 of approximately ¥120 and ¥100, respectively.

ii) In the Electronics business, sales of many products are expected to be lower than the forecast as of April 2001, reflecting decreases in demand and falling prices in major markets. Profit performance is expected to significantly deteriorate in such products as mobile phones, components, displays, and semiconductors. Also, additional expenses relating to realignment of businesses are expected to be recorded.

iii) In the Game business, sales for the first quarter were lower than the forecast as of April 2001 and inventories at June 30, 2001 were higher than those at March 31, 2001. However, given that the nature of the Game business is such that a significant proportion of sales occurs during the seasonal peak from autumn till year-end, and because cost reductions for PlayStation 2 hardware are advancing steadily, Sony maintains its forecast as of April 2001.

iv) In the Pictures business, profit is expected to be higher than the forecast as of April 2001, due to carryover contributions from films released in the previous year and an expected insurance recovery for losses on previously released films.

v) The revised forecast includes the positive effects from FAS No.142, “Goodwill and Other Intangible Assets”, which Sony adopted effective in the first quarter ended June 30, 2001 (refer to Note I - v on page 2). The effects for the fiscal year ending March 31, 2002 are expected to be an approximately ¥20.0 billion positive impact on operating income and on income before income taxes, and an approximately ¥19.0 billion positive impact on income before cumulative effect of accounting change and net income.

In response to the more difficult business environment, Sony intends to continue to proceed with realignment of unprofitable businesses, streamlining of manufacturing facilities, cost reductions, careful selection of investments, and reductions in inventories. Capital expenditures (additions to fixed assets) for the fiscal year ending March 31, 2002 are expected to be approximately ¥350 billion, because Sony intends to reduce expenditures primarily in the Electronics business. Depreciation and amortization for the fiscal year ending March 31, 2002 are expected to be approximately ¥390 billion, reflecting a decrease of amortization expenses as a result of the adoption of the aforementioned FAS No.142.

		Change from previous year
Capital expenditures (additions to fixed assets)	¥350 billion	- 25%
Depreciation and amortization*	¥390 billion	+ 12%
(Depreciation expenses for tangible assets)	(¥330 billion)	(+ 22%)

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

Aiwa Co., Ltd. carried out a one-for-one rights issuance to shareholders totaling approximately ¥35.0 billion for such purposes as funding its restructuring measures. Sony assumed a portion of such issuance in accordance with its interest in Aiwa Co., Ltd. Later, Sony decided to assume an additional portion of the rights offering issuance equivalent to approximately ¥7.5 billion, the amount not assumed by other shareholders. As a result, Sony's total assumption will be approximately ¥25.3 billion.

Note: The forecast and other forward looking information in this press release do not include the uncertain effect relating to a proposed new company between Sony and Ericsson of Sweden, which is expected to be formed after completion of a definitive agreement and applicable regulatory requirements.

(For Reference)

Forecast of consolidated results, capital expenditures, and depreciation and amortization as of April 2001:

		Change from previous year
Sales and operating revenue	¥8,000 billion	+ 9%
Operating income	¥300 billion	+ 33%
Income before income taxes	¥280 billion	+ 5%
Net income	¥150 billion	+ 795%

(In preparing the forecast as of April 2001, Sony used yen-dollar and yen-euro exchange rates of approximately ¥115 and ¥105, respectively.)

		Change from previous year
Capital expenditures (additions to fixed assets)	¥400 billion	- 14%
Depreciation and amortization*	¥410 billion	+ 18%
(Depreciation expenses for tangible assets)	(¥330 billion)	(+ 22%)

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

Cautionary Statement

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