Notes to Selected Financial Data:

1. Cash dividends per share of common stock for the year ended March 31, 2003 include a dividend which was approved at the General Meeting of Shareholders which was held on June 20, 2003.
2. On April 1, 2001, Sony adopted the Financial Accounting Standards (“FAS”) No. 133, “Accounting for Derivative Instruments and Hedging Activities” as amended by FAS No.138 “Accounting for Certain Derivative Instruments and Certain Hedging Activities—an Amendment of the Financial Accounting Standard Board (“FASB”) Statement No. 133”. As a result, Sony’s operating income, income before income taxes and net income for the year ended March 31, 2002 decreased by 3.0 billion yen, 3.4 billion yen and 2.2 billion yen, respectively. Additionally, Sony recorded a one-time non-cash after-tax unrealized gain of 1.1 billion yen in accumulated other comprehensive income in the consolidated balance sheet, as well as an after-tax gain of 6.0 billion yen in the cumulative effect of accounting changes in the consolidated statement of income.
3. In July 2001, the FASB issued FAS No. 142, “Goodwill and Other Intangible Assets”. Sony adopted FAS No. 142 retroactive to April 1, 2001. As a result, Sony’s operating income and income before income taxes for the year ended March 31, 2002 increased by 20.1 billion yen and income before cumulative effect of accounting changes as well as net income for the year ended March 31, 2002 increased by 18.9 billion yen.
4. In June 2000, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position (“SOP”) 00-2, “Accounting by Producers or Distributors of Films”. Sony adopted SOP 00-2 retroactive to April 1, 2000. As a result, Sony’s net income for the year ended March 31, 2001 included a one-time, non-cash charge with no tax effect of 101.7 billion yen, primarily to reduce the carrying value of its film inventory.
5. In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (“SAB”) No. 101, “Revenue Recognition in Financial Statements”. Sony adopted SAB No. 101 in the fourth quarter ended March 31, 2001 retroactive to April 1, 2000. As a result, a one-time no-cash cumulative effect adjustment of 2.8 billion yen was recorded in the income statement directly above the caption of “net income” for a change in accounting principle.

Capitalization and Indebtedness

Not Applicable

Reasons for the Offer

Not Applicable

Risk Factors

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

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

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

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

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

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

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

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

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

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

Short-term exchange rate fluctuations affect Sony’s operating profitability because many of Sony’s products are sold in countries other than the ones in which they were manufactured. The Electronics and Game segments are especially sensitive to the yen's appreciation because research and development, production activities and administrative functions are largely located in Japan so that the ratio of yen-denominated costs to total costs is higher than the ratio of yen-denominated revenue to total revenue. Although Sony Corporation and its subsidiaries hedge the net foreign currency exposure resulting from import and export transactions shortly before they are projected to occur, such hedging activity cannot entirely remove the effect of exchange rate fluctuations.

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

Sony must continually develop new products reflecting technological advances.

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

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

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

Sony is planning to incur costs totaling approximately 300 billion yen in restructuring charges over the next three years. Reorganization expenses incurred in connection with these actions are recorded in cost of sales or selling, general and administrative expense, and thus decrease Sony's consolidated net income. Moreover, due to factors including regional labor regulations and union contracts, it may not be possible to execute such reorganizations as planned. Therefore such reorganizations may not result in reductions in expenses, improved efficiency, increased ability to respond to market changes or reallocation of resources to more profitable activities. Inability to fully implement successfully these planned restructuring initiatives may cause Sony to have insufficient financial resources to carry out its research and development plans and invest in targeted growing business areas. Without such investment, Sony may not be able to develop advanced digital technology and create new types of products and business platforms that combine media content distribution services and broadband-ready digital technology products.

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

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

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

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

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

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

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

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

Sony’s Music segment is highly dependent on establishing artists that appeal to customers, and the competition with other entertainment companies for such talent is intense. Therefore, if the Music segment is unable to find and establish new talented artists, it may adversely affect this segment's sales and operating income. In addition, with respect to both the Music and Pictures segments, Sony has experienced and may continue to experience significant increases in talent-related spending.

Sony's Pictures segment is subject to labor interruption.

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

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

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

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

Sony increasingly relies on alliances, joint ventures and strategic investments, including investments in such joint ventures as Sony Ericsson Mobile Communications, AB ("SEMC"), S.T. Liquid Crystal Display Corporation ("ST-LCD") and other companies, in order to develop and introduce promising new products and services, such as information and communication equipment and digital network technologies. In addition, Sony may make substantial investments in other entities in order to develop broadband network businesses in the future. However, because some of these companies are new ventures and the results from these activities are largely dependent on business trends as well as the financial condition of partner companies, weak trends or disappointing performance of such partners may adversely affect the success of these activities. Sony's equity in net losses of affiliated companies was approximately 44.5 billion yen, 34.5 billion yen and 44.7 billion yen for the years ended March 31, 2001, 2002 and 2003 respectively. In addition, the success of these activities may be adversely affected by the inability of Sony and its partners to successfully define and reach their common objectives. In recent years, Sony has recorded substantial losses and writedowns in some of its equity affiliates (refer to Note 5 of Notes to Consolidated Financial Statements). Similar losses and writedowns may occur in the future.

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

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

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

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

Sony may be adversely affected by its employee benefit obligations.

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

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

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

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

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

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

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

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

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

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

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