SONY CORP
Form 6-K
June 04, 2003
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

For the month of June 2003

SONY CORPORATION

(Translation of registrant s name into English)

7-35 KITASHINAGAWA 6-CHOME, SHINAGAWA-KU, TOKYO, JAPAN

(Address of principal executive offices)

The registrant files annual reports under cover of Form 20-F.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SONY CORPORATION
(Registrant)

By: /s/ TERUHISA TOKUNAKA
(Signature)

Teruhisa Tokunaka
Executive Deputy President and Group Chief Strategy Officer

Date: June 4, 2003

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List of materials

Documents attached hereto:

i) A press release regarding Consolidated Financial Statements for the fiscal year ended March 31, 2003

ii) A press release regarding Notice of the Ordinary General Meeting of Shareholders to be held on June 20, 2003

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Cautionary Statement

Statements made in this document 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 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) the global economic environment in which Sony operates, as well as the economic conditions in Sony s markets, particularly levels of consumer spending; (ii) exchange rates, particularly between the yen and the U.S. dollar, euro, and other currencies in which Sony makes significant sales or in which Sony s assets and liabilities are denominated; (iii) Sony s ability to continue to design and develop and win acceptance of its products and services, which are offered in highly competitive markets characterized by continual new product introductions, rapid development in technology (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 initiatives in its Electronics, Music and Pictures businesses and its network strategy for its Electronics, Music, Pictures, and Game businesses; (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, with respect to capital expenditures, to prioritize investments (particularly in the Electronics business); (vii) the success of Sony s joint ventures and alliances; and (viii) the outcome of contingencies. Risks and uncertainties also include the impact of any future events with material unforeseen impacts.

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Financial Highlights

Sony Corporation and Consolidated Subsidiaries   Year ended March 31

OPERATING RESULTS

	2002	2003	Percent change 2003/2002	2003
	Yen in billions except per share amounts and number of employees			Dollars in millions except per share amounts
FOR THE YEAR				
Sales and operating revenue	¥ 7,578.3	¥ **7,473.6**	-1.4%	$ **62,280**
Operating income	134.6	**185.4**	+37.7	**1,545**
Income before income taxes	92.8	**247.6**	+166.9	**2,064**
Income before cumulative effect of accounting changes	9.3	**115.5**	+1,137.9	**963**
Net income	15.3	**115.5**	+654.5	**963**
Per share of common stock:				
Income before cumulative effect of accounting changes				
Basic	¥ 10.21	¥ **125.74**	+1,131.5%	$ **1.05**
Diluted	10.18	**118.21**	+1,061.2	**0.99**
Net income				
Basic	16.72	**125.74**	+652.0	**1.05**
Diluted	16.67	**118.21**	+609.1	**0.99**
Cash dividends	25.00	**25.00**		**0.21**
AT YEAR-END				
Stockholders equity	¥ 2,370.4	¥ **2,280.9**	-3.8%	$ **19,007**
Total assets	8,185.8	**8,370.5**	+2.3	**69,755**
Number of employees	168,000	**161,100**		

Notes:

1. *U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2003.*
2. *Cash dividends per share of common stock for the year ended March 31, 2003 include a dividend which is subject to approval of the Ordinary General Meeting of Shareholders to be held on June 20, 2003.*
3. *On April 1, 2002, Sony adopted Statement of Financial Accounting Standards (FAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets . The adoption of the provision of FAS No. 144 did not have a material impact on Sony s results of operations and financial position for the year ended March 31, 2003.*
4. *In April 2002, the Financial Accounting Standards Board (FASB) issued FAS No.145, Rescission of FASB Statements No.4, 44 and 64, Amendment of FASB Statement No.13, and Technical Corrections . Sony elected early adoption of this statement retroactive to April 1, 2002. The adoption of this statement did not have an impact on Sony s results of operations and financial position.*
5. *In June 2002, the FASB issued FAS No.146, Accounting for Costs Associated with Exit or Disposal Activities which nullifies Emerging Issues Task Force (EITF) Issue No.94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an activity (including Certain Costs Incurred in a Restructuring) . Sony adopted FAS No.146 on January 1, 2003. The*

impact of the adoption of this statement on Sony s results of operations and financial position was immaterial.

6. *In November 2002, the FASB issued FASB Interpretation (FIN) No.45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No.5, 57, and 107 and rescission of FASB Interpretation No.34 . The initial recognition and initial measurement provisions of FIN No.45 did not have material effect on Sony s results of operations and financial position as at and for the year ended March 31, 2003.*
7. *In December 2002, the FASB issued FAS No.148, Accounting for Stock-Based Compensation Transition and Disclosure an Amendment of FASB Statement No.123 . Sony has accounted for its employee stock-based compensation in accordance with Accounting Principles Board Opinion (APB) No.25, Accounting for Stock Issued to Employees and, therefore, the adoption of the provisions of FAS No.148 did not have an impact on Sony s results of operations and financial position.*
8. *In January 2003, the FASB issued FIN No.46, Consolidation of Variable Interest Entities an Interpretation of ARB No.51 . This interpretation addresses consolidation by a primary beneficiary of a variable interest entity (VIE). FIN No.46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN No.46 become effective for Sony during the second quarter of the year ending March 31, 2004. Sony did not enter into any new arrangements with VIEs during the period February 1, 2003 through March 31, 2003.*
9. *On April 1, 2001, Sony adopted FAS No.133, Accounting for Derivative Instruments and Hedging Activities as amended by FAS No.138 Accounting for Certain Derivative Instruments and Certain Hedging Activities an Amendment of FASB statement No.133 . As a result, Sony s operating income, income before income taxes and net income for the year ended March 31, 2002 decreased by ¥3.0 billion, ¥3.4 billion and ¥2.2 billion, respectively. Additionally, Sony recorded a one-time non-cash after-tax unrealized gain of ¥1.1 billion in accumulated other comprehensive income in the consolidated balance sheet, as well as an after-tax gain of ¥6.0 billion in the cumulative effect of accounting changes in the consolidated statement of income.*
10. *In July 2001, the FASB issued FAS No. 142 Goodwill and Other Intangible Assets . Sony adopted FAS No. 142 retroactive to April 1, 2001. As a result, Sony s operating income and income before income taxes for the year ended March 31, 2002 increased by ¥20.1 billion and income before cumulative effect of accounting changes as well as net income for the year ended March 31, 2002 increased by ¥18.9 billion.*

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Operational Review

Highlights

Although sales decreased slightly year on year to ¥7,473.6 billion ($62.3 billion), operating income increased ¥50.8 billion to ¥185.4 billion ($1.55 billion). Net income was ¥115.5 billion ($963 million), a year on year increase of ¥100.2 billion. The depreciation of the yen against the euro had a positive impact on sales and operating income.

Although sales in the Electronics business decreased 6.5% due to a decrease in sales of Aiwa products and VAIO PCs, an operating income of ¥41.4 billion ($345 million) was recorded compared to an operating loss of ¥1.2 billion in the previous fiscal year. The improved operating performance resulted from the benefit of restructuring initiatives primarily in the components category, and the contribution to profitability of digital still cameras and CCDs. Inventory decreased ¥79.6 billion year on year.

Unit sales of hardware and software in the Game business increased mainly in the U.S. and Europe. Sales decreased 4.9% year on year due, in part, to strategic price reductions of hardware in all major regions. Operating income increased ¥29.7 billion to ¥112.7 billion ($939 million) because of strong software unit sales and reductions of hardware manufacturing costs.

The Pictures business recorded its highest ever sales and operating income, ¥802.8 billion ($6,690 million) and ¥59.0 billion ($491 million), respectively, for the fiscal year due to the strong worldwide theatrical and home entertainment performance of current year releases including *Spider-Man*, *Men in Black II*, *xXx* and *Mr. Deeds*.

The Music business recorded a ¥8.7 billion ($72 million) operating loss due to an increase in restructuring charges at the U.S. subsidiary and a decrease in worldwide album sales, as a result of the contraction of the global music market primarily brought on by increased digital piracy.

Cash flow was positive throughout the fiscal year and significantly improved compared with the previous fiscal year due to an increase in operating income and reduced capital expenditures.

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Consolidated Results for the Fiscal Year

Unless otherwise specified, all amounts are on a U.S. GAAP basis.

Sales were ¥7,473.6 billion ($62.3 billion), a decrease of 1.4% year on year (2% decrease on a local currency basis see Note I on page 14).

Sales to external customers fell 4.8% in the Electronics business and 5.1% in the Game business.

However, sales in the Pictures segment rose 26.3% to reach a record ¥802.8 billion ($6,690 million).

Operating income was ¥185.4 billion ($1,545 million), an increase of ¥50.8 billion, or 37.7%, year on year (5% decrease on a local currency basis).

Business segments that contributed to an increase in operating income:

→ Operating performance in the Electronics business improved ¥42.5 billion from an operating loss recorded in the previous year. In the Game business, operating income increased ¥29.7 billion, and in the Pictures business, operating income increased ¥27.7 billion.

Business segments that contributed to a decrease in operating income:

→ Operating performance in the Music business deteriorated significantly, by ¥28.8 billion, and an operating loss was recorded. In the Other business, operating loss increased ¥15.3 billion (an operating loss was recorded in the previous year as well).

Selling, general and administrative expenses during the fiscal year increased ¥76.6 billion primarily due to an increase in advertising and promotion expenses and severance related expenses.

Restructuring charges for the fiscal year amounted to approximately ¥100 billion ($833 million). The severance related expenses mentioned above are included in these charges.

→ On a business segment basis, the most significant charges were recorded in Electronics, approximately ¥70 billion ($583 million), and in Music, approximately ¥24 billion ($200 million).

Income before income taxes was ¥247.6 billion ($2,064 million), an increase of ¥154.8 billion, or 166.9%, year on year.

In addition to the increase in operating income, other income increased ¥61.2 billion and other expenses decreased ¥42.8 billion.

→ Primary factor contributing to the increase in other income:

- ~ The recording of a ¥66.5 billion gain* on the sale of Sony s equity interest in Telemundo Communications Group, Inc. and its subsidiaries (Telemundo), a U.S. based Spanish language television network and station group that was accounted for by the equity method. (*The dollar amount of the gain recorded on the sale of Telemundo at Sony s U.S. based subsidiary was $511 million.)

→ Primary factors contributing to the decrease in other expenses:

- ~ The recording of a net foreign exchange gain of ¥1.9 billion ($16 million) compared with a net foreign exchange loss of ¥31.7 billion recorded in the previous year.
- ~ A decrease in interest expense of ¥9.1 billion as a result of lower average balances of short-term borrowings and lower interest rates.
- ~ Partially offsetting these factors was a ¥4.7 billion increase in losses on the devaluation of securities.

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Net income was ¥115.5 billion ($963 million), an increase of ¥100.2 billion, or 654.5%, year on year.

Factor positively affecting net income: increase in income before income taxes.

Factors negatively affecting net income:

→ An income tax increase of ¥15.6 billion.

- ~ Factor adding to tax expense: increase in income before income taxes.
- ~ Factors offsetting the increase in tax expense:
  - ♦ A reversal of ¥51.9 billion ($433 million) in valuation allowances on deferred tax assets held by Aiwa Co. Ltd. (Aiwa) because these assets became recoverable as a result of Sony s decision to merge with Aiwa.
- ~ The effective income tax rate was 32.6% compared to 70.3% in the previous year.

→ The recording of a ¥6.6 billion ($55 million) minority interest in the income of consolidated subsidiaries, compared to a ¥16.2 billion minority interest in the loss of consolidated subsidiaries in the previous year.

- ~ With regards to minority interest of Aiwa, a significant loss was recorded in the previous year due to a loss incurred by Aiwa, and income was recorded in the current year due to a reversal in taxable incomes mentioned above.

→ A ¥10.2 billion increase in equity in net losses of affiliated companies.

- ~ Losses increased at the following companies:
  - ♦ Sony Ericsson Mobile Communications (SEMC), a mobile handset joint venture established in October 2001 in which Sony has a 50% equity holding.
  - ♦ ST-Liquid Crystal Display Corp (ST-LCD), a joint venture based in Japan which manufactures LCD panels.
- ~ Factors offsetting the increase in net losses of affiliated companies.
  - ♦ The elimination of losses at Columbia House Company, a direct marketer of music and videos in the U.S., and Telemundo, due to the sale of Sony s equity interest in these companies, which had recorded losses in the prior year.

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SEMC performance for the year ended March 31, 2003

Shipments of mobile handsets:	22.49 million
Net sales:	3,860 million euro
Loss before tax:	404 million euro
Net loss:	348 million euro
Sony s equity in net loss of affiliate:	¥20.8 billion ($173 million)
Reasons for loss:	Lower than expected revenues for CDMA and TDMA handsets in the U.S. market.
	Delays in the launches of certain low-end to mid-end GSM products.
	Expenses for establishing the joint venture and product development.

→ The absence of the ¥6.0 billion gain recorded in the previous year due to the cumulative effect of a change in accounting principles.

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Operating Performance Highlights by Business Segment

Electronics

	Year ended March 31			
			Percent change	
	2002	2003	2003/2002	2003
	Yen in billions			Dollars in millions
Sales and operating revenue	¥5,286.2	**¥4,940.5**	-6.5%	**$ 41,170**
Operating income (loss)	(1.2)	**41.4**		**345**

Unless otherwise specified, all amounts are on a U.S. GAAP basis.

Sales were ¥4,940.5 billion ($41.2 billion), a decrease of 6.5% year on year (7% decrease on a local currency basis).

Product categories with increased sales:

→ Semiconductors by 12.3%, Components by 2.2%, Video by 2.1% and Television by 0.4%.

Product categories with decreased sales:

→ Information and Communications by 17.9%, Audio by 8.7% and Other (which contains Aiwa) by 2.1%.

On a local currency basis:

→ Products with the largest decreases in sales:

~ Aiwa products, VAIO PCs, audio products, CRT computer displays, cellular phones (now sold mainly to SEMC), video cameras and CRT televisions.

→ Products with the largest increases in sales:

~ Digital still cameras (Cybershot), personal digital assistants (CLIE), semiconductors (especially CCDs and LCDs) and projection TVs.

→ On a geographic basis:

~ Sales fell in the U.S., Japan and Europe.

~ Sales rose in other areas, particularly in East Asia (not including Japan).

In terms of profitability, operating income of ¥41.4 billion ($345 million) was recorded compared with operating loss of ¥1.2 billion in the previous fiscal year, an improvement of ¥42.5 billion year on year.

The following factors contributed to the improvement in profitability:

→ Increased demand for semiconductors, particularly CCDs, and an increase in sales in the digital still camera and battery businesses.

→ An improvement in the profit structure of businesses such as portable audio and components, particularly cathode ray tubes, due to the benefit of restructuring (reductions in fixed costs, via the sale and disposal of underused production facilities, and headcount reductions) carried out in the previous year.

→ The positive impact of the depreciation of the yen against the euro which exceeded the negative impact of the depreciation of the yen against the U.S. dollar.

→ The transfer of the mobile handset business (which recorded a loss in the previous year) to SEMC, an affiliate accounted for under the equity method.

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Product categories information:

→ Categories recording operating income:

- ~ Audio , which benefited from the effects of restructuring, Television , in which demand rose for large-screen televisions, and Video , in which there was a significant increase in sales for digital still cameras. Components changed from loss to profit due to the effects of restructuring.

→ Categories recording operating loss:

- ~ Losses decreased in Information and Communications , because the mobile handset business was transferred to SEMC, and in Semiconductors , where there was an increase in demand, particularly for CCDs. Losses increased in the Other segment, principally due to losses at Aiwa.

Sales of Aiwa products fell year on year. Aiwa recorded an operating loss due to expenses incurred for restructuring including headcount reductions, inventory write-downs brought about by the concentration of product lines, and the sale and disposal of production facilities. Sony absorbed Aiwa by merger on December 1, 2002.

Inventory on March 31, 2003 was ¥432.4 billion ($3,603 million), a ¥79.6 billion, or 15.6%, decrease compared with the level on March 31, 2002.

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Game

	Year ended March 31			
			Percent change	
	2002	2003	2003/2002	2003
	Yen in billions			Dollars in millions
Sales and operating revenue	¥1,003.7	**¥955.0**	-4.9%	**$ 7,958**
Operating income	82.9	**112.7**	+35.9	**939**

Unless otherwise specified, all amounts are on a U.S. GAAP basis.

Sales were ¥955.0 billion ($7,958 million), a decrease of 4.9% year on year (7% decrease on a local currency basis).

Although hardware sales decreased, software sales increased, year on year.

→ Strategic price reductions of PlayStation 2 hardware in all major regions contributed to a year on year decrease in hardware sales revenue in the U.S. and Japan, although sales revenue increased in Europe mainly due to the positive impact of the depreciation of the yen against the euro. Hardware unit sales of PlayStation 2 decreased in Japan, but increased in the U.S. and Europe.

→ Unit sales of PlayStation 2 software significantly increased in Japan, the U.S. and Europe. Sales revenue increased in the U.S. and Europe, but decreased in Japan due to a decrease in unit sales of in-house developed software.

Worldwide hardware production shipments:*

→ PS 2: 22.52 million units (an increase of 4.45 million units)

→ PS one: 6.78 million units (a decrease of 0.62 million units)

Worldwide software production shipments:*

→ PS 2: 189.90 million units (an increase of 68.10 million units)

→ PlayStation: 61.00 million units (a decrease of 30.00 million units)

* *Production shipment units of hardware and software are counted upon shipment of the products from manufacturing bases. Sales of such products are recognized when the products are delivered to customers.*

Operating income was ¥112.7 billion ($939 million), an increase of ¥29.7 billion, or 35.9%, year on year (12% increase on a local currency basis).

Although hardware sales decreased primarily due to strategic price reductions in all major regions, the positive impact of the depreciation of the yen against the euro, in addition to the continued reduction of manufacturing costs, led to an increase in operating income.

Strong software sales mainly in the U.S. and Europe also contributed to an overall increase in operating income.

Inventory on March 31, 2003 was ¥143.4 billion ($1,195 million), a ¥24.4 billion, or 20.5%, increase compared with the level on March 31, 2002.

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Music

	Year ended March 31			
			Percent change	
	2002	2003	2003/2002	2003
	Yen in billions			Dollars in millions
Sales and operating revenue	¥642.8	**¥636.3**	-1.0%	**$ 5,303**
Operating income (loss)	20.2	**(8.7)**		**(72)**

The amounts presented above are the sum of the yen-translated results of Sony Music Entertainment Inc. (SMEI), a U.S. based operation, which aggregates the results of its worldwide subsidiaries on a U.S. dollar basis, and the results of Sony Music Entertainment (Japan) Inc. (SMEJ), a Japan based operation which aggregates results in yen. Management analyzes the results of SMEI in U.S. dollars, so discussion of certain portions of its results are specified as being on a U.S. dollar basis.

Sales were ¥636.3 billion ($5,303 million), a decrease of 1.0% year on year (1% increase on a local currency basis). Of the Music segment s sales, 72% were generated by SMEI, and 28% were generated by SMEJ.

SMEI s sales (on a U.S. dollar basis) increased 6%.

→ Sales increased due to an increase in manufacturing sales of DVD software to the Pictures and Game segments.

→ Partially offsetting the increase in sales was a decline in album sales in many regions worldwide due to the continued contraction of the global music industry brought on by digital piracy combined with competition from other entertainment sectors and economic uncertainty impacting consumer spending.

→ Titles contributing the most to sales:

~ Dixie Chicks *Home*, Shakira s *Laundry Service*, Jennifer Lopez s *This is Me Then*, and Celine Dion s *One Heart*.

SMEJ s sales decreased 10%.

→ Sales decreased because of the continued contraction of the music industry.

→ Titles contributing the most to sales:

~ Chemistry s *Second to None*, Mika Nakashima s *TRUE*, Chitose Hajime s *Hainumikaze*, and Ken Hirai s *Life is*

In terms of profitability, an operating loss of ¥8.7 billion ($72 million) was recorded compared with operating income of ¥20.2 billion in the previous year, a deterioration of ¥28.8 billion year on year.

SMEI incurred an operating loss (on a U.S. dollar basis) compared to operating income in the prior year.

→ Reasons for the decline in profit performance:

- ~ An increase year on year in restructuring charges of approximately $120 million.
  - ♦ During the fiscal year, restructuring charges of approximately $190 million were recorded for initiatives including the closure of a manufacturing facility in the U.S., the consolidation of several distribution facilities outside of the U.S., and the further consolidation of various support functions across labels and operating units.
  - ♦ The restructuring activities undertaken resulted in a reduction during the fiscal year of over 1,400 employees worldwide.
  - ♦ These continuing aggressive restructuring activities are being taken to counteract the effect of the decrease in album sales.
- ~ A decrease in album sales and an increase in talent-related expenses.

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→ Factors partially offsetting the decline in profit performance:

- ~ A decrease in advertising and promotion expenses.
- ~ Savings realized from SMEI s previously implemented restructuring initiatives.
- ~ Higher income generated by the increased DVD software manufacturing activity.

SMEJ s operating income decreased 81% year on year due to the drop in sales and an increase in severance related expenses incurred from restructuring.

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Pictures

	Year ended March 31			
			Percent change	
	2002	2003	2003/2002	2003
	Yen in billions			Dollars in millions
Sales and operating revenue	¥635.8	**¥802.8**	+26.3%	**$ 6,690**
Operating income	31.3	**59.0**	+88.6	**491**

The results presented above are a yen-translation of the results of Sony Pictures Entertainment (SPE), a U.S. based operation, which aggregates the results of its worldwide subsidiaries on a U.S. dollar basis. Management analyzes the results of SPE in U.S. dollars, so discussion of certain portions of its results are specified as being on a U.S. dollar basis.

Sales were ¥802.8 billion ($6,690 million), an increase of 26.3% year on year (30% increase on a U.S. dollar basis). This represented the highest sales ever recorded by SPE.

The reasons for the significant increase in sales (on a U.S. dollar basis) were:

→ The strong worldwide performance, both theatrically and in home entertainment, of current year releases including *Spider-Man*, *Men in Black II*, *xXx*, and *Mr. Deeds*.

~ *Spider-Man*, the highest grossing film in SPE s history, exceeded $800 million in worldwide box office.

~ The increased worldwide popularity of DVDs, together with the successful film slate, contributed to the higher home entertainment revenues.

Operating income was ¥59.0 billion ($491 million), an increase of ¥27.7 billion, or 88.6%, year on year (92% increase on a U.S. dollar basis). This also represented the highest operating income ever achieved by SPE.

The reasons for the increase in profitability were:

→ Substantially higher theatrical and home entertainment revenues, as noted above, driven by SPE s successful summer theatrical release slate.

→ Higher television operating income due to the recording of restructuring expenses in the previous fiscal year.

→ Lower losses on and a reduction in the number of new network television shows and pilots as a result of that restructuring.

→ Increased revenues from the game show, *Wheel of Fortune*.

Partially offsetting the increase in profitability were:

→ Disappointing performance from several films including *I Spy* and *Stuart Little 2*.

→ A provision with respect to previously recorded revenue and adjustments to ultimate film income from KirchMedia.

~ KirchMedia is an insolvent licensee in Germany of SPE s feature film and television products.

In April 2002, SPE sold its entire equity interest in Telemundo. Cash proceeds of ¥88.4 billion* were received upon the closing and a gain of ¥66.5 billion* was recorded on this sale in gain on sales of securities investments, net (in other income).

(*The dollar amount of the cash proceeds and gain recorded on the sale of Telemundo were $679 million and $511 million, respectively.)

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Financial Services

	Year ended March 31			
			Percent change	
	2002	2003	2003/2002	2003
	Yen in billions			Dollars in millions
Financial services revenue	¥512.2	**¥540.5**	+ 5.5 %	**$ 4,504**
Operating income	22.1	**23.3**	+5.4	**194**

Unless otherwise specified, all amounts are on a U.S. GAAP basis.

Financial Services revenue was ¥540.5 billion ($4,504 million), an increase of 5.5% year on year.

Revenue increased primarily due to an increase in revenue at Sony Life Insurance Co., Ltd. (Sony Life).

→ Insurance revenue rose due to an increase in insurance-in-force.

→ Valuation gains and losses from investments in the general account improved because, even though a slight loss was recorded due to the devaluation of Argentine government bonds held in that account, the amount of that loss decreased significantly compared with the loss recorded in the previous year.

→ Sony Life s revenue gains were partially offset by a deterioration of valuation gains and losses from investments in the separate account, which resulted from the stock market downturn.

~ Valuation gains and losses from investments in the separate account accrue directly to the account of policyholders and, therefore, do not affect operating income.

In addition, the following factors affected Financial Services business segment revenue:

→ An increase in revenue at Sony Assurance Inc. due to higher insurance revenue brought about by an expansion in insurance-in-force.

→ A decrease in revenue at Sony Finance International, Inc. (Sony Finance) brought about by a decrease in revenues from rent, despite an increase in leasing and other revenue.

Operating income increased ¥1.2 billion or 5.4% year on year to ¥23.3 billion ($194 million).

Operating income at Sony Life increased due to an increase in insurance revenue and the improvement in valuation gains and losses from investments in the general account.

In addition, the following factors affected Financial Services business operating income:

→ Fewer losses at Sony Assurance Inc. due to an increase in insurance revenue, a decrease in the proportion of insurance payouts relative to the number of policyholders, and an improvement in the ratio of operating expenses to sales.

→ A recording of a loss at Sony Finance due to a deterioration of profitability brought on by an increase in operating expenses in connection with the credit card business.

→ Continuing losses at Sony Bank, which began operations in June 2001.

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Other

	Year ended March 31			
	2002	2003	Percent change 2003/2002	2003
	Yen in billions			Dollars in millions
Sales and operating revenue	¥203.8	**¥250.3**	+22.8%	**$ 2,086**
Operating income (loss)	(16.6)	**(32.0)**		**(266)**

Unless otherwise specified, all amounts are on a U.S. GAAP basis.

Sales were ¥250.3 billion ($2,086 million), an increase of 22.8% year on year. (Of sales in the Other segment, 48% were sales to outside customers).

Sales increased due to increased sales of NACS-related businesses (see Note II on page 14), due primarily to increased sales at an in-house oriented information system service business, and increased sales at an advertising agency business subsidiary in Japan.

In terms of profitability, an operating loss of ¥32.0 billion ($266 million) was recorded compared with an operating loss of ¥16.6 billion in the previous year, a deterioration of ¥15.3 billion.

An increase in aggregate losses at NACS-related businesses was the principal cause of the deterioration:

→ There was an increase in expenses incurred in connection with the creation of a platform business, such as expenses for the development of network technology.

→ Impairments of professional-use software were recorded.

→ Offsetting the increase in operating losses for the segment was the recording of operating income at Sony Communication Network Corporation.

Notes

Note I: *During the fiscal year ended March 31, 2003, the average value of the yen was ¥120.9 against the U.S. dollar and ¥119.5 against the euro, which was 2.6% higher against the U.S. dollar and 8.8% lower against the euro, compared with the average rate for the* *previous fiscal year. Operating results on a local currency basis described herein reflect sales and operating revenue (sales) and operating income obtained by applying the yen s average exchange rate in the previous fiscal year to local currency-denominated monthly sales, cost of sales, and selling, general and administrative expenses in the current fiscal year. 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). In addition, Sony does not believe that these measures are a substitute for U.S. GAAP measures. However, Sony believes that local currency basis results provide additional useful analytical information to investors regarding operating performance.*

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

Note III: Sales and operating revenue in each business segment represents sales and operating revenue recorded before intersegment transactions are eliminated. Operating income in each business segment represents operating income recorded before intersegment transactions and unallocated corporate expenses are eliminated. Sales on a product category basis in the Electronics segment represents only sales of products to external customers, i.e. those sales recorded after intersegment and inter category transactions have been eliminated.

Remarks on Upcoming Initiatives by Nobuyuki Idei, Chairman and CEO of Sony Corporation

In 2006, Sony will celebrate its 60th anniversary. In the next three years up until this landmark date, we will invest a total of ¥1.3 trillion in the following initiatives as we create a new profit model and accelerate our transformation into a knowledge and capital-intensive company.

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

2) We will increase investment in R&D to enhance the competitiveness of products and create a new laboratory to further stimulate content distribution. Investment in R&D over the next three years will total ¥500 billion.

3) In order to transform Sony into a highly profitable company, we will record, over the next three years, approximately ¥300 billion in restructuring costs for a variety of initiatives, including the further pursuit of downsizing and withdrawal from selected businesses and the continued implementation of fixed cost reductions.

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

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BUSINESS SEGMENT INFORMATION

	Year ended March 31			
			Percent change	
	2002	2003	2003/2002	2003
	Yen in millions			Dollars in millions
Sales and operating revenue:				
Electronics				
Customers	¥4,772,550	**¥4,543,313**	-4.8%	$ **37,861**
Intersegment	513,631	**397,137**		**3,309**
Total	5,286,181	**4,940,450**	-6.5	**41,170**
Game				
Customers	986,529	**936,274**	-5.1	**7,802**
Intersegment	17,185	**18,757**		**156**
Total	1,003,714	**955,031**	-4.9	**7,958**
Music				
Customers	588,191	**559,042**	-5.0	**4,659**
Intersegment	54,649	**77,256**		**644**
Total	642,840	**636,298**	-1.0	**5,303**
Pictures				
Customers	635,841	**802,770**	+26.3	**6,690**
Intersegment	0	**0**		**0**
Total	635,841	**802,770**	+26.3	**6,690**
Financial Services				
Customers	483,313	**512,641**	+6.1	**4,272**
Intersegment	28,932	**27,878**		**232**
Total	512,245	**540,519**	+5.5	**4,504**
Other				
Customers	111,834	**119,593**	+6.9	**996**
Intersegment	91,977	**130,721**		**1,090**
Total	203,811	**250,314**	+22.8	**2,086**
Elimination	(706,374)	**(651,749)**		**(5,431)**
Consolidated total	¥7,578,258	**¥7,473,633**	-1.4%	$ **62,280**

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

Music intersegment amounts primarily consist of transactions with Game and Pictures businesses.

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

	Year ended March 31			
			Percent change	
	2002	2003	2003/2002	2003
	Yen in millions			Dollars in millions
Operating income (loss):				
Electronics	¥(1,158)	**¥41,380**	%	**$ 345**
Game	82,915	**112,653**	+35.9	**939**
Music	20,175	**(8,661)**		**(72)**
Pictures	31,266	**58,971**	+88.6	**491**
Financial Services	22,134	**23,338**	+5.4	**194**
Other	(16,604)	**(31,950)**		**(266)**
Total	138,728	**195,731**	+41.1	**1,631**
Corporate and elimination	(4,097)	**(10,291)**		**(86)**
Consolidated total	¥134,631	**¥185,440**	+37.7%	**$ 1,545**

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Electronics Sales and Operating Revenue to Customers by Product Category

	Year ended March 31			
			Percent change	
	2002	2003	2003/2002	2003
	Yen in millions			Dollars in millions
Sales and operating revenue:				
Audio	¥ 747,469	**¥ 682,517**	-8.7%	**$ 5,688**
Video	806,401	**823,354**	+2.1	**6,861**
Televisions	842,388	**846,139**	+0.4	**7,051**
Information and Communications	1,167,328	**958,556**	-17.9	**7,988**
Semiconductors	182,276	**204,710**	+12.3	**1,706**
Components	525,568	**537,358**	+2.2	**4,478**
Other	501,120	**490,679**	-2.1	**4,089**
Total	¥4,772,550	**¥4,543,313**	-4.8%	**$ 37,861**

The above table is a breakdown of Electronics sales and operating revenue to customers in the Business Segment Information on page 16. The Electronics business is managed as a single operating segment by Sony s management. However, Sony believes that the information in this table is useful to investors in understanding the sales contributions of the products in this business segment. In addition, commencing with the first quarter ended June 30, 2002, Sony has partly realigned its product category configuration in the Electronics business. In accordance with this change, results of the previous year have been reclassified to conform to the presentations for the current year.

Sales of mobile phones are no longer recorded in the Information and Communications category as of the third quarter ended December 31, 2001. From the third quarter of the previous year, sales of mobile phones manufactured for Sony Ericsson Mobile Communications, AB are recorded in the Other product category.

GEOGRAPHIC SEGMENT INFORMATION

	Year ended March 31			
			Percent change	
	2002	2003	2003/2002	2003
	Yen in millions			Dollars in millions
Sales and operating revenue:				
Japan	¥2,248,115	**¥2,093,880**	-6.9%	**$ 17,449**

United States	2,461,523	**2,403,946**	-2.3		**20,033**
Europe	1,609,111	**1,665,976**	+3.5		**13,883**
Other Areas	1,259,509	**1,309,831**	+4.0		**10,915**
Total	¥7,578,258	**¥7,473,633**	-1.4%	**$**	**62,280**

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

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CONDENSED FINANCIAL SERVICES FINANCIAL STATEMENTS

The Financial Services is included on a consolidated basis in Sony s consolidated financial statements. The following schedule shows unaudited condensed financial statements for Financial Services and for Sony without Financial Services. While these presentations are not required under U.S. GAAP used in Sony s consolidated financial statements, because the Financial Services is different in nature from Sony s Electronics, Game, Music, and Pictures segments, Sony believes that these types of comparative presentations help the understanding and analysis of Sony s consolidated financial statements.

Condensed balance sheets (unaudited)

March 31

	Financial Services			Sony without Financial Services			Consolidated		
	2002	**2003**	**2003**	**2002**	**2003**	**2003**	**2002**	**2003**	**2003**
	Yen in millions		**Dollars in millions**	**Yen in millions**		**Dollars in millions**	**Yen in millions**		**Dollars in millions**
ASSETS									
Cash and cash equivalents	¥ 327,262	**¥ 274,928**	**$ 2,291**	¥ 356,538	**¥ 438,130**	**$ 3,651**	¥ 683,800	**¥ 713,058**	**$ 5,942**
Marketable securities	157,363	**236,621**	**1,972**	4,784	**4,899**	**41**	162,147	**241,520**	**2,013**
Other current assets	142,051	**176,376**	**1,470**	2,412,799	**2,057,930**	**17,149**	2,491,265	**2,199,636**	**18,330**
Investments and advances	1,388,556	**1,741,748**	**14,515**	420,226	**372,671**	**3,106**	1,697,807	**1,994,123**	**16,618**
Investments in Financial Services				170,189	**170,189**	**1,418**			
Deferred insurance acquisition costs	308,204	**327,869**	**2,732**				308,204	**327,869**	**2,732**
Other long-lived assets	172,616	**152,892**	**1,274**	2,702,352	**2,771,946**	**23,100**	2,842,572	**2,894,339**	**24,120**
	¥2,496,052	**¥2,910,434**	**$ 24,254**	¥6,066,888	**¥5,815,765**	**$ 48,465**	¥8,185,795	**¥8,370,545**	**$ 69,755**

LIABILITIES AND STOCKHOLDERS EQUITY									
Deposits from customers in the banking business	¥ 106,472	**¥ 248,721**	**$ 2,073**				¥ 106,472	**¥ 248,721**	**$ 2,073**
Future insurance policy benefits and other	1,680,418	**1,914,410**	**15,953**				1,680,418	**1,914,410**	**15,953**
Other liabilities and minority interest in consolidated subsidiaries	390,976	**425,591**	**3,547**	¥3,834,544	**¥3,677,646**	**$ 30,647**	4,028,495	**3,926,519**	**32,722**
Total liabilities and minority interest in consolidated subsidiaries	2,177,866	**2,588,722**	**21,573**	3,834,544	**3,677,646**	**30,647**	5,815,385	**6,089,650**	**50,748**
Stockholders equity	318,186	**321,712**	**2,681**	2,232,344	**2,138,119**	**17,818**	2,370,410	**2,280,895**	**19,007**
	¥2,496,052	**¥2,910,434**	**$ 24,254**	¥6,066,888	**¥5,815,765**	**$ 48,465**	¥8,185,795	**¥8,370,545**	**$ 69,755**

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Condensed statements of income (unaudited)

Year ended March 31

	Financial Services			Sony without Financial Services			Consolidated		
	2002	2003	2003	2002	2003	2003	2002	2003	2003
	Yen in millions		Dollars in millions	Yen in millions		Dollars in millions	Yen in millions		Dollars in millions
Financial services revenue	¥ 512,245	**¥540,519**	**$ 4,504**				¥483,313	**¥512,641**	**$ 4,272**
Net sales and operating revenue				¥7,102,369	**¥6,971,737**	**$ 58,098**	7,094,945	**6,960,992**	**58,008**
	512,245	**540,519**	**4,504**	7,102,369	**6,971,737**	**58,098**	7,578,258	**7,473,633**	**62,280**
Financial services expenses and operating expenses	490,111	**517,181**	**4,310**	6,989,446	**6,808,635**	**56,739**	7,443,627	**7,288,193**	**60,735**
Operating income	22,134	**23,338**	**194**	112,923	**163,102**	**1,359**	134,631	**185,440**	**1,545**
Non-operating income (expenses), net	(1,861)	**(1,307)**	**(10)**	(40,421)	**67,878**	**566**	(41,856)	**62,181**	**519**
Income before income taxes	20,273	**22,031**	**184**	72,502	**230,980**	**1,925**	92,775	**247,621**	**2,064**
Income taxes and other	11,477	**13,072**	**109**	72,785	**120,062**	**1,001**	83,443	**132,102**	**1,101**
Cumulative effect of accounting changes	4,305			1,673			5,978		
Net income	¥13,101	**¥8,959**	**$ 75**	¥1,390	**¥110,918**	**$ 924**	¥15,310	**¥115,519**	**$ 963**

Condensed statements of cash flows (unaudited)

Year ended March 31

	Financial Services			Sony without Financial Services			Consolidated		
	2002	2003	2003	2002	2003	2003	2002	2003	2003
	Yen in millions		Dollars in millions	Yen in millions		Dollars in millions	Yen in millions		Dollars in millions
Net cash provided by operating activities	¥301,625	**¥315,968**	**$ 2,633**	¥436,059	**¥542,848**	**$ 4,524**	¥737,596	**¥853,788**	**$ 7,115**
Net cash used in investing activities	(401,866)	**(517,383)**	**(4,311)**	(368,951)	**(185,163)**	**(1,543)**	(767,117)	**(706,425)**	**(5,887)**
Net cash provided by (used in) financing activities	120,255	**149,086**	**1,242**	(31,603)	**(251,128)**	**(2,093)**	85,040	**(93,134)**	**(776)**
Effect of exchange rate changes on cash and cash equivalents	3	**(5)**	**(0)**	21,033	**(24,965)**	**(208)**	21,036	**(24,971)**	**(208)**
Net increase (decrease) in cash and cash equivalents	20,017	**(52,334)**	**(436)**	56,538	**81,592**	**680**	76,555	**29,258**	**244**
Cash and cash equivalents at beginning of year	307,245	**327,262**	**2,727**	300,000	**356,538**	**2,971**	607,245	**683,800**	**5,698**
Cash and cash equivalents at end of year	¥327,262	**¥274,928**	**$ 2,291**	¥356,538	**¥438,130**	**$ 3,651**	¥683,800	**¥713,058**	**$ 5,942**

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Five-Year Summary of Selected Financial Data

Sony Corporation and Consolidated Subsidiaries Year ended March 31

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

* Including amortization of deferred insurance acquisition costs.

Notes:

1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2003.
2. Per share data prior to the year ended March 31, 2001 have been adjusted to reflect the two-for-one stock split that has completed on May 19, 2000. However, no adjustment to reflect such stock sprit has been made to the number of shares issued at prior year-ends.
3. Cash dividends per share of common stock for the year ended March 31, 2003 include a dividend which is subject to approval of the Ordinary General Meeting of Shareholders to be held on June 20, 2003.
4. On April 1, 2002, Sony adopted Statement of Financial Accounting Standards (FAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets . The adoption of the provision of FAS No.144 did not have a material impact on Sony s results of operations and financial position for the year ended March 31, 2003.
5. In April 2002, the Financial Accounting Standards Board (FASB) issued FAS No.145, Rescission of FASB Statements No.4, 44 and 64, Amendment of FASB Statement No.13, and Technical Corrections . Sony elected early adoption of this statement retroactive to April 1, 2002. The adoption of this statement did not have an impact on Sony s results of operations and financial position.
6. In June 2002, the FASB issued FAS No.146, Accounting for Costs Associated with Exit or Disposal Activities which nullifies Emerging Issues Task Force (EITF) Issue No.94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an activity (including Certain Costs Incurred in a Restructuring) . Sony adopted FAS No.146 on January 1, 2003. The impact of the adoption of this statement on Sony s results of operations and financial position was immaterial.
7. In November 2002, the FASB issued FASB Interpretation (FIN) No.45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No.5, 57, and 107 and rescission of FASB Interpretation No.34 . The initial recognition and initial measurement provisions of FIN No.45 did not have material effect on Sony s results of operations and financial position as at and for the year ended March 31, 2003.
8. In December 2002, the FASB issued FAS No.148, Accounting for Stock-Based Compensation Transition and Disclosure an Amendment of FASB Statement No.123 . Sony has accounted for its employee stock-based compensation in accordance with Accounting Principles Board Opinion (APB) No.25, Accounting for Stock Issued to Employees and, therefore, the adoption of the provisions of FAS No.148 did not have an impact on Sony s results of operations and financial position.
9. In January 2003, the FASB issued FIN No.46, Consolidation of Variable Interest Entities an Interpretation of ARB No.51 . This interpretation addresses consolidation by a primary beneficiary of a variable interest entity (VIE). FIN No.46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN No.46 become effective for Sony during the second quarter of the year ending March 31, 2004. Sony did not enter into any new arrangements with VIEs during the period February 1, 2003 through March 31, 2003.

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

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Consolidated Balance Sheets

Sony Corporation and Consolidated Subsidiaries March 31

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

	¥ 8,185,795	**¥ 8,370,545**	**$ 69,755**

(Continued on following page.)

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

The accompanying notes are an integral part of these statements.

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Consolidated Statements of Income

Sony Corporation and Consolidated Subsidiaries Year ended March 31

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

	115,534	65,211	**80,831**	**674**
Income before minority interest, equity in net losses of affiliated companies and cumulative effect of accounting changes	150,334	27,564	**166,790**	**1,390**
Minority interest in income (loss) of consolidated subsidiaries	(15,348)	(16,240)	**6,581**	**55**
Equity in net losses of affiliated companies (Note 6)	44,455	34,472	**44,690**	**372**
Income before cumulative effect of accounting changes	121,227	9,332	**115,519**	**963**
Cumulative effect of accounting changes (2001: Including ¥491 million income tax expense 2002: Net of income taxes of ¥2,975 million) (Note 2)	(104,473)	5,978		
Net income	¥ 16,754	¥ 15,310	**¥ 115,519**	**$ 963**

(Continued on following page.)

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

The accompanying notes are an integral part of these statements.

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Consolidated Statements of Cash Flows

Sony Corporation and Consolidated Subsidiaries Year ended March 31

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

(Continued on following page.)

	2001	2002	2003	2003
		Yen in millions		Dollars in millions (Note 3)
Cash flows from investing activities:				
Payments for purchases of fixed assets	¥ (468,019)	¥ (388,514)	¥ **(275,285)**	$ **(2,294)**
Proceeds from sales of fixed assets	26,704	37,434	**25,711**	**214**
Payments for investments and advances by financial service business	(329,319)	(705,796)	**(1,026,361)**	**(8,553)**
Payments for investments and advances (other than financial service business)	(136,818)	(90,544)	**(109,987)**	**(917)**
Proceeds from sales of securities investments, maturities of marketable securities and collections of advances by financial service business	93,226	345,112	**542,539**	**4,521**
Proceeds from sales of securities investments, maturities of marketable securities and collections of advances (other than financial service business)	94,264	33,969	**135,834**	**1,132**
Decrease in time deposits	914	1,222	**1,124**	**10**
Net cash used in investing activities	(719,048)	(767,117)	**(706,425)**	**(5,887)**
Cash flows from financing activities:				
Proceeds from issuance of long-term debt	195,118	228,999	**12,323**	**103**
Payments of long-term debt	(143,258)	(171,739)	**(238,144)**	**(1,985)**
Increase (decrease) in short-term borrowings	106,245	(78,104)	**(7,970)**	**(66)**
Increase in deposits from customers in the banking business (Note 13)		106,472	**142,023**	**1,184**
Proceeds from issuance of subsidiary tracking stock (Note 16)		9,529		
Dividends paid	(22,774)	(22,951)	**(22,871)**	**(191)**
Other	(889)	12,834	**21,505**	**179**
Net cash provided by (used in) financing activities	134,442	85,040	**(93,134)**	**(776)**
Effect of exchange rate changes on cash and cash equivalents	21,020	21,036	**(24,971)**	**(208)**
Net increase (decrease) in cash and cash equivalents	(18,819)	76,555	**29,258**	**244**
Cash and cash equivalents at beginning of year	626,064	607,245	**683,800**	**5,698**
Cash and cash equivalents at end of year	¥ 607,245	¥ 683,800	¥ **713,058**	$ **5,942**
Supplemental data:				
Cash paid during the year for				
Income taxes	¥ 93,629	¥ 148,154	¥ **171,531**	$ **1,429**
Interest	47,806	35,371	**22,216**	**185**
Non-cash investing and financing activities				
Contribution of assets into an affiliated company		¥ 10,545		

The accompanying notes are an integral part of these statements.

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Consolidated Statements of Changes in Stockholders Equity

Sony Corporation and Consolidated Subsidiaries Year ended March 31

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

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

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

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

The accompanying notes are an integral part of these statements.

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Sony Corporation and Consolidated Subsidiaries

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Notes to Consolidated Financial Statements

Sony Corporation and Consolidated Subsidiaries

1. Nature of operations

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

2. Summary of significant accounting policies

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

(1) Accounting changes:

Impairment or disposal of long-lived assets

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

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

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

Accounting for Costs Associated with Exit or Disposal Activities

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

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

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

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Accounting for Stock-Based Compensation Transition and Disclosure

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

Consolidation of Variable Interest Entities

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

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

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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, including certain derivative instruments embedded in other contracts, as either assets or liabilities in the balance sheet and to measure those instruments at fair value. Additionally, the fair value adjustments will affect either stockholders equity or net income depending on whether the derivative instruments qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity.

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

Goodwill and other intangible assets

In July 2001, Sony elected early adoption, retroactive to April 1, 2001, of FAS No. 142, Goodwill and Other Intangible Assets which superseded APB No. 17, Intangible Assets . FAS No. 142 addresses the accounting for acquired goodwill and other intangible assets. Under FAS No. 142, goodwill and certain other intangible assets that are determined to have an indefinite life are no longer amortized, but rather are tested for impairment on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value below its carrying amount. Prior to the adoption of FAS No. 142, goodwill recognized in acquisitions accounted for as purchases was amortized on a straight-line basis principally over a 20 or 40-year period. As a result of the adoption of FAS No. 142, Sony s operating income and income before income taxes for the year ended March 31, 2002 increased by ¥20,114 million and income before cumulative effect of accounting changes as well as net income for the year ended March 31, 2002 increased by ¥18,932 million.

Accounting for consideration paid to a reseller

In the fourth quarter of the year ended March 31, 2002, Sony adopted retroactive to April 1, 2001 EITF Issue No. 00-25, Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor s Products , which was later codified along with other similar issues into EITF Issue No. 01-09, Accounting for Consideration Given by a Vendor to a Customer or Reseller of the Vendor s Products . EITF Issue No. 01-09 clarifies the income statement classification of costs incurred by a vendor in connection with the reseller s purchase or promotion of the vendor s products, resulting in certain cooperative advertising and product placement costs previously classified as selling, general and administrative expenses to be reflected as a reduction of revenues earned from that activity. The accounting change did not have any effect on operating income or a material effect on net sales and selling, general and administrative expenses for the year ended March 31, 2002. Sony has not reclassified the financial statements for the year ended March 31, 2001 due to immateriality.

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Film accounting

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

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

Revenue recognition

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

(2) 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 20% or more but less than or equal to 50% are accounted for under the equity method. In addition, all investments in limited partnerships and general partnerships are also accounted for under the equity method. Under the equity method, investments are stated at cost plus/minus Sony s equity in undistributed earnings or losses. Consolidated net income includes Sony s equity in current earnings or losses of such companies, after elimination of unrealized intercompany profits. If the value of an investment has declined and is judged to be other than temporary, the investment is written down to its fair value.

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

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

Use of estimates

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.

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Translation of foreign currencies

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

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

Cash and cash equivalents

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

Marketable debt and equity securities

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

Equity securities in non-public companies

Equity securities in non-public companies are carried at cost as fair value is not readily determinable. If the value of a non-public equity investment is estimated to have declined and such decline is judged to be other than temporary, Sony recognizes the impairment of the investment and the carrying value is reduced to its fair value. Determination of impairment is based on the consideration of such factors as operating results, business plans and estimated future cash flows. Fair value is determined through the use of such methodologies as discounted cash flows, valuation of recent financings and comparable valuations of similar companies.

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Inventories

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

Film costs

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

Property, plant and equipment and depreciation

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

Goodwill and other intangible assets

As a result of the adoption of FAS No. 142, goodwill and certain other intangible assets that are determined to have an indefinite life are not amortized and are tested for impairment on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value below its carrying amount. Fair value for those assets is generally determined using a discounted cash flow analysis. Prior to the adoption of FAS No. 142, in accordance with APB No. 17, goodwill was amortized on a straight-line basis principally over a 20 or 40 year period and indefinite-lived intangible assets were also amortized on a straight-line basis principally over a 20 year period.

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

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Accounting for computer software to be sold

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

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

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

Deferred insurance acquisition costs

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

Product warranty

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

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

Future insurance policy benefits

Future insurance policy benefits are computed based on actuarial assumptions.

Accounting for the impairment of long-lived assets

Sony periodically reviews the carrying value of its long-lived assets held and used, other than goodwill and intangible assets with indefinite lives, and assets to be disposed of, whenever events or changes in circumstances indicated that the carrying amount may not be recoverable. Long-lived assets to be held and used are reviewed for impairment by comparing the carrying value of the assets with their estimated future undiscounted cash flows. If it is determined that an impairment loss has occurred, the loss would be recognized during the period. The impairment loss would be calculated as the difference between asset carrying value and the present value of estimated net cash flows or comparable market values, giving consideration to recent operating performance. Long-lived assets that are to be disposed of other than by sale are considered held and used until they are disposed of. Long-lived assets that are to be disposed of by sale are reported at the lower of their carrying value or fair value less cost to sell. Reductions in carrying value are recognized in the period in which the long-lived assets are classified as held for sale.

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Derivative financial instruments

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

In accordance with FAS No. 133, the derivative financial instruments held by Sony are classified and accounted as below.

Fair value hedges

Changes in the fair value of derivatives designated and effective as fair value hedges for recognized assets or liabilities or unrecognized firm commitments are recognized in earnings as offsets to changes in the fair value of the related hedged assets or liabilities.

Cash flow hedges

Changes in the fair value of derivatives designated and effective as cash flow hedges for forecasted transactions or exposures associated with recognized assets or liabilities are initially recorded in other comprehensive income and reclassified into earnings when the hedged transaction affects earnings. Changes in the fair value of the ineffective portion are recognized in current period earnings.

Derivatives not designated as hedges

Changes in the fair value of derivatives that are not designated as hedges under FAS No. 133 are recognized in current period earnings.

Sony formally documents all hedging relationships between the derivatives designated as hedges and hedged items, as well as its risk management objectives and strategies for undertaking various hedging activities. Sony links all hedges that are designated as fair value or cash flow hedges to specific assets or liabilities on the balance sheet or to the specific forecasted transaction. Sony also assesses, both at the inception of the hedge and on an on-going basis, whether the derivatives that are designated as hedges are highly effective in offsetting changes in fair value or cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge, Sony discontinues hedge accounting.

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Stock-based compensation

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

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

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

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

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Free distribution of common stock

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

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

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

Stock issue costs

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

Revenue recognition

In accordance with SAB No. 101, revenues from electronics, game and music sales are recognized upon delivery which is considered to have occurred when the customer has taken title to the product and the risk and rewards of ownership have been substantively transferred. If the sales contract contains a customer acceptance provision, then sales are recognized after customer acceptance occurs or the acceptance provisions lapse.

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

Life insurance policies that the life insurance subsidiary writes, most of which are categorized as long-duration contracts, mainly consist of whole life, term life and accident and health insurance contracts. Premiums from these policies are reported as revenue when due from policyholders.

Property and casualty insurance policies that the non-life insurance subsidiary writes are primarily automotive insurance contracts which are categorized as short-duration contracts. Premiums from these policies are reported as revenue over the period of the contract in proportion to the amount of insurance protection provided.

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Accounting for consideration paid to a reseller

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

Cost of sales

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

Research and development costs

Research and development costs are expensed as incurred.

Selling, general and administrative

Costs classified as selling expense relate to the promoting and selling of products and include such items as advertising, promotion, shipping, and warranty expenses.

General and administrative expenses include operating items such as officer s salaries, personnel expenses, depreciation of fixed assets, office rental for sales, marketing and administrative divisions, a provision for doubtful accounts and amortization of intangible assets.

Financial service expenses

Financial service expenses include provision for policy reserves and amortization of deferred insurance acquisition cost, and all other operating costs such as personnel expenses, depreciation of fixed assets, office rental of subsidiaries in the Financial Services segment.

Advertising costs

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

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Shipping and handling costs

The majority of shipping and handling, warehousing and internal transfer costs for finished goods are included in selling, general and administrative expenses. An exception to this is in the Pictures business where such costs are charged to cost of sales as it is an integral part of producing and distributing the film under SOP 00-2. All other costs related to Sony s distribution network are included in cost of sales, including inbound freight charges, purchasing and receiving costs, inspection costs and warehousing costs for raw materials and in-process inventory. In addition, amounts paid by customers for shipping and handling costs are included in net sales.

Income taxes

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

Net income per share

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

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

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

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

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

(3) Recent Pronouncements

Accounting for Asset Retirement Obligations

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

Multiple Element Arrangements

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

Derivative Instruments and Hedging Activities

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

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

In May 2003, the FASB issued FAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity . FAS No. 150 establishes standards for how certain financial instruments with characteristics of both liabilities and equity shall be classified and measured. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Sony is currently evaluating the impact of adopting this statement.

(4) Reclassifications:

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

3. U.S. dollar amounts

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

4. Inventories

Inventories comprise the following:

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

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5. Film costs

Film costs comprise the following:

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

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

6. Investments in and transactions with affiliated companies

Sony accounts for its investments in affiliated companies over which Sony has significant influence or ownership of 20% or more but less than or equal to 50% under the equity method. In addition, all investments in limited partnerships and general partnerships are also accounted for under the equity method. Such investments include but are not limited to Sony s interest in Sony Ericsson Mobile Communications, AB (50%), American Video Glass Company (50%), ST Liquid Crystal Display Corporation (50%), BE-ST Bellevuestrasse Development GmbH & Co. First Real Estate KG, Berlin (50%), InterTrust Technologies Corporation (49.5%) and Crosswave Communications Inc. (23.9%).

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

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

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

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

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

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

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

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

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

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

Account balances and transactions with affiliated companies are presented below:

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

	Year ended March 31			
	2001	2002	2003	2003
	Yen in millions			Dollars in millions
Sales	¥ 31,239	¥ 72,824	¥ 161,983	$ 1,350

Purchases	¥ 75,379	¥ 69,254	¥ 102,735	$ 856

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

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7. Accounts receivable securitization program

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

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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:

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

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

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

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

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

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

In the ordinary course of business, Sony maintains long-term investment securities, included in securities investments and other, issued by a number of non-public companies. The aggregate carrying amounts of the investments in non-public companies at March 31, 2002 and 2003, which were valued at the lower of cost or fair value, were ¥82,490 million and ¥69,596 million ($580 million), respectively.

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

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

9. Leased assets

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

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

	March 31		
Class of property	2002	2003	2003
	Yen in millions		Dollars in millions
Land	¥ 1,983	¥ 1,829	$ 15
Buildings	15,448	15,937	133
Machinery, equipment and others	35,255	33,733	281
Accumulated depreciation	(20,830)	(21,236)	(177)
	¥ 31,856	¥ 30,263	$ 252

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The following is a schedule by year of the future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of March 31, 2003:

	Yen in millions	Dollars in millions
Year ending March 31:		
2004	¥ 15,545	$ 129
2005	11,851	99
2006	7,788	65
2007	4,561	38
2008	2,410	20
Later years	7,775	65
Total minimum lease payments	49,930	416
Less Amount representing interest	10,031	84
Present value of net minimum lease payments	39,899	332
Less Current obligations	11,313	94
Long-term capital lease obligations	¥ 28,586	$ 238

Minimum lease payments have not been reduced by minimum sublease income of ¥14,583 million ($122 million) due in the future under noncancelable subleases.

Minimum rentals under operating leases for the years ended March 31, 2001, 2002 and 2003 were ¥93,727 million, ¥104,497 million and ¥94,364 million ($786 million), respectively. Sublease rentals under operating leases for the years ended March 31, 2001, 2002 and 2003 were ¥5,078 million, ¥7,006 million and ¥6,240 million ($52 million), respectively. The total minimum rentals to be received in the future under noncancelable subleases as of March 31, 2003 are ¥36,692 million ($306 million). The minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at March 31, 2003 are as follows:

	Yen in millions	Dollars in millions
Year ending March 31:		
2004	¥ 51,786	$ 432
2005	42,074	351
2006	35,879	299
2007	26,187	218
2008	21,118	176
Later years	112,467	937
Total minimum future rentals	¥ 289,511	$ 2,413

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10. Goodwill and intangible assets

As discussed in Note 2, Sony elected early adoption of FAS No. 142, retroactive to April 1, 2001. Upon the adoption of this statement, Sony reassessed the useful lives of its intangible assets and determined that certain intangible assets including trademarks have indefinite lives and, as a result, will no longer be amortized. At April 1, 2001, intangible assets having an indefinite life totaled ¥76,029 million. Sony performed the transitional impairment test for these intangible assets and determined that the fair value of these assets was in excess of the current carrying amount. Accordingly, no impairment loss was recorded for intangible assets upon the adoption of FAS No. 142.

Intangible assets acquired during the year ended March 31, 2003 totaled ¥54,404 million ($453 million), which are subject to amortization and primarily consist of music catalogs of ¥24,058 million ($200 million), acquired patent rights of ¥13,114 million ($109 million) and software to be sold, leased or otherwise marketed of ¥6,412 million ($53 million). The weighted average amortization period for music catalogs, acquired patent rights and software to be sold, leased or otherwise marketed is 37 years, 8 years and 3 years, respectively.

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Intangible assets subject to amortization comprise the following:

	March 31					
	2002		2003		2003	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
	Yen in millions				Dollars in millions	
Artist contracts	¥ 97,390	¥ (72,890)	¥ 89,078	¥ (69,281)	$ 742	$ (577)
Music catalog	103,732	(46,137)	120,242	(48,447)	1,002	(404)
Acquired patent rights	36,962	(13,678)	46,758	(18,024)	390	(150)
Software to be sold, leased or otherwise marketed	11,608	(3,149)	17,848	(7,267)	149	(61)
PlayStation format	11,873	(5,344)	11,873	(7,719)	99	(64)
Other	27,137	(14,047)	45,257	(20,499)	377	(171)
Total	¥ 288,702	¥ (155,245)	¥ 331,056	¥ (171,237)	$ 2,759	$ (1,427)

The aggregate amortization expense for intangible assets for the years ended March 31, 2002 and 2003 was ¥25,554 million and ¥27,871 million ($232 million), respectively. The estimated aggregate amortization expense for intangible assets for the next five years is as follows:

	Yen in millions	Dollars in millions
Year ending March 31,		
2004	¥ 26,799	$ 223
2005	22,342	186
2006	14,683	122
2007	13,620	114
2008	12,635	105

Total carrying amount of intangible assets having an indefinite life comprise the following:

	March 31		
	2002	2003	2003
	Yen in millions		Dollars in millions
Trademarks	¥ 57,195	¥ 57,410	$ 478
Distribution agreement	18,834	18,834	157
	¥ 76,029	¥ 76,244	$ 635

In addition to the amortizable and indefinite-lived intangible assets shown in the above tables, intangible assets at March 31, 2002 and 2003 also include unrecognized prior service costs totaling ¥23,602 million and ¥22,561 million ($188 million), respectively, which were recorded under FAS No. 87, Employer s Accounting for Pensions as discussed in Note 15.

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Sony also performed the transitional impairment test for existing goodwill as required by FAS No. 142. Sony determined that the fair value of each reporting unit which includes goodwill was in excess of its carrying amount. Accordingly, no impairment loss was recorded for goodwill upon the adoption of FAS No. 142.

The changes in the carrying amount of goodwill by operating segment for the years ended March 31, 2002 and 2003 are as follows:

	Electronics	Game	Music	Pictures	Other	Total
			Yen in millions			
Balance at March 31, 2001	¥ 54,895	¥ 115,009	¥ 52,017	¥ 83,238		¥ 305,159
Goodwill acquired during year	3,674		3,184		¥ 1,439	8,297
Other *	(1,716)	(3,904)	3,399	6,154	(149)	3,784
Balance at March 31, 2002	56,853	111,105	58,600	89,392	1,290	317,240
Goodwill acquired during year	5,380	108	1,837		140	7,465
Reduction under FAS No. 109	(9,054)		(17,768)	(6,703)		(33,525)
Other *		(607)	3,352	(3,992)	194	(1,053)
Balance at March 31, 2003	¥ 53,179	¥ 110,606	¥ 46,021	¥ 78,697	¥ 1,624	¥ 290,127

	Electronics	Game	Music	Pictures	Other	Total
			Dollars in millions			
Balance at March 31, 2002	$ 473	$ 926	$ 489	$ 745	$ 11	$ 2,644
Goodwill acquired during year	45	1	15		1	62
Reduction under FAS No. 109	(75)		(148)	(56)		(279)
Other *		(5)	27	(33)	2	(9)
Balance at March 31, 2003	$ 443	$ 922	$ 383	$ 656	$ 14	$ 2,418

* Other primarily consists of translation adjustments and reclassification to/from other accounts.

During the year ended March 31, 2003, Sony realized tax benefits from operating loss carryforwards that were acquired in connection with Sony s acquisition of companies within the Electronics, Music and Pictures businesses. Under FAS No. 109, Accounting for Income Taxes , the reversal of the valuation allowance upon the realization of tax benefits from the operating loss carryforwards was applied to reduce a portion of the goodwill relating to the acquisition of these companies.

Amounts previously reported for income before cumulative effect of accounting changes and net income and basic and diluted earnings per share (EPS) for the year ended March 31, 2001 are reconciled to amounts adjusted to exclude the amortization expense related to goodwill and indefinite-lived intangible assets as follows:

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		Year ended March 31, 2001
		Yen in millions
Reported income before cumulative effect of accounting changes	¥	121,227
Add back:		
Goodwill amortization		14,968
Intangible assets amortization		2,348
Adjusted income before cumulative effect of accounting changes	¥	138,543
Reported net income	¥	16,754
Add back:		
Goodwill amortization		14,968
Intangible assets amortization		2,348
Adjusted net income	¥	34,070

		Year ended March 31, 2001
		Yen
Per share data:		
Income before cumulative effect of accounting changes		
Reported basic EPS	¥	132.64
Add back:		
Goodwill amortization		16.38
Intangible assets amortization		2.57
Adjusted basic EPS	¥	151.59
Reported diluted EPS	¥	124.36
Add back:		
Goodwill amortization		15.05
Intangible assets amortization		2.36
Adjusted diluted EPS	¥	141.77
Net income		
Reported basic EPS	¥	18.33
Add back:		
Goodwill amortization		16.38
Intangible assets amortization		2.57
Adjusted basic EPS	¥	37.28
Reported diluted EPS	¥	19.28
Add back:		
Goodwill amortization		15.05
Intangible assets amortization		2.36

Adjusted diluted EPS	¥	36.69

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11. Insurance-related accounts

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

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

The amounts of statutory net equity of the subsidiaries as of March 31, 2002 and 2003 were ¥101,989 million and ¥100,441 million ($837 million), respectively.

(1) Insurance policies:

Life insurance policies that the life insurance subsidiary writes, most of which are categorized as long-duration contracts, mainly consist of whole life, term life and accident and health insurance contracts. The life insurance revenues for the years ended March 31, 2001, 2002 and 2003 were ¥393,432 million, ¥430,019 million and ¥450,363 million ($3,753 million), respectively. Property and casualty insurance policies that the non-life insurance subsidiary writes are primarily automotive insurance contracts which are categorized as short-duration contracts. The non-life insurance revenues for the years ended March 31, 2001, 2002 and 2003 were ¥4,545 million, ¥13,164 million and ¥21,269 million ($177 million), respectively.

(2) Deferred insurance acquisition costs:

Insurance acquisition costs, such as commission expenses, medical examination and inspection report fees, advertising costs, etc., that vary with and are primarily related to acquiring new insurance policies are deferred as long as they are recoverable. The deferred insurance acquisition costs are amortized mainly over the premium-paying period of the related insurance policies using assumptions consistent with those used in computing policy reserves. Amortization charged to income for the years ended March 31, 2001, 2002 and 2003 amounted to ¥38,886 million, ¥31,000 million and ¥44,578 million ($371 million), respectively.

(3) Future insurance policy benefits:

Liabilities for future policy benefits are established in amounts adequate to meet the estimated future obligations of policies in force. These liabilities are computed by the net level premium method based upon estimates as to future investment yield, mortality and withdrawals. Future policy benefits are computed using interest rates ranging from approximately 1.00% to 5.50%. Mortality, morbidity and withdrawal assumptions for all policies are based on either the life insurance subsidiary s own experience or various actuarial tables. At March 31, 2002 and 2003, future insurance policy benefits amounted to ¥1,513,917 million and ¥1,734,673 million ($14,456 million), respectively.

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(4) Separate account assets:

Separate account assets are funds on which investment income and gains or losses accrue directly to certain policyholders. Separate account assets are legally segregated. They are not subject to the claims that may arise out of any other business of a life insurance subsidiary. Separate account assets, which consist primarily of debt and equity securities, are carried at fair value and included in securities investments and other (Note 8). The related liabilities are recognized as separate account liabilities and included in future insurance policy benefits and other. Fees earned for administrative and contract-holder services performed for the separate accounts are recognized as financial service revenue.

12. Short-term borrowings and long-term debt

Short-term borrowings comprise the following:

	March 31		
	2002	2003	2003
	Yen in millions		Dollars in millions
Unsecured commercial paper:			
with weighted-average interest rate of 0.39%	¥ 51,584		
with weighted-average interest rate of 0.13%		¥ 52,820	$ 440
Unsecured loans, principally from banks:			
with weighted-average interest rate of 4.78%	51,516		
with weighted-average interest rate of 3.55%		36,840	307
Secured call money:			
with weighted-average interest rate of 0.01%		34,700	289
Secured bills sold and other:			
with weighted-average interest rate of 0.002%	10,177		
	¥ 113,277	¥ 124,360	$ 1,036

At March 31, 2003, securities investments with a book value of ¥34,700 million ($289 million) were pledged as collateral for call money issued by a Japanese bank subsidiary.

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Long-term debt comprises the following:

	March 31		
	2002	2003	2003
	Yen in millions		Dollars in millions
Unsecured loans, representing obligations principally to banks:			
Due 2002 to 2018 with interest ranging from 1.46% to 5.67% per annum	¥ 45,055		
Due 2003 to 2018 with interest ranging from 1.26% to 5.66% per annum		¥ 43,260	$ 361
Secured loans, representing obligations principally to banks:			
Due 2002 to 2009 with interest ranging from 6.75% to 7.25% per annum	2,593		
Medium-term notes of consolidated subsidiaries:			
Due 2002 to 2006 with interest ranging from 1.88% to 4.95% per annum	89,981		
Due 2003 to 2006 with interest ranging from 1.28% to 4.95% per annum		78,099	651
Unsecured 1.5% convertible bonds, due 2002	218		
Unsecured 1.4% convertible bonds, due 2003, convertible currently at ¥2,707.8 ($23) for one common share, redeemable before due date	8,159	8,058	67
Unsecured 1.4% convertible bonds, due 2005, convertible currently at ¥3,995.5 ($33) for one common share, redeemable before due date	287,809	287,762	2,398
Unsecured 0.03% bonds, due 2004 with detachable warrants, net of unamortized discount	3,857	3,919	33
Unsecured 0.1% bonds, due 2005 with detachable warrants, net of unamortized discount	3,810	3,867	32
Unsecured 1.55% bonds, due 2006 with detachable warrants	12,000	12,000	100
Unsecured 0.9% bonds, due 2007 with detachable warrants	7,300	7,300	61
Unsecured 0.9% bonds, due 2007 with detachable warrants of subsidiary tracking stock	150	150	1
Unsecured 1.42% bonds, due 2005, net of unamortized discount	99,986	99,990	833
Unsecured 0.64% bonds, due 2006, net of unamortized discount	99,991	99,992	833
Unsecured 2.04% bonds, due 2010, net of unamortized discount	49,975	49,978	417
Unsecured 1.52% bonds, due 2011, net of unamortized discount	49,995	49,996	417
Unsecured 6.125% U.S. dollar notes, due 2003, net of unamortized discount	199,800		
Unsecured 2.5% bonds of a consolidated subsidiary, due 2003	15,035		
Unsecured 2.0% bonds, due 2005	15,000	15,000	125
Unsecured 1.99% bonds, due 2007	15,000	15,000	125
Unsecured 2.35% bonds, due 2010	4,900	4,900	41
Long-term capital lease obligations:			
Due 2002 to 2014 with interest ranging from 2.15% to 10.00% per annum	47,250		
Due 2003 to 2014 with interest ranging from 2.15% to 17.29% per annum		39,899	332
Guarantee deposits received	21,539	22,654	189
	1,079,403	841,824	7,016
Less Portion due within one year	240,786	34,385	287
	¥ 838,617	¥ 807,439	$ 6,729

There are no significant adverse debt covenants or cross-default provisions relating to Sony s borrowings.

In accordance with the requirements of FAS No. 133, the hedged portion of Sony s fixed-rate debt is reflected in the consolidated balance sheet at fair value, which reflects any adjustment in the value attributable to movements in related market interest and foreign exchange rates.

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A summary of the exercise rights of the detachable warrants as of March 31, 2003 is as follows:

Issued on	Exercisable during	Exercise price Yen	Exercise price Dollars	Number of shares per warrant	Status of exercise
August 17, 1998	September 1, 1999 through August 16, 2004	¥ 6,264	$ 52	319 shares of common stock of Sony Corporation	230 warrants exercised; 1,770 warrants outstanding
August 23, 1999	September 1, 2000 through August 22, 2005	7,167	60	279 shares of common stock of Sony Corporation	2,000 warrants outstanding
October 19, 2000	November 1, 2001 through October 18, 2006	12,457	104	100 shares of common stock of Sony Corporation	9,600 warrants outstanding
December 21, 2001	January 6, 2003 through December 20, 2007	6,039	50	100 shares of common stock of Sony Corporation	11,534 warrants outstanding
December 21, 2001	June 20, 2002 through June 20, 2007	3,300	28	75 shares of subsidiary tracking stock	600 warrants outstanding

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

Year ending March 31	Yen in millions	Dollars in millions
2004	¥ 34,385	$ 287
2005	313,905	2,616
2006	158,304	1,319
2007	173,866	1,449
2008	25,157	210

At March 31, 2003, Sony had unused committed lines of credit amounting to ¥930,629 million ($7,755 million) and can generally borrow up to 90 days from the banks with whom Sony has committed line contracts. Furthermore, Sony has Commercial Paper Programs, the size of which was ¥2,060,000 million ($17,167 million). At March 31, 2003, the total outstanding balance of commercial paper was ¥52,820 million ($440 million). Under those programs, Sony can issue commercial paper for the period generally not in excess of 270 days up to the size of the programs. In addition, Sony has Medium Term Notes programs, the size of which was ¥1,200,000 million ($10,000 million). At March 31, 2003, the total outstanding balance of Medium Term Notes was ¥78,099 million ($651 million).

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

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13. Deposits from customers in the banking business

All deposits from customers in the banking business are interest bearing deposits, and are owned by a Japanese bank subsidiary which was established as an Online Internet bank for individuals. At March 31, 2002 and 2003, the balance of time deposits issued in amounts of ¥10 million ($83 thousand) or more was ¥24,045 and ¥39,620 million ($330 million), respectively.

At March 31, 2003, aggregate amounts of annual maturities of time deposits with a remaining term of more than one year include ¥9,802 million ($82 million) and ¥21,010 million ($175 million) for the years ending March 31, 2005 and 2006, respectively. There are no deposits having a maturity date after March 31, 2006.

14. Financial instruments

(1) Derivative instruments and hedging activities:

Sony has certain financial instruments including financial assets and liabilities incurred in the normal course of business. Such financial instruments are exposed to market risk arising from the changes of foreign currency exchange rates and interest rates. In applying a consistent risk management strategy for the purpose of reducing such risk, Sony uses derivative financial instruments, which include foreign exchange forward contracts, foreign currency option contracts, and interest rate and currency swap agreements. Sony does not use derivative financial instruments for trading or speculative purposes. Foreign exchange forward contracts and foreign currency option contracts are utilized primarily to limit the exposure affected by changes in foreign currency exchange rates on cash flows generated by anticipated intercompany transactions and intercompany accounts receivable and payable denominated in foreign currencies. Interest rate and currency swap agreements are utilized primarily to lower funding costs, to diversify sources of funding and to limit Sony s exposure associated with underlying debt instruments resulting from adverse fluctuations in interest rates and/or foreign currency exchange rates.

These instruments are executed with creditworthy financial institutions, and virtually all foreign currency contracts are denominated in U.S. dollars, euros and other currencies of major countries. Although Sony may be exposed to losses in the event of nonperformance by counterparties or unfavorable interest and currency rate movements, it does not anticipate significant losses due to the nature of Sony s counterparties or the hedging arrangements.

Derivative financial instruments held by Sony are classified and accounted for as described below pursuant to FAS No. 133.

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Fair value hedges

The derivatives designated as fair value hedges include interest rate and currency swap agreements.

Both the derivatives designated as fair value hedge and hedged items are reflected at fair value in the consolidated balance sheet. Changes in the fair value of the derivatives designated as fair value hedge as well as offsetting changes in the carrying value of the underlying hedged items are recognized in income currently.

The amount of ineffectiveness of these fair value hedges, that was reflected in earnings, was not material for the years ended March 31,2002 and 2003. In addition, there were no amounts excluded from the assessment of hedge effectiveness of fair value hedges.

Cash flow hedges

The derivatives designated as cash flow hedges include foreign exchange forward contracts, foreign currency option contracts and interest rate and currency swap agreements.

Changes in the fair value of derivatives designated as cash flow hedges are initially recorded in other comprehensive income and reclassified into earnings when the hedged transaction affects earnings.

For the years ended March 31,2002 and 2003, these cash flow hedges were fully effective. In addition, there were no amounts excluded from the assessment of hedge effectiveness of cash flow hedges. At March 31,2003, amounts related to derivatives qualifying as cash flow hedges amounted to a reduction of equity of ¥4,793 million ($40 million), of which ¥2,213 million ($18 million) is expected to be reclassified into earnings within the next twelve months. There were no forecasted transactions that failed to occur for the year ended March 31,2003.

Derivatives not designated as hedges

The derivatives not designated as hedges under FAS No. 133 include foreign exchange forward contracts, foreign currency option contracts, interest rate and currency swap agreements, convertible rights included in convertible bonds and other.

Changes in the fair value of derivatives not designated as hedges are recognized in income currently.

A description of the purpose and classification of the derivative financial instruments held by Sony follows:

Foreign exchange forward contracts and foreign currency option contracts

Sony enters into foreign exchange forward contracts and purchased and written foreign currency option contracts primarily to fix the cash flows from intercompany accounts receivable and payable and forecasted transactions denominated in functional currencies (Japanese yen, U.S. dollars and euros) of Sony s major operating units. The majority of written foreign currency option contracts are a part of range forward contract arrangements and expire in the same month with the corresponding purchased foreign currency option contracts.

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Since July 1, 2002, certain foreign currency option contracts have been designated as hedges of forecasted intercompany transactions in line with changes of hedging scheme regarding Sony s derivative activities, under which such derivative transactions meet the requirements for hedge accounting, including correlation, as stipulated under FAS No. 133 and 138.

Sony also enters into foreign exchange forward contracts, which effectively fix the cash flows from foreign currency denominated debt. Accordingly, these derivatives have been designated as cash flow hedges in accordance with FAS No. 133.

Foreign exchange forward contracts and foreign currency option contracts that do not qualify as hedges are marked-to-market with changes in value recognized in other income and expense.

These derivatives generally mature or expire within five months after the balance sheet date.

Interest rate and currency swap agreements

Sony enters into interest rate and currency swap agreements, which are used for reducing the risk arising from the changes in the fair value of fixed rate debt and available-for-sale debt securities. For example, Sony enters into interest rate and currency swap agreements, which effectively swap foreign currency denominated fixed rate debt for functional currency denominated variable rate debt. These derivatives are considered to be a hedge against changes in the fair value of Sony s foreign denominated fixed-rate obligations. Accordingly, these derivatives have been designated as fair value hedges in accordance with FAS No. 133.

Sony also enters into interest rate and currency swap agreements that are used for reducing the risk arising from the changes in anticipated cash flow of variable rate debt and foreign currency denominated debt. For example, Sony enters into interest rate and currency swap agreements, which effectively swap foreign currency denominated variable rate debt for functional currency denominated fixed rate debt. These derivatives are considered to be a hedge against changes in the anticipated cash flow of Sony s foreign denominated variable rate obligations. Accordingly, these derivatives have been designated as cash flow hedges in accordance with FAS No. 133.

Any other interest rate and currency swap agreements that do not qualify as hedges, which are used for reducing the risk arising from changes of variable rate and foreign currency dominated intercompany debt, are marked-to-market with changes in value recognized in other income and expense.

Embedded derivatives

The embedded derivatives that must be separated from the host contracts and accounted for as derivative instruments under FAS No. 133 are recognized in income currently. For example, the convertible rights included in convertible bonds held by Sony s life insurance subsidiary, which are classified as available-for-sale debt securities, are considered embedded derivatives and are marked-to-market with changes in value recognized in financial service revenue.

(2) Fair value of financial instruments:

The estimated fair values of Sony s financial instruments are summarized as follows. The following summary excludes cash and cash equivalents, time deposits, notes and accounts receivable, trade, short-term borrowings, notes and accounts payable, trade and deposits from customers in the banking business that are carried at amounts which approximate fair value. The summary also excludes debt and equity securities which are disclosed in Note 8.

	March 31					
	2002			2003		
	Notional amount	Carrying amount	Estimated fair value	Notional amount	Carrying amount	Estimated fair value
	Yen in millions					
Long-term debt including the current portion		¥ (1,079,403)	¥ (1,323,772)		¥ (841,824)	¥ (924,665)
Foreign exchange forward contracts	¥ 1,042,836	(37,243)	(37,243)	¥ 1,139,330	(11,753)	(11,753)
Currency option contracts purchased	357,052	1,267	1,267	484,456	2,868	2,868
Currency option contracts written	423,826	(2,933)	(2,933)	238,760	(1,975)	(1,975)
Interest rate swap agreements	256,501	(6,699)	(6,699)	181,443	(8,446)	(8,446)
Interest rate and currency swap agreements	228,433	5,550	5,550	24,588	(1,330)	(1,330)
Embedded derivatives	342,846	3,740	3,740	446,463	1,755	1,755

	March 31, 2003		
	Notional amount	Carrying amount	Estimated fair value
	Dollars in millions		
Long-term debt including the current portion		$ (7,016)	$ (7,706)
Foreign exchange forward contracts	$ 9,494	(98)	(98)
Currency option contracts purchased	4,037	24	24
Currency option contracts written	1,990	(16)	(16)
Interest rate swap agreements	1,512	(70)	(70)
Interest rate and currency swap agreements	205	(11)	(11)
Embedded derivatives	3,721	15	15

The following are explanatory notes regarding the estimation method of fair values in the above table.

Long-term debt including the current portion

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

Derivative financial instruments

The fair values of foreign exchange forward contracts and foreign currency option contracts were estimated based on market quotations. The fair values of interest rate and currency swap agreements were estimated based on the discounted amounts of future net cash flows. The fair values of convertible rights, which were a majority of embedded derivatives, were estimated based on the market price of stock which will be acquired by the exercise.

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15. Pension and severance plans

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

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

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

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The components of net pension and severance costs, which exclude employee termination benefits paid in restructuring activities, for the years ended March 31, 2001, 2002 and 2003 were as follows:

Japanese plans:

	Year ended March 31			
	2001	2002	2003	2003
	Yen in millions			Dollars in millions
Service cost	¥ 46,400	¥ 48,609	¥ 47,884	$ 399
Interest cost	19,040	21,232	20,857	174
Expected return on plan assets	(26,216)	(26,286)	(25,726)	(214)
Amortization of net transition asset	(375)	(375)	(375)	(3)
Recognized actuarial loss	7,447	12,639	20,655	172
Amortization of prior service cost	783	611	(939)	(8)
Gains on curtailments and settlements			(1,380)	(12)
Net periodic benefit cost	¥ 47,079	¥ 56,430	¥ 60,976	$ 508

Foreign plans:

	Year ended March 31			
	2001	2002	2003	2003
	Yen in millions			Dollars in millions
Service cost	¥ 14,899	¥ 15,161	¥ 13,954	$ 116
Interest cost	6,805	7,944	8,478	71
Expected return on plan assets	(6,492)	(7,416)	(7,319)	(61)
Amortization of net transition asset	(36)	(87)	(47)	(0)
Recognized actuarial (gain) loss	555	(351)	1,452	12
Amortization of prior service cost	(341)	848	(208)	(2)
Gains on curtailments and settlements			(460)	(4)
Net periodic benefit cost	¥ 15,390	¥ 16,099	¥ 15,850	$ 132

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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		
	March 31			March 31,		
	2002	2003	2003	2002	2003	2003
	Yen in millions		Dollars in millions	Yen in millions		Dollars in millions
Change in benefit obligation:						
Benefit obligation at beginning of year	¥ 801,322	¥ 869,142	$ 7,243	¥ 128,162	¥ 143,210	$ 1,193
Service cost	48,609	47,884	399	15,161	13,954	116
Interest cost	21,232	20,857	174	7,944	8,478	71
Plan participants contributions	5,102	5,148	43	740	706	6
Amendments	(26,085)			(852)	(23)	(0)
Actuarial (gain) loss	47,877	114,665	955	(3,404)	9,019	75
Foreign currency exchange rate changes				4,415	(9,551)	(80)
Curtailments and settlements	(4,103)	(1,010)	(8)		(1,092)	(9)
Benefits paid	(24,812)	(24,926)	(208)	(8,956)	(7,121)	(59)
Benefit obligation at end of year	869,142	1,031,760	8,598	143,210	157,580	1,313
Change in plan assets:						
Fair value of plan assets at beginning of year	460,167	456,678	3,806	86,351	82,602	688
Actual return (loss) on plan assets	(29,094)	(66,682)	(556)	(6,215)	(10,466)	(87)
Foreign currency exchange rate changes				5,774	(3,287)	(28)
Employer contribution	31,936	21,296	177	4,694	5,235	44
Plan participants contributions	5,102	5,148	43	740	706	6
Benefits paid	(11,433)	(11,192)	(93)	(8,742)	(6,853)	(57)
Fair value of plan assets at end of year	¥ 456,678	¥ 405,248	$ 3,377	¥ 82,602	¥ 67,937	$ 566

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	Japanese plans			Foreign plans		
	March 31			March 31		
	2002	2003	2003	2002	2003	2003
	Yen in millions		Dollars in millions	Yen in millions		Dollars in millions
Funded status	¥ 412,464	¥ 626,512	$ 5,221	¥ 60,608	¥ 89,643	$ 747
Unrecognized actuarial loss	(325,637)	(513,012)	(4,275)	(26,040)	(38,702)	(322)
Unrecognized net transition asset	1,229	854	7	(97)	(180)	(2)
Unrecognized prior service cost	22,518	21,579	180	1,668	1,283	11
Net amount recognized	¥ 110,574	¥ 135,933	$ 1,133	¥ 36,139	¥ 52,044	$ 434
Amounts recognized in the consolidated balance sheet consist of:						
Accrued pension and severance costs, including current portion	¥ 258,597	¥ 444,636	$ 3,705	¥ 36,139	¥ 72,048	$ 600
Intangibles	(23,602)	(22,433)	(187)		(128)	(1)
Accumulated other comprehensive income	(124,421)	(286,270)	(2,385)		(19,876)	(165)
Net amount recognized	¥ 110,574	¥ 135,933	$ 1,133	¥ 36,139	¥ 52,044	$ 434

Weighted-average assumptions used as of March 31, 2001, 2002 and 2003 were as follows:

Japanese plans:

	March 31		
	2001	2002	2003
Discount rate	2.7%	2.4%	1.9%
Expected return on plan assets	4.0%	4.0%	4.0%
Rate of compensation increase	3.0%	3.0%	3.0%

Foreign plans:

March 31		
2001	2002	2003

Discount rate	6.8%	6.6%	6.3%
Expected return on plan assets	7.7%	8.1%	8.3%
Rate of compensation increase	4.6%	4.5%	4.1%

As required under FAS No. 87, Employers Accounting for Pensions , the assumptions are reviewed in accordance with changes in circumstances.

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

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The accumulated benefit obligations and the fair value of plan assets for the pension plans which Sony has recognized the minimum pension liability were as follows:

	Japanese plans			Foreign plans		
	March 31			March 31		
	2002	2003	2003	2002	2003	2003
	Yen in millions		Dollars in millions	Yen in millions		Dollars in millions
Accumulated benefit obligations	¥ 685,357	¥ 843,463	$ 7,029		¥ 102,313	$ 853
Fair value of plan assets	445,499	405,009	3,375		63,024	525

16. Stockholders equity

(1) Subsidiary tracking stock:

On June 20, 2001, Sony Corporation issued shares of subsidiary tracking stock in Japan, the economic value of which is intended to be linked to the economic value of Sony Communication Network Corporation (SCN), a directly and indirectly wholly owned subsidiary of Sony Corporation which is engaged in Internet-related services. The subsidiary tracking stock holders have no direct rights in the equity or assets of SCN or the assets of Sony Corporation. Except as summarized below, the shares of subsidiary tracking stock have the same rights and characteristics as those of shares of common stock.

The dividend on the shares of this series of subsidiary tracking stock is payable only when the Board of Directors of SCN has resolved to pay to its common stock holders a dividend in an amount per share of the subsidiary tracking stock equal to the amount of SCN s dividend per share of its common stock multiplied by the Standard Ratio (as defined in the articles of incorporation), subject to statutory restriction on Sony Corporation s ability to pay dividends on its shares of capital stock and the maximum dividend amount (as defined in the articles of incorporation). If the amount of dividends paid to the subsidiary tracking stock holders is less than the amount, which should have been paid pursuant to the formula set forth above due to the statutory restriction referred to above or for any other reason, such shortfall will be accumulated and such cumulative amount will be paid to the subsidiary tracking stock holders for subsequent fiscal years. Any such dividend on the subsidiary tracking stock is payable in priority to the payment of dividends to the common stock holders. However, the subsidiary tracking stock holders have no right to participate in the dividends to common stock holders. Furthermore, even if the Board of Directors of SCN does not take a resolution for the payment of dividends to SCN s common stock holders, Sony Corporation may decide to pay dividends to its common stock holders.

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The subsidiary tracking stock holders have the same voting rights as those of the common stock holders and, thus, are entitled to participate and vote at any General Meeting of Shareholders in the same way as the common stock holders. In addition, as each series of subsidiary tracking stock is a separate class of stock different from common stock, if any resolution of the General Meeting of Shareholders would adversely affect the rights of the shareholders of a particular class of subsidiary tracking stock, the shareholders of each class of subsidiary tracking stock will have the right to approve or disapprove such resolution by a special resolution of the meeting of shareholders of that class of subsidiary tracking stock.

In the event of distribution of residual assets to the shareholders of Sony Corporation where, as long as such assets include shares of common stock of SCN, the number of shares of SCN common stock obtained by multiplying the number of shares of the subsidiary tracking stock held by each holder by the Standard Ratio or the net proceeds from the sale of the shares of SCN common stock so to be distributed will be distributed to the holders of the subsidiary tracking stock.

The shares of subsidiary tracking stock may be subject to repurchase and retirement in the same manner and under the same restriction as the shares of common stock. In addition, at any time after the passage of three years from the date of the initial issuance of shares of a series of subsidiary tracking stock, it may retire the entire amount of all outstanding shares of that series of subsidiary tracking stock upon paying to the shareholders thereof an amount equal to the current market price of the subsidiary tracking stock out of Sony Corporation s retained earnings available for dividend payments. Sony Corporation may also retire the shares of a series of subsidiary tracking stock in their entirety pursuant to the procedures prescribed by the Japanese Commercial Code for the reduction of capital upon payment to the subsidiary tracking stock holders an amount equal to the market value thereof as set forth above.

At any time after the passage of three years from the date of the initial issuance of shares of a series of subsidiary tracking stock, it may convert the entire amount of all outstanding shares of the subsidiary tracking stock into the shares of Sony Corporation s common stock at the rate of the multiple of 1.1 of the market value (as defined in the articles of incorporation) of shares of the subsidiary tracking stock divided by the market value (as similarly defined) of the shares of Sony Corporation s common stock.

If any events (as defined in the articles of incorporation) occur, the entire amount of all outstanding shares of the subsidiary tracking stock will be either retired or converted into shares of Sony Corporation s common stock at the price or rate set forth above.

The number of shares of the subsidiary tracking stock issued and outstanding at March 31, 2003 was 3,072,000. At March 31, 2003, 90,500 shares of the subsidiary tracking stock would be issued upon exercise of warrants and stock acquisition rights outstanding.

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(2) Common stock:

Changes in the number of shares of common stock issued and outstanding during the years ended March 31, 2001, 2002 and 2003 have resulted from the following:

	Number of shares
Balance at March 31, 2000	453,639,163
Stock split	453,639,163
Exercise of stock purchase warrants	111,209
Conversion of convertible bonds	12,145,253
Stock issued under exchange offerings	82,346
Balance at March 31, 2001	919,617,134
Exercise of stock purchase warrants	8,301
Conversion of convertible bonds	118,920
Balance at March 31, 2002	919,744,355
Conversion of convertible bonds	138,330
Stock issued under exchange offering	2,502,491
Balance at March 31, 2003	922,385,176

At March 31, 2003, 84,652,963 shares of common stock would be issued upon conversion or exercise of all convertible bonds, warrants and stock acquisition rights outstanding.

On October 1, 2002, Sony Corporation implemented a share exchange as a result of which Aiwa Co., Ltd. (Aiwa) become a wholly-owned subsidiary. As a result of this share exchange, Sony Corporation issued 2,502,491 new shares, the minority interest in Aiwa was eliminated from the balance sheet, and additional paid-in capital increased ¥15,791 million ($132 million). On December 1, 2002, Sony Corporation absorbed Aiwa by merger. The merger had no effect on Sony s consolidated financial statements.

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

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

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

The Ordinary General Meeting of Shareholders held on June 27, 1997 authorized Sony Corporation, pursuant to the Japanese regulations, to acquire and retire up to a total not exceeding 30 million outstanding shares of its common stock with its profit, whenever deemed necessary by the Board of Directors in view of general economic conditions, Sony s business performance and financial condition and other factors. Subsequently, the Ordinary General Meeting of Shareholders held on June 29, 2000 increased the maximum number of shares of its common stock up to 90 million shares on and after June 30, 2000 and the Extraordinary General Meeting of Shareholders held on January 25, 2001 authorized Sony Corporation to acquire and retire the subsidiary tracking stock as well as its common stock on and after January 26, 2001.

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The Ordinary General Meeting of Shareholders held on June 26, 1998 approved that (a) in addition to the shares discussed in the preceding paragraph, Sony Corporation may, by a resolution of the Board of Directors, acquire and retire up to a total not exceeding 30 million outstanding shares of its common stock with its additional paid-in capital at prices in total not exceeding ¥400 billion and (b) Sony Corporation may grant share subscription rights to directors and/or employees pursuant to the Japanese regulations. Subsequently, the Extraordinary General Meeting of Shareholders held on January 25, 2001 authorized Sony Corporation to acquire and retire the subsidiary tracking stock as well as its common stock on and after January 26, 2001.

Prior to the amendments to the Japanese Commercial Code enacted on April 1, 2002, purchase and retirement by Sony Corporation of its own shares could be made at any time by resolution of the Board of Directors up to the number of shares and total purchase price as described above. No common stock and subsidiary tracking stock had been acquired nor had any share subscription rights been granted under those approvals during the years ended March 31, 2001 and 2002.

Following such amendments to the Japanese Commercial Code, purchase by Sony Corporation of its own shares is subject to the prior approval of shareholders at the Ordinary General Meeting of Shareholders, which includes the maximum number of shares to be purchased and the maximum total purchase amount. Once such approval of shareholders is obtained, Sony Corporation may purchase its own shares at any time during the period up to the conclusion of next Ordinary General Meeting of Shareholders.

The Ordinary General Meeting of Shareholders held on June 20, 2002 approved that Sony Corporation acquire up to a total not exceeding 90 million outstanding shares of its common stock at an amount in a total not exceeding ¥650 billion ($5,417 million) and a total not exceeding 300 thousand outstanding shares of the subsidiary tracking stock at an amount in total not exceeding ¥1 billion ($8 million) until the conclusion of the General Meeting of Shareholders to be held for the year ended March 31, 2003. At March 31, 2003, no common stock and subsidiary tracking stock had been acquired under this approval.

On April 23, 2003, the Board of Directors of Sony Corporation resolved the following proposals in accordance with the Japanese Commercial Code. The proposals, which will be discussed by the General Meeting of Shareholders to be held on June 20, 2003, resolve that Sony Corporation may acquire up to a total not exceeding 90 million outstanding shares of its common stock at an amount in a total not exceeding ¥400 billion ($3,333 million) and a total not exceeding 300 thousand outstanding shares of the subsidiary tracking stock at an amount in total not exceeding ¥1 billion ($8 million) until the conclusion of the General Meeting of Shareholders to be held for the year ending March 31, 2004.

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(3) Retained earnings:

The amount of statutory retained earnings of Sony Corporation available for the payments of dividends to shareholders as of March 31, 2003 was ¥650,705 million ($5,423 million). The appropriation of retained earnings for the year ended March 31, 2003 including cash dividends for the six-month period ended March 31, 2003 has been incorporated in the accompanying consolidated financial statements. This appropriation of retained earnings will be proposed for approval at the Ordinary General Meeting of Shareholders to be held on June 20, 2003 and will be then recorded in the statutory books of account, in accordance with the Japanese Commercial Code, upon shareholders approval.

Retained earnings include Sony s equity in undistributed earnings of affiliated companies accounted for by the equity method in the amount of ¥9,259 million and ¥2,967 million ($25 million) at March 31, 2002 and 2003, respectively.

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(4) Other comprehensive income

Other comprehensive income for the years ended March 31, 2001, 2002 and 2003 were as follows:

	Pre-tax amount	Tax expense	Net-of-tax amount
		Yen in millions	
For the year ended March 31, 2001:			
Unrealized gains on securities			
Unrealized holding gains or losses arising during the period	¥ (6,290)	¥ (1,200)	¥ (7,490)
Less: Reclassification adjustment for gains or losses included in net income	(16,095)	6,186	(9,909)
Minimum pension liability adjustment	(79,678)	33,544	(46,134)
Foreign currency translation adjustments	169,144	(8,862)	160,282
Other comprehensive income	¥ 67,081	¥ 29,668	¥ 96,749
For the year ended March 31, 2002:			
Unrealized gains on securities			
Unrealized holding gains or losses arising during the period	¥ (24,857)	¥ 4,614	¥ (20,243)
Less: Reclassification adjustment for gains or losses included in net income	(2,594)	1,318	(1,276)
Unrealized losses on derivative instruments			
Cumulative effect of an accounting change	2,040	(951)	1,089
Unrealized holding gains or losses arising during the period	5,470	(3,033)	2,437
Less: Reclassification adjustment for gains or losses included in net income	(7,200)	2,963	(4,237)
Minimum pension liability adjustment	(38,391)	16,163	(22,228)
Foreign currency translation adjustments	101,483	(4,051)	97,432
Other comprehensive income	¥ 35,951	¥ 17,023	¥ 52,974
For the year ended March 31, 2003:			
Unrealized gains on securities			
Unrealized holding gains or losses arising during the period	¥ (18,575)	¥ 8,948	¥ (9,627)
Less: Reclassification adjustment for gains or losses included in net income	3,421	867	4,288
Unrealized losses on derivative instruments			
Unrealized holding gains or losses arising during the period	(6,268)	1,791	(4,477)
Less: Reclassification adjustment for gains or losses included in net income	682	(287)	395
Minimum pension liability adjustment	(181,725)	71,089	(110,636)
Foreign currency translation adjustments			
Translation adjustments arising during the period	(87,103)	3,110	(83,993)
Less: Reclassification adjustment for losses included in net income	7,665		7,665
Other comprehensive income	¥ (281,903)	¥ 85,518	¥ (196,385)

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	Pre-tax amount	Tax expense	Net-of-tax amount
	Dollars in millions		
For the year ended March 31, 2003:			
Unrealized gains on securities			
Unrealized holding gains or losses arising during the period	$ (155)	$ 75	$ (80)
Less: Reclassification adjustment for gains or losses included in net income	29	6	35
Unrealized losses on derivative instruments			
Unrealized holding gains or losses arising during the period	(52)	15	(37)
Less: Reclassification adjustment for gains or losses included in net income	5	(2)	3
Minimum pension liability adjustment	(1,514)	592	(922)
Foreign currency translation adjustments			
Translation adjustments arising during the period	(726)	26	(700)
Less: Reclassification adjustment for losses included in net income	64		64
Other comprehensive income	$ (2,349)	$ 712	$ (1,637)

During the year ended March 31, 2003, ¥7,665 million ($64 million) of foreign currency translation adjustments was transferred from other comprehensive income and charged to income as a result of the liquidation of certain foreign subsidiaries.

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17. Stock-based compensation plans

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

(1) Warrant plan:

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

(2) Convertible Bond plan:

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

(3) Stock Acquisition Rights:

During the year ended March 31, 2003, Sony adopted an equity-based compensation plan that issues common stock acquisition rights for the purpose of granting stock options to the directors and selected employees of Sony, and subsidiary tracking stock acquisition rights for the purpose of granting stock options to the directors and selected employees of Sony Communication Network Corporation, pursuant to the Commercial Code of Japan. The stock acquisition rights generally vest ratably over a three-year period and are exercisable up to ten years from the date of grant.

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Presented below is a summary of the activity for common stock warrant, convertible bond and stock acquisition rights plans for the years shown:

	Year ended March 31						
	2001		2002		2003		
	Number of Shares	Weighted-average exercise price	Number of Shares	Weighted-average exercise price	Number of Shares	Weighted-average exercise price	Weighted-average exercise price
		Yen		Yen		Yen	Dollars
Outstanding at beginning of year	1,531,573	¥ 6,456	2,800,270	¥ 9,911	5,853,892	¥ 8,648	$ 72.07
Granted	1,420,900	12,788	3,397,300	6,877	3,874,100	5,313	44.28
Exercised	(111,103)	5,341	(8,294)	6,264			
Forfeited	(41,100)	12,544	(335,384)	6,384	(87,100)	8,306	69.22
Outstanding at end of year	2,800,270	¥ 9,911	5,853,892	¥ 8,648	9,640,892	¥ 7,832	$ 65.27
Exercisable at end of year	825,265	¥ 6,332	2,082,640	¥ 8,127	4,314,292	¥ 9,773	$ 81.44

A summary of common stock warrants, convertible bond options and stock acquisition rights outstanding and exercisable at March 31, 2003 is as follows:

	Outstanding				Exercisable		
Exercise price range	Number of Shares	Weighted-average exercise price	Weighted-average exercise price	Weighted-average remaining life	Number of Shares	Weighted-average exercise price	Weighted-average exercise price
Yen		Yen	Dollars	Years		Yen	Dollars
¥4,388~10,000	8,277,792	¥ 6,948	$ 57.90	7.57	3,358,792	¥ 8,774	$ 73.12
10,001~14,757	1,363,100	13,201	110.01	4.71	955,500	13,282	110.68
¥4,388~14,757	9,640,892	¥ 7,832	$ 65.27	7.17	4,314,292	¥ 9,773	$ 81.44

A summary of subsidiary tracking stock warrants and stock acquisition rights outstanding and exercisable at March 31, 2003 is as follows:

	Outstanding					Exercisable		
Exercise price range	Number of Shares	Weighted-average exercise price	Weighted-average exercise price	Weighted-average remaining life		Number of Shares	Weighted-average exercise price	Weighted-average exercise price
Yen		Yen	Dollars	Years			Yen	Dollars
¥1,008~3,300	90,500	¥ 2,148	$ 17.90	7.77		14,850	¥ 3,300	$ 27.50

As the exercise prices for the warrant, convertible bond and stock acquisition rights plans were determined based on the prevailing market price shortly before the date of grant, the compensation expense for these plans were not significant for the years ended March 31, 2001, 2002 and 2003, respectively.

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The weighted-average fair value per share at the date of grant for common stock warrants, convertible bond options and stock acquisition rights granted during the years ended March 31, 2001, 2002 and 2003 was ¥4,111, ¥2,554 and ¥1,707 ($14.23), respectively. The fair value of common stock warrants, convertible bond options and stock acquisition rights granted on the date of grant, which is amortized to expense over the vesting period in determining the pro forma impact, is estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year ended March 31		
Weighted-average assumptions	**2001**	**2002**	**2003**
Risk-free interest rate	2.68%	2.58%	1.73%
Expected lives	3.26 years	3.28 years	3.30 years
Expected volatility	44.07%	50.81%	44.54%
Expected dividend	0.21%	0.40%	0.49%

(4) SAR plan:

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

In December 2001, Sony granted options under its convertible bond plan to certain employees in exchange for the employees agreeing to cancel an equal number of outstanding SARs. Under FASB Interpretation No. 44 Accounting for Certain Transactions Involving Stock Compensation an interpretation of APB Opinion No. 25 , no compensation charge was recorded as the number and terms of the new options under the convertible bond plan were substantially the same as the SARs that were cancelled.

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The status of the SAR plans is summarized as follows:

	Year ended March 31						
	2001		2002		2003		
	Number of SARs	Weighted-average exercise price	Number of SARs	Weighted-average exercise price	Number of SARs	Weighted-average exercise price	Weighted-average exercise price
		Yen		Yen		Yen	Dollars
Outstanding at beginning of year	4,046,490	¥ 5,443	3,565,246	¥ 6,218	2,410,394	¥ 6,644	$ 55.37
Granted	154,700	9,801	141,525	7,813	28,750	6,323	52.69
Exercised	(588,092)	5,198	(91,330)	5,862	(11,800)	5,727	47.73
Cancelled			(1,192,672)	5,951			
Expired or forfeited	(47,852)	5,869	(12,375)	8,520	(84,316)	7,274	60.62
Outstanding at end of year	3,565,246	¥ 6,218	2,410,394	¥ 6,644	2,343,028	¥ 6,341	$ 52.84
Exercisable at end of year	1,397,216	¥ 5,966	1,864,928	¥ 6,282	2,176,319	¥ 6,211	$ 51.76

A summary of SARs outstanding and exercisable at March 31, 2003 is as follows:

	Outstanding				Exercisable		
Exercise price range	Number of SARs	Weighted-average exercise price	Weighted-average exercise price	Weighted-average remaining life	Number of SARs	Weighted-average exercise price	Weighted-average exercise price
Yen		Yen	Dollars	Years		Yen	Dollars
¥3,615~5,000	242,534	¥ 4,455	$ 37.12	1.79	241,601	¥ 4,455	$ 37.13
5,001~10,000	2,046,369	6,393	53.28	2.17	1,896,036	6,298	52.48
10,001~15,000	54,125	12,823	106.86	6.56	38,682	12,940	107.83
¥3,615~15,000	2,343,028	¥ 6,341	$ 52.84	2.23	2,176,319	¥ 6,211	$ 51.76

In accordance with APB No. 25 and its related interpretations, the SARs compensation expense is measured as the excess of the quoted market price of Sony Corporation s common stock over the SARs strike price, which is consistent with the accounting treatment prescribed for SAR plans in FAS No. 123. For the years ended March 31, 2001, 2002 and 2003, Sony recognized a reduction in SARs compensation expense of ¥5,587 million, ¥4,748 million and ¥670 million ($6 million), respectively, due to the decline in Sony s stock price during the years.

18. Restructuring charges and asset impairments

As part of its effort to improve the performance of the various businesses, Sony has undertaken a number of restructuring initiatives within the Electronics, Music and Pictures businesses. For the years ended March 31, 2001, 2002 and 2003, Sony recorded total restructuring charges of ¥34,718 million, ¥106,974 million and ¥106,251 million ($885 million), respectively. Significant restructuring charges and asset impairments include the following:

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Electronics Segment

In an effort to improve the performance of the Electronics segment, Sony has undergone a number of restructuring efforts to reduce its operating costs. For the years ended March 31, 2001, 2002 and 2003, Sony recorded total restructuring charges of ¥20,620 million, ¥86,852 million and ¥72,473 million ($ 604 million), respectively, within the Electronics segment. Significant restructuring activities are the following:

Shutdown of computer display CRT operations

In the year ended March 31, 2002, as flat panel monitors became more popular in the marketplace, the demand for computer display CRTs was drastically reduced. In this situation, Sony decided to abandon certain manufacturing equipments for computer display CRTs mainly in the U.S. in the second quarter of the year ended March 31, 2002. Restructuring charges totaling ¥19,639 million consisted of non-cash equipment write-downs of ¥6,261 million, costs related to the buy-out and cancellation of operating leases totaling ¥11,264 million and other costs related to the disposal of equipment of ¥2,114 million. Of the total restructuring charges recorded, ¥946 million was recorded in cost of sales and ¥18,693 million was included in selling, general and administrative expense in the consolidated statements of income. The restructuring activity was completed in the year ended March 31, 2003, and all reserve balances were fully utilized as of March 31, 2003.

In the year ended March 31, 2003, due to further market shrinkage and demand shift from CRT displays to LCDs, Sony made a decision to discontinue certain computer display CRT manufacturing operations in Japan and Southeast Asia to rationalize production facilities and downsize its business. Restructuring charges totaling ¥6,902 million ($58 million) consisted of personnel related costs of ¥1,208 million ($10 million), non-cash equipment write-downs of ¥4,010 million ($34 million) and contract termination and other costs of ¥1,684 million ($14 million). Of the total restructuring charges, ¥1,264 million ($11 million) was recorded in cost of sales and ¥5,638 million ($47 million) was included in selling, general and administrative expense in the consolidated statements of income. The remaining reserve balance as of March 31, 2003 was ¥383 million ($3 million) and will be utilized in the year ending March 31, 2004.

Aiwa Co. Ltd. restructuring

In the year ended March 31, 2002, in response to a decline in performance of Aiwa Co., Ltd., and its subsidiaries (Aiwa), Aiwa underwent a drastic restructuring program to eliminate the causes of this downward trend and to return to be profitable. Aiwa recorded restructuring charges totaling ¥25,484 million in the year ended March 31, 2002, which included a reduction of unprofitable product lines, plant closures and a reduction of the work forces. These charges consisted of non-cash equipment write-downs of ¥10,244 million, personnel related costs of ¥8,209 million, and other costs of ¥7,031 million including the devaluation of inventory. Among these charges ¥5,734 million was recorded in cost of sales and ¥19,750 million was included in selling, general and administrative expense in the consolidated statements of income. Aiwa eliminated its employees from various employee levels, business functions, operating units and geographic regions.

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Due to the continued decline in the operating results of Aiwa, the restructuring program that was initiated in the year ended March 31, 2002 was accelerated and additional restructuring charges of ¥23,007 million ($192 million) were recorded in the year ended March 31, 2003. Additional restructuring included further cuts in staffing levels and shutdown of remaining production facilities. These charges consisted of non-cash equipment write-downs of ¥3,504 million ($29 million), personnel related costs of ¥7,647 million ($64 million), devaluation of inventory of ¥6,144 million ($51 million), operating lease termination costs of ¥3,823 million ($32 million) and other costs of ¥1,889 million ($16 million). Among these charges ¥13,791 million ($115 million) was recorded in cost of sales and ¥9,216 million ($77 million) was included in selling, general and administrative expense in the consolidated statements of income. The restructuring program was completed in the year ended March 31, 2003 and no reserve existed as of March 31, 2003. Aiwa Co., Ltd. was merged into Sony Corporation as of December 1, 2002. No further costs are expected to be incurred for the Aiwa restructuring.

Closing of a semiconductor plant in the U.S.

Due to a significant decline in the business conditions of the U.S. semiconductor industry, Sony made a decision in the fourth quarter of the year ended March 31, 2003, to close a semiconductor plant in the U.S. The total estimated cost of the restructuring program is ¥8,148 million ($68 million), of which ¥5,856 million ($49 million) was incurred through March 31, 2003. These restructuring charges consisted of accelerated depreciation of equipments of ¥3,128 million ($26 million), personnel related costs of ¥1,329 million ($11 million), the devaluation of inventory and other costs of ¥1,399 million ($12 million). These charges were all recorded in cost of sales in the consolidated statements of income. This restructuring activity is expected to complete in the year ending March 31, 2004. The remaining reserve balance as of March 31, 2003 was ¥1,452 million ($12 million).

Early retirement program in Japan

In addition to the restructuring efforts disclosed above, Sony has undergone several headcount reduction programs to further reduce operating costs in the Electronics segment. As a result of these programs, Sony recorded restructuring charges totaling ¥14,440 million, ¥12,252 million and ¥10,932 million ($91 million) for the years ended March 31, 2001, 2002 and 2003, respectively, and these charges were included in selling, general and administrative expense in the consolidated statements of income. These staff reductions were achieved through the implementation of early retirement programs in Japan. The remaining reserve balance as of March 31, 2003 was ¥1,009 million ($8 million) and will be utilized through the year ending March 31, 2004.

Music Segment

Due to the continued contraction of the worldwide music market due to slow worldwide economic growth, the saturation of the CD market, the effects of piracy and other illegal duplication, parallel imports, pricing pressures and the diversification of customer preferences, Sony has been actively repositioning the Music segment for the future by looking to create a more effective and profitable business model. As a result, the Music segment has undergone a worldwide restructuring program to reduce staffing and other costs through the consolidation and rationalization of facilities worldwide. For the years ended March 31, 2001, 2002 and 2003, Sony recorded total restructuring charges of ¥7,908 million, ¥8,599 million and ¥22,350 million ($186 million), respectively, within the Music segment. The total estimated costs of the worldwide restructuring program are ¥43,371 million ($361 million), of which ¥38,857 million ($324 million) was incurred through March 31, 2003. At March 31, 2003, the remaining reserve balance was ¥11,522 million ($96 million). This reserve balance will be utilized over the next two to three years, with most of the payments being made during the year ending March 31, 2004. The worldwide restructuring program is expected to complete by the year ending March 31, 2006. Significant restructuring activities included the following:

In the year ended March 31, 2001, the Music segment initiated its worldwide restructuring program with the shutdown of a CD and audio cassette manufacturing plant in the U.S., as part of its effort to consolidate manufacturing operations, and staff reductions in other areas. As a result, Sony recorded restructuring charges totaling ¥7,908 million in the year ended March 31, 2001. The restructuring charges consisted of personnel related costs of ¥3,540 million, non-cash asset write-downs of ¥3,160 million and other costs of ¥1,208 million including lease termination costs. Of the total restructuring charges, ¥779 million was recorded in cost of sales and ¥7,129 million was included in selling, general and administrative expense in the consolidated statements of income.

In the year ended March 31, 2002, Sony recorded additional restructuring charges totaling ¥8,599 million. Restructuring activities included the rationalization of digital media initiative and portfolio investment businesses in order to focus on core music activities and staff reductions. Charges incurred in the year ended March 31, 2002 consisted of personnel related costs of ¥5,100 million, non-cash asset write-downs of ¥787 million, and other costs of ¥2,712 million including lease termination costs. These charges were included in selling, general and administrative expense in the consolidated statements of income.

In the year ended March 31, 2003, restructuring charges related to the worldwide restructuring of the Music segment totaled ¥22,350 million ($186 million). Restructuring activities included the further consolidation of operations through the shutdown of a cassette and CD manufacturing and distribution center in Holland and a second CD manufacturing facility in the U.S. as well as further staff reductions in other areas. The restructuring charges consisted of personnel related costs of ¥14,932 million ($124 million), non-cash asset write-downs of ¥3,256 million ($27 million) and other costs of ¥ 4,162 million ($35 million) including lease termination costs. These charges were included in selling, general and administrative expense in the consolidated statements of income. Employees were eliminated across various employee levels, business functions, operating units, and geographic regions during this phase of the worldwide restructuring program.

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Pictures Segment

Due to changes within the television production and distribution business, the competition to obtain customers between the major television networks and other production and distribution companies is becoming more intense. This competitive environment has resulted in fewer opportunities to produce shows for the networks and a shorter lifespan for ordered shows that do not immediately achieve favorable ratings. Consistent with this trend, Sony has seen an increase in the number of new programs being distributed yet canceled in their first or second season and that are generally less profitable, and a decrease in the number of network programs that are able to achieve syndication and that are generally more profitable. As a result, in the year ended March 31, 2002, Sony decided to consolidate its television operations and downsize the network television production business in the Pictures segment. Sony recorded restructuring charges totaling ¥8,452 million which consisted of personnel related costs of ¥1,753 million, non-cash asset write-downs of ¥1,767 million, and other costs of ¥4,932 million including those relating to the buy-out of term deal commitments. These restructuring charges were all recorded in cost of sales in the consolidated statements of income. In the year ended March 31, 2003, additional restructuring charges totaling ¥480 million ($4 million) were recorded. These costs were included in cost of sales in the consolidated statements of income. The remaining reserve balance as of March 31, 2003 was ¥947 million ($8 million). The restructuring plan is expected to complete by the second quarter of the year ending March 31, 2005 and all reserves will be utilized over the next two years.

The following table displays the balance of the accrued restructuring charges recorded for the years ended March 31, 2001, 2002 and 2003.

	Employee termination benefits	Non-cash write-down	Other associated costs	Total
	Yen in millions			
Balance at March 31, 2000	¥ 58		¥ 2,131	¥ 2,189
Restructuring costs	19,200	¥ 14,070	1,448	34,718
Non-cash charges		(14,070)		(14,070)
Cash payments	(18,142)		(2,617)	(20,759)
Adjustments	145		126	271
Balance at March 31, 2001	1,261		1,088	2,349
Restructuring costs	38,123	39,598	29,253	106,974
Non-cash charges		(39,598)		(39,598)
Cash payments	(33,291)		(16,907)	(50,198)
Adjustments	150		203	353
Balance at March 31, 2002	6,243		13,637	19,880
Restructuring costs	46,953	42,768	16,530	106,251
Non-cash charges		(42,240)		(42,240)
Cash payments	(38,548)		(23,172)	(61,720)
Adjustments	136	(528)	(1,208)	(1,600)
Balance at March 31, 2003	¥ 14,784		¥ 5,787	¥ 20,571

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	Employee termination benefits	Non-cash write-down	Other associated costs	Total
		Dollars in millions		
Balance at March 31, 2002	$ 52		$ 113	$ 165
Restructuring costs	391	$ 356	138	885
Non-cash charges		(352)		(352)
Cash payments	(321)		(193)	(514)
Adjustments	1	(4)	(10)	(13)
Balance at March 31, 2003	$ 123		$ 48	$ 171

19. Research and development costs, advertising costs and shipping and handling costs

(1) Research and development costs:

Research and development costs charged to cost of sales for the years ended March 31, 2001, 2002 and 2003 were ¥416,708 million, ¥433,214 million and ¥443,128 million ($3,693 million), respectively.

(2) Advertising costs:

Advertising costs included in selling, general and administrative expenses for the years ended March 31, 2001, 2002 and 2003 were ¥389,359 million, ¥401,960 million and ¥442,741 million ($3,690 million), respectively.

(3) Shipping and handling costs:

Shipping and handling costs for finished goods included in selling, general and administrative expenses for the years ended March 31, 2001, 2002 and 2003 were ¥104,155 million, ¥98,800 million and ¥98,195 million ($818 million), respectively, which included the internal transfer costs of finished goods.

20. Gain on issuances of stock by equity investees

In August 2000, Monex Inc., which provides on-line security trading services in Japan, issued 150,000 shares at ¥41,850 per share valued at ¥6,278 million in connection with its initial public offering. As a result of this issuance, Sony recorded a gain of ¥1,900 million and provided deferred taxes on this gain. This issuance reduced Sony s ownership interest from 36.6% to 32.8%.

In August 2000, Crosswave Communications Inc., which provides high-capacity/high-speed network services in Japan, issued 101,960 shares at ¥304,360 per share valued at ¥28,958 million after the deduction of stock issue costs in connection with its initial public offering. As a result of this issuance, Sony recorded a gain of ¥6,406 million and provided deferred taxes on this gain. This issuance reduced Sony s ownership interest from 30.0% to 23.9%.

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In October 2000, SKY Perfect Communications Inc., which provides satellite broadcasting services in Japan, issued 400,000 shares at ¥304,000 per share valued at ¥121,600 million in connection with its initial public offering. In connection with this issuance, Sony recorded a gain of ¥9,551 million and provided deferred taxes on this gain. This issuance reduced Sony s ownership interest from 9.9% to 8.1%. As a result of this transaction, SKY Perfect Communications Inc. is no longer accounted for under the equity method, as Sony no longer has significant influence.

In addition to the above transactions, for the year ended March 31, 2001, Sony recognized ¥173 million of other gains on issuances of stock by equity investees resulting in total gains of ¥18,030 million. Total gains on issuances of stock by equity investees were ¥503 million for the year ended March 31, 2002. There were no gains on issuances of stock for equity investees for the year ended March 31, 2003. These gains resulted from stock issued by equity investees or otherwise. These transactions were not part of a broader corporate reorganization and the reacquisition of such shares was not contemplated at the time of issuance.

21. Income taxes

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

	Year ended March 31			
	2001	2002	2003	2003
	Yen in millions			Dollars in millions
Income (loss) before income taxes:				
Sony Corporation and subsidiaries in Japan	¥ 158,987	¥ (5,103)	¥ (7,998)	$ (67)
Foreign subsidiaries	106,881	97,878	255,619	2,131
	¥ 265,868	¥ 92,775	¥ 247,621	$ 2,064
Income taxes Current:				
Sony Corporation and subsidiaries in Japan	¥ 89,708	¥ 55,641	¥ 69,311	$ 578
Foreign subsidiaries	31,405	59,289	109,536	913
	¥ 121,113	¥ 114,930	¥ 178,847	$ 1,491
Income taxes Deferred:				
Sony Corporation and subsidiaries in Japan	¥ (106)	¥ (46,082)	¥ (90,016)	$ (750)
Foreign subsidiaries	(5,473)	(3,637)	(8,000)	(67)
	¥ (5,579)	¥ (49,719)	¥ (98,016)	$ (817)

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Sony is subjected to a number of different income taxes. Due to changes in Japanese income tax regulations, a consolidated tax filing system was introduced on April 1, 2002. Sony applied to file its return under the consolidated tax filing system beginning with the year ending March 31, 2004. Under the Japanese consolidated tax filing system, a 2% surtax will be imposed only for the year ending March 31, 2004. As a result, the statutory tax rate will be approximately 44% for the year ending March 31, 2004.

For the year ending March 31, 2005, a corporation size-based enterprise tax will be introduced which will supersede the current enterprise tax. As a result, the statutory tax rate for the year ending March 31, 2005 will be approximately 41% effective April 1, 2004. The respective newly enacted rates were used in calculating the future expected tax effects of temporary differences as of March 31, 2003. The effect of the changes in the tax rates on the balance of deferred tax assets and liabilities was insignificant.

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

	Year ended March 31		
	2001	2002	2003
Statutory tax rate	42.0%	42.0%	42.0%
Increase (reduction) in taxes resulting from:			
Income tax credits	(1.7)	(2.1)	(1.9)
Change in valuation allowances	14.2	55.5	5.5
Decrease in deferred tax liabilities on undistributed earnings of foreign subsidiaries	(6.5)	(21.6)	(14.8)
Reversal of foreign tax reserves		(6.5)	
Other	(4.5)	3.0	1.8
Effective income tax rate	43.5%	70.3%	32.6%

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

	March 31		
	2002	2003	2003
	Yen in millions		Dollars in millions
Deferred tax assets:			
Accrued pension and severance costs	¥ 125,745	¥ 213,284	$ 1,777
Operating loss carryforwards for tax purposes	155,979	130,473	1,087
Warranty reserve and accrued expenses	59,979	64,094	534
Future insurance policy benefits	28,552	34,734	289
Inventory intercompany profits and write-down	41,294	34,423	287
Film costs	41,917	33,907	283
Tax credit carryforwards	16,004	33,762	281
Accrued bonus	31,060	32,694	272
Reserve for doubtful accounts	16,401	20,256	169
Depreciations	19,067	15,724	131
Other	134,373	119,671	998
Gross deferred tax assets	670,371	733,022	6,108
Less: Valuation allowance	(252,208)	(116,068)	(967)
Total deferred tax assets	418,163	616,954	5,141
Deferred tax liabilities:			
Insurance acquisition costs	(111,570)	(118,689)	(989)
Undistributed earnings of foreign subsidiaries	(72,713)	(46,449)	(387)
Intangible assets acquired through exchange offerings	(40,580)	(38,882)	(324)

Gain on securities contribution to employee retirement benefit trust	(29,313)	(17,438)	(145)
Unrealized gains on securities	(21,487)	(11,672)	(97)
Other	(55,169)	(81,374)	(679)
Gross deferred tax liabilities	(330,832)	(314,504)	(2,621)
Net deferred tax assets	¥ 87,331	¥ 302,450	$ 2,520

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The valuation allowance mainly relates to deferred tax assets of Sony Corporation and certain consolidated subsidiaries with operating loss carryforwards and tax credit carryforwards for tax purposes that are not expected to be realized. The net changes in the total valuation allowance were increases of ¥86,422 million and ¥53,595 million for the years ended March 31, 2001 and 2002, respectively, and a decrease of ¥136,140 million ($1,135 million) for the year ended March 31,2003.

As discussed in Note 10, ¥33,525 million ($279 million) of the decrease in the valuation allowance relates to the realization of tax benefits from operating loss carryforwards that were acquired in connection with Sony s acquisition of companies within the Electronics, Music and Pictures businesses. The reversal of the valuation allowance upon realization of tax benefit from operating loss carryforwards resulted in the reduction of goodwill.

During the year ended March 31, 2003, approximately ¥19,000 million ($158 million) of tax benefits have been realized through utilization of operating loss carryforwards.

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

	March 31		
	2002	2003	2003
	Yen in millions		Dollars in millions
Current assets Deferred income taxes	¥ 134,299	¥ 143,999	$ 1,200
Other assets Deferred income taxes	120,168	328,091	2,734
Current liabilities Other	(7,563)	(10,561)	(88)
Long-term liabilities Deferred income taxes	(159,573)	(159,079)	(1,326)
Net deferred tax assets	¥ 87,331	¥ 302,450	$ 2,520

At March 31, 2003, no deferred income taxes have been provided on undistributed earnings of foreign subsidiaries not expected to be remitted in the foreseeable future totaling ¥813,923 million ($6,783 million), and on the gain of ¥61,544 million on a subsidiary s sale of stock arising from the issuance of common stock of Sony Music Entertainment (Japan) Inc. in a public offering to third parties in November 1991, as Sony does not anticipate any significant tax consequences on possible future disposition of its investment based on its tax planning strategies. The unrecognized deferred tax liabilities as of March 31, 2003 for such temporary differences amounted to ¥200,103 million ($1,668 million).

Operating loss carryforwards for tax purposes of Sony Corporation and certain consolidated subsidiaries at March 31, 2003 amounted to ¥304,634 million ($2,539 million) and are available as an offset against future taxable income. With the exception of ¥64,315 million ($536 million) with no expiration period, total available operating loss carryforwards expire at various dates primarily up to 6 years. Tax credit carryforwards for tax purposes at March 31, 2003 amounted to ¥33,762 million ($281 million). With the exception of ¥9,969 million ($83 million) with no expiration period, total available tax credit carryforwards expire at various dates primarily up to 10 years. Realization is dependent on such companies generating sufficient taxable income prior to expiration of the loss carryforwards and tax credit carryforwards. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets, less valuation allowance, will be realized. The amount of such net deferred tax assets considered realizable, however, could be changed in the near term if estimates of future taxable income during the carryforward period are changed.

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

(1) Income before cumulative effect of accounting changes and net income allocated to each class of stock:

	Year ended March 31			
	2001	2002	2003	2003
	Yen in millions			Dollars in millions
Income before cumulative effect of accounting changes allocated to the common stock	¥ 121,227	¥ 9,381	¥ 115,648	$ 964
Income before cumulative effect of accounting changes allocated to the subsidiary tracking stock		(49)	(129)	(1)
Income before cumulative effect of accounting changes	¥ 121,227	¥ 9,332	¥ 115,519	$ 963
Net income allocated to the common stock	¥ 16,754	¥ 15,359	¥ 115,648	$ 964
Net income allocated to the subsidiary tracking stock		(49)	(129)	(1)
Net income	¥ 16,754	¥ 15,310	¥ 115,519	$ 963

As discussed in Note 2, the earnings allocated to the subsidiary tracking stock are determined based on the subsidiary tracking stock holders economic interest.

The statutory retained earnings of SCN (the subsidiary tracking stock entity as discussed in Note 16) available for dividends to the shareholders were ¥209 million as of March 31, 2002, which decreased by ¥374 million during the year ended March 31, 2002.

The accumulated losses of SCN were ¥779 million ($6 million) as of March 31, 2003. The accumulated losses increased by ¥989 million ($8 million) during the year ended March 31, 2003.

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(2) EPS attributable to common stock:

Basic and diluted EPS as well as the number of shares in the following table have been adjusted to reflect the two-for-one stock split that was completed on May 19, 2000. Reconciliation of the differences between basic and diluted EPS for the years ended March 31, 2001, 2002 and 2003 is as follows:

	Year ended March 31			
	2001	2002	2003	2003
	Yen in millions			Dollars in millions
Income before cumulative effect of accounting changes allocated to the common stock	¥ 121,227	¥ 9,381	¥ 115,648	$ 964
Effect of dilutive securities:				
Convertible bonds	2,417		2,398	20
Income before cumulative effect of accounting changes allocated to the common stock for diluted EPS computation	¥ 123,644	¥ 9,381	¥ 118,046	$ 984
	Thousands of shares			
Weighted-average shares	913,932	918,462	919,706	
Effect of dilutive securities:				
Warrants	472	108	12	
Convertible bonds	79,830	2,664	78,873	
Weighted-average shares for diluted EPS computation	994,234	921,234	998,591	
	Yen			Dollars
Basic EPS	¥ 132.64	¥ 10.21	¥ 125.74	$ 1.05
Diluted EPS	¥ 124.36	¥ 10.18	¥ 118.21	$ 0.99

In accordance with FAS No. 128, Earnings per Share , the computation of diluted EPS for the years ended March 31, 2001 and 2002 uses the same weighted-average shares used for the computation of diluted income before cumulative effect of accounting changes per share, and reflects the effect of assumed conversion of convertible bonds in diluted net income.

For the year ended March 31, 2002, 75,201 thousand shares of potential common stock upon the conversion of convertible bonds were excluded from the computation of diluted EPS due to their antidilutive effect.

Potential common stock upon the exercise of warrants and stock acquisition rights, which were excluded from the computation of diluted EPS since they have an exercise price in excess of the average market value of Sony s common stock during the fiscal year, were 1,329 thousand shares, 2,665 thousand shares, and 4,141 thousand shares for the years ended March 31, 2001, 2002 and 2003, respectively.

Warrants and stock acquisition rights of subsidiary tracking stock for the years ended March 31, 2002 and 2003, which have a potentially dilutive effect by decreasing net income allocated to common stock, were excluded from the computation of diluted EPS since they did not have a dilutive effect.

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Stock options issued by affiliated companies accounted for under the equity method for the years ended March 31, 2001, 2002 and 2003, which have a potentially dilutive effect by decreasing net income allocated to common stock, were excluded from the computation of diluted EPS since such stock option did not have a dilutive effect.

On October 1, 2002, Sony implemented a share exchange as a result of which Aiwa became a wholly-owned subsidiary. As a result of this share exchange, Sony issued 2,502 thousand shares. The shares were included in the computation of basic and diluted EPS.

(3) EPS attributable to subsidiary tracking stock:

Weighted-average shares used for computation of EPS attributable to subsidiary tracking stock for the years ended March 31, 2002 and 2003 were 3,072 thousand shares. As discussed in Note 2, there were no potentially dilutive securities for EPS of subsidiary tracking stock outstanding at March 31, 2002 and 2003.

23. Variable Interest Entities

Sony has, from time to time, entered into various arrangements with VIEs. These arrangements consist of facilities which provide for the leasing of certain property, the financing of film production, the development and operation of a multi-use real estate complex and the implementation of a stock option plan for Japanese employees. As discussed below, certain of these entities are currently not consolidated by Sony. As described in Note 2, the FASB issued FIN No. 46, which will require the consolidation or disclosure of VIEs. Although Sony continues to evaluate the impact of FIN No. 46 on Sony s results of operations and financial position, the potential VIEs that may be consolidated or disclosed are described as follows:

Sony leases the headquarters of its U.S. subsidiary from a VIE, which was not consolidated by Sony at March 31, 2002 and 2003. Effective July 1, 2003, Sony will be required to consolidate this entity. Assets and liabilities are expected to increase by approximately ¥30,600 million ($255 million). Upon consolidation of the VIE, Sony will record a cumulative effect of accounting change of ¥1,800 million ($15 million). The impact on net income for the year ending March 31, 2004 will be a decrease of ¥840 million ($7 million). Sony has the option to purchase the building at any time during the lease term which expires in December 2008 for ¥30,600 million ($255 million). At the end of the lease term, Sony has agreed to either renew the lease, purchase the building or remarket it to a third party on behalf of the owner. If the sales price is less than ¥30,600 million ($255 million), Sony is obligated to make up the lesser of the shortfall or ¥25,727 million ($214 million). At March 31, 2003, the fair value of the building exceeded ¥30,600 million ($255 million).

A subsidiary in the Pictures business entered into a joint venture agreement with a VIE for the purpose of funding the acquisition of certain international film rights. The subsidiary is required to distribute the product internationally, for contractually defined fees determined as percentages of gross receipts, as defined, and is responsible for all distribution and marketing expenses, which are recouped from such distribution fees. The VIE was capitalized with total financing of ¥48,720 million ($406 million). Of this amount, ¥1,320 million ($11 million) was contributed by the subsidiary, ¥11,400 million ($95 million) was provided by unrelated third party investors and the remaining funding is provided through a ¥36,000 million ($300 million) bank credit facility of which ¥1,320 million ($11 million) was outstanding as of March 31, 2003. Effective July 1, 2003, Sony will be required to consolidate this entity. Assets and liabilities are expected to increase by ¥7,080 million ($59 million); however, there will be no impact to net income. Under the agreement, the subsidiary s ¥1,320 million ($11 million) equity investment is the last equity to be repaid. Additionally, it must pay to the third party investors up to ¥2,280 million ($19 million) of any losses out of a portion of its distribution fees. Any losses incurred by the VIE over and above the ¥3,600 million ($30 million) will be shared by the other investors. The subsidiary is obligated to acquire the international distribution rights, as defined, for twelve pictures meeting certain minimum requirements within a 3.5 to 4.5 year period and transfer those rights to the VIE at cost plus a 5 percent fee. If the subsidiary is unable to deliver twelve pictures to the VIE and the bank credit facility or the third party equity investors are not paid in full by March 10, 2008 (or earlier upon the occurrence of certain events), the subsidiary is required to reimburse the VIE to the extent necessary to repay the bank credit facility in full and pay certain minimum returns to the third party equity investors. At March 31, 2003, the maximum exposure amount is ¥30,574 million ($255 million).

Sony utilized a VIE to erect and operate a multi-use real estate complex in Berlin, Germany, which was accounted for under the equity method by Sony at March 31, 2002 and 2003. Effective July 1, 2003, Sony will be required to consolidate this entity. Upon consolidation, Sony s assets and liabilities are expected to increase by ¥59,662 million ($497 million). However, there will be no impact to Sony s net income. The VIE was initially capitalized with ¥90,790 million ($757 million) of total funding, ¥32,561 million ($271 million) was provided by the equity investors with the remaining funding of ¥58,229 million ($485 million) being provided through a syndicated bank loan which matures in November 2004. The syndicated bank loan is secured by the multi-use real estate complex. Should the VIE be unable to meet its obligations under the syndicated bank loan, Sony would be exposed to the potential impairment of its investment in the VIE which was ¥12,840 million ($107 million) at March 31, 2003.

Sony has utilized a VIE to implement a stock option plan for Japanese selected employees. The VIE has been consolidated by Sony since its establishment. There will be no impact to Sony s results of operations and financial position upon the adoption of FIN No. 46. Under the terms of the stock option plan, upon exercise, Japanese employees on exercise receive cash equal to the amount that the market price of Sony Corporation s common stock exceeds the strike price of the plan. In order to minimize cash flow exposure associated with the plan, Sony holds treasury stock through the VIE. The VIE purchased the common stock with funding provided by the employee s cash contribution and a bank loan which has been guaranteed by Sony Corporation. If the market value of common stock is below the price that Sony acquired the treasury stock for at the time of settlement of stock option plan, Sony is required to reimburse the VIE for repayment of the bank loan. At March 31, 2003, the balance of the bank loan was ¥6,909 million ($58 million).

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24. Commitments and contingent liabilities

(1) Commitments:

Commitments outstanding at March 31, 2003 amounted to ¥297,768 million ($2,481 million). The major components of the commitments are as follows:

In the ordinary course of business, Sony makes commitments for the purchase of property, plant and equipment. As of March 31, 2003, such commitments outstanding were ¥30,814 million ($257 million).

Certain subsidiaries in the Music business have entered into long-term contracts with recording artists and companies for the production and/or distribution of prerecorded music and videos. These contracts cover various periods mainly through March 31, 2006. As of March 31, 2003, these subsidiaries were committed to make payments under such long-term contracts of ¥54,508 million ($454 million).

Certain subsidiaries in the Pictures business have entered into agreements under which the subsidiaries acquire completed films, or certain rights therein, from third parties. These agreements cover various periods through March 31, 2005. As of March 31, 2003, these subsidiaries were committed to make payments under such contracts of ¥40,116 million ($334 million).

A subsidiary in the Pictures business has also entered into a distribution agreement with a third party to distribute, in certain markets and territories, all feature length films produced or acquired by the third party during the term of the agreement. The distribution agreement expires on December 31, 2006 if a minimum of 36 films have been delivered as of that date. If 36 films have not been delivered by December 31, 2006, the distribution agreement expires on the earlier of the delivery of the 36th film or May 25, 2007. The subsidiary has the right to distribute the films for 15 years from the initial theatrical release of the film. Under the terms of the distribution agreement, the subsidiary must fund a portion of the production cost and is responsible for all distribution and marketing expenses. As of March 31, 2003, 17 films have been released or funded by the subsidiary. The subsidiary s estimated commitment to fund the production of the remaining films under this agreement is ¥88,024 million ($734 million).

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Aggregate amounts of year-by-year payment schedule of commitments during the next five years and thereafter are as follows:

Year ending March 31	Yen in millions	Dollars in millions
2004	¥ 140,935	$ 1,174
2005	70,045	584
2006	51,744	431
2007	8,777	73
2008	9,146	76
Thereafter	17,121	143
Total	¥ 297,768	$ 2,481

(2) Contingent liabilities:

Contingent liabilities including guarantees given in the ordinary course of business have a maximum exposure of ¥139,119 million ($1,159 million) at March 31, 2003. The major components of the contingent liabilities are as follows:

Sony has issued loan guarantees to related parties comprised of affiliated companies accounted for under the equity method and unconsolidated subsidiaries. The terms of these guarantees are mainly up to 3 years. Sony would be required to perform under these guarantees upon non-performance of the primary borrowers. The maximum exposure of these guarantees is ¥49,078 million ($409 million) and is not recorded on the balance sheet as of March 31, 2003.

As discussed in Note 23, in connection with the lease of the headquarters of Sony s U.S. subsidiary, Sony has guaranteed residual value to a VIE. The maximum exposure of the guarantee is ¥25,727 million ($214 million). This guarantee is secured by the underlying leased asset and is not recorded on the balance sheet as of March 31, 2003.

As discussed in Note 23, a subsidiary in the Pictures business entered into a joint venture agreement with a VIE. At March 31, 2003, the maximum exposure associated with this arrangement is ¥30,574 million ($255 million).

Sony has agreed to indemnify certain third parties against tax losses resulting from transactions entered into in the normal course of business. The maximum amount of potential future payments under these guarantees cannot be estimated at this time. These guarantees are not recorded on the balance sheet as of March 31, 2003.

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

The changes in product warranty liability for the year ended March 31, 2003 are as follows:

	Year ended March 31 2003	Year ended March 31 2003
	Yen in millions	Dollars in millions
Balance at beginning of year	¥ 53,671	$ 447
Provision for warranty reserve	47,260	394
Settlements (in cash or in kind)	(46,628)	(389)
Changes in estimate for pre-existing warranty reserve	(2,032)	(17)
Translation adjustment	(379)	(3)
Balance at end of year	¥ 51,892	$ 432

25. **Business segment information**

Effective for the year ended March 31, 2003, Sony has partly changed its business segment configuration as described below.

Related businesses in the Network Application and Contents Service Sector (NACS), established in April 2002 to enhance network businesses, are included in the Other segment. In addition to Sony Communications Network Corporation, which was originally contained in the Other segment, NACS-related businesses include an internal information system related business, and an IC card business formerly contained in the Other category of the Electronics segment.

As a result, business segment information for the years ended March 31, 2001 and 2002 have been restated to conform to the presentation for the year ended March 31, 2003.

The Electronics segment designs, develops, manufactures and distributes audio-visual, informational and communicative equipment, instruments and devices throughout the world. The Game segment designs, develops and sells PlayStation and PlayStation 2 game consoles and related software mainly in Japan, the United States of America and Europe, manufactures semiconductors used in the game consoles in Japan, and licenses to third party software developers. The Music segment is mainly engaged worldwide in the development, production, manufacture, and distribution of recorded music, in all commercial formats and musical genres. The Pictures segment develops, produces and manufactures image-based software, including film, video, and television mainly in the United States of America, and markets, distributes and broadcasts in the worldwide market. The Financial Services segment represents the insurance-related underwriting business, primarily individual life insurance and non-life insurance businesses in the Japanese market, leasing and credit financing businesses and bank business in Japan. The Other segment consists of various operating activities, primarily including a business focused on network service business including Internet-related services, advertising agency business in Japan. Sony s products and services are generally unique to a single operating segment.

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

Business segments

Sales and operating revenue:

	Year ended March 31			
	2001	2002	2003	2003
	Yen in millions			Dollars in millions
Sales and operating revenue:				
Electronics				
Customers	¥ 4,982,432	¥ 4,772,550	¥ 4,543,313	$ 37,861
Intersegment	472,082	513,631	397,137	3,309
Total	5,454,514	5,286,181	4,940,450	41,170
Game				
Customers	646,147	986,529	936,274	7,802
Intersegment	14,769	17,185	18,757	156
Total	660,916	1,003,714	955,031	7,958
Music				
Customers	571,003	588,191	559,042	4,659
Intersegment	41,110	54,649	77,256	644
Total	612,113	642,840	636,298	5,303
Pictures				