**Notes to Selected Financial Data:**

1. Cash dividends per share of common stock for the year ended March 31, 2002 include a dividend which is subject to approval of the Ordinary General Meeting of Shareholders to be held on June 20, 2002.

2. In July 2001, the Financial Accounting Standard Board (“FASB”) issued Statement of Financial Accounting Standards (“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.

3. 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 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.

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.

***Risk Factors***

This section contains forward-looking statements that are subject to the Cautionary Statement Regarding Forward-Looking Statements 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 the annual report referred to in the “Cautionary Statement with Respect to Forward-Looking Statements.”

*Economic Trends in Sony’s Major Markets May Adversely Affect Sony’s Sales.*

Purchases of Sony’s products are to a very significant extent discretionary. Economic downturns and declines in consumption in Sony’s major markets, including Japan, the U.S., Europe, and Asia/Latin America may thus adversely affect the level of sales and Sony’s consolidated financial results and condition.

*Foreign Exchange Fluctuations Can Affect Sony’s Reported Results Because of the Translation of Results into Yen and Because Sales and Expenses in Different Currencies Can Affect Results. Hedging Is Not Fully Effective Against These Factors.*

Local currency denominated financial results in each of Sony’s subsidiaries around the world are translated into yen by applying the average market rate during each financial period and recorded on Sony’s consolidated profit and loss statement. Local currency-denominated assets and liabilities/stockholder’s equity are translated into yen by applying the market rate at the end of each financial period and recorded on Sony’s consolidated balance sheets. Accordingly, the results, assets, and liabilities/stockholder’s equity in such worldwide businesses as Electronics, Game, Music, and Pictures are subject to foreign exchange fluctuations. In recent periods, operating results reported in yen in accordance with U.S. GAAP have generally been less favorable than those results in local currency.

In addition, especially in the Electronics and Game businesses, operating profits and losses are highly sensitive to the yen’s appreciation because the research and development/production activities and headquarters functions are concentrated in Japan, so that the ratio of yen-denominated costs to total costs is higher than in other business segments. Profits and losses resulting from differences between hedged rates and market rates in the evaluation or execution of contracts entered for the purpose of currency hedging such as foreign exchange forward contracts and foreign currency option contracts by Sony Corporation and its subsidiaries such as Aiwa Co., Ltd., Sony Computer Entertainment Inc., and finance subsidiaries in the U.S., Europe, and Asia are recorded on a net basis in other income and expenses, and are not included in operating profits and losses. Although Sony engages in hedging transactions for actual requirements to minimize the negative effects from short-term fluctuations of foreign exchange rates among major invoicing currencies such as the U.S. dollar, euro and yen, mid-to-long-term volatile changes of the exchange rate levels make it difficult for Sony to execute planned procurement, production, logistics, and sales activities and may adversely affect Sony’s consolidated financial results and condition.

*Compliance with Changes in Accounting Requirements Can Adversely Affect Sony’s Reported Financial Results and Condition*

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. Sony is now in the process of assessing the impact that the statement will have on Sony’s results of operations and financial position.

In April 2002, the FASB issued FAS No. 145, effective for fiscal years beginning or transactions occurring after May 15, 2002. This statement rescinds certain authoritative pronouncements and amends, clarifies or describes the applicability of others. Sony is now in the process of assessing the impact that the statement will have on Sony’s results of operations and financial position.

From time to time, Sony has entered into various financing arrangements with special purpose entities. The assets and financings associated with these arrangements generally qualify for off-balance sheet treatment. Various generally accepted accounting principles specify the conditions that Sony observes in not consolidating special purpose entities. The accounting for special purpose entities is under review by the Financial Accounting Standards Board, and their non-consolidated status may change as a result of those reviews. Please see “Other Financing Arrangements” section in “Item. 5 Operating and Financial Review and Prospects” for more information.

Changes in accounting standards that may be promulgated in the future cannot be predicted and may have a material adverse effect on Sony’s reported consolidated financial results and condition.

*Stock Price Fluctuations Affect Sony’s Results Because of the Accounting Treatment of Its Stock Linked Incentive Compensation Programs.*

Sony has adopted stock-price linked incentive compensation programs for selected management employees, and such compensation costs are recognized in income based on the excess, if any, of the quoted market price of Sony Corporation’s stock at the grant date of the award or other measurement date over the stated exercise price of the award. Accordingly, a rise in the stock price of Sony Corporation may adversely affect Sony's consolidated financial results and condition.

*Sony Depends on Skilled Personnel for Its Continued Success in Designing, Developing and Introducing New Products and in Managing These Processes.*

Continued technological superiority of Sony's products and services is a critical element of Sony's competitive success. An increasingly important factor in Sony's competitiveness is the continuing performance of skilled managerial and technical personnel. Experienced personnel in the industries in which Sony competes are in high demand, and competition for their talents is intense. There can be no assurance that Sony will be successful in attracting and retaining the key personnel it needs, and the expenses in obtaining and retaining these personnel are expected to increase.

*The Cooperation and Alliances with, and Strategic Investments in, Third Parties Undertaken by Sony May Not Produce Successful Results.*

Sony carries out many activities with other companies such as alliances, joint ventures, and strategic investments, including investments in venture companies. Sony's reliance on these strategies of partnering with third parties is increasing. These activities are important for Sony to introduce new products such as information and communication equipment, for which demand is increasing, and to introduce new services using digital network technologies. In addition, Sony may carry out a large amount of strategic investment in other entities in order to proceed with broadband network businesses in the future. However, because 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. 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. Although Sony strives to avoid business duplication among its group subsidiaries, by entering into alliances, joint ventures, and strategic investments which are designed to improve the corporate value of the Sony group by diversifying the businesses of its subsidiaries, business overlaps and inefficiencies may arise.

*Sony May Be Accused of Infringing on Intellectual Property Rights.*

There can be no assurance that claims of infringement will not be asserted against Sony or against our customers in connection with their use of Sony's systems and products, nor can there be any assurance as to the outcome of any such claims, given the technological complexity of our systems and products.

*Reorganization of Businesses and Involvement of External Suppliers May Increase Financial, Reputational and Other Risks to Sony.*

In order to properly allocate managerial resources and improve operating efficiency, Sony is undertaking the concentration/selection of its businesses, realignment of its facilities, and reduction in the number of its employees around the world. In connection with these actions, it is possible that there may be reorganization expenses which adversely affect Sony's consolidated financial results and condition. Moreover, the intended beneficial effects from such reorganizations may not be achieved.

In addition, with the increasing necessity of pursuing quick business development and operating efficiency with limited managerial resources, Sony increasingly procures important technologies from external suppliers. Sony also increasingly consigns to external suppliers extensive activities including procurement, manufacturing, logistics, sales and services, and procures from external suppliers infrastructures such as fixed assets and communications. Accordingly, Sony's reliance on such external suppliers, including from strategic alliances or joint ventures, is increasing. Reliance on outside sources increases the chances that Sony cannot control or avoid the introduction of products incorporating defective or inferior third party technology or components, which can adversely affect Sony's consolidated financial results and condition or its reputation for quality products. This reliance on third parties may also raise issues caused by suppliers' insufficient compliance with applicable regulation or third-party intellectual property rights.

*Sony Is Subject to Competitive Pressures, Including Price, Technological Change, Product Development and Quality.*

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

*Electronics Business*

In the Electronics business, the environment is becoming more demanding due to a number of factors, including the following:

- an increase in the number of new market entrants that have new technologies,
- intensifying competition in the industry,
- rapid technological progress,
- oversupply of digital products such as PCs, which account for a growing proportion of Sony's business, and of electronic devices such as semiconductors,
- a rise in the market penetration ratios of products, and
- global price erosion from such trends as the deregulation of export and import regimes and the establishment of new sales channels such as the Internet.

Sony continues to incur significant expenses, including depreciation expenses resulting from a high level of capital expenditures for critical devices including semiconductors, high levels of research and development expenses for development of digital equipment that requires new technologies and of basic technologies, royalty expenses to acquire technologies indispensable for the development and production of information and communication equipment, advertising expenses, and personnel expenses. However, Sony may face difficulties in adequately providing for such expenses and capital expenditures due to weak sales caused by such factors as a lack of products and services that appeal to customers, decreases in unit sales stemming from either a rise in the market penetration ratios of products or from increases in sales prices in response to volatile fluctuations of exchange rates, or supply shortages of core devices/other parts and inventory shortages of products, especially when product demand is the highest. Moreover, such factors as reductions in production/inventories in response to weak sales in certain areas or product categories may adversely affect Sony's consolidated financial results and condition. Furthermore, regarding Aiwa Co., Ltd., an approximately 61 percent owned consolidated subsidiary of Sony Corporation, reorganization expenses, such as severance expenses and loss on sale and disposal of long-lived assets, and writedown of inventories relating to a reduction of fixed costs before the company is taken private by Sony in October 2002, will likely adversely affect Sony's consolidated financial results and condition. In addition, there can be no assurance that continued restructuring initiatives at Aiwa will be successful.

*Game Business*

In the Game business, the competitive environment is becoming more difficult due to competitors' introduction of new hardware and software with various formats that can have increasing appeal to customers, rapid technological progress, a rise in the market penetration ratios of products, and diversification of customers' preferences. Sony continues to incur significant expenses such as depreciation expenses resulting from a high level of capital expenditures in prior years to increase production of semiconductors for PlayStation 2 hardware, research and development expenses for semiconductors and software, advertising expenses, and personnel expenses. However, Sony may face difficulties in adequately providing for such expenses and capital expenditures due to weak sales caused by such factors as supply shortages of core devices/other parts and inventory shortages of hardware, especially when product demand is the highest, delays in introductions or decreases in the number of software titles that appeal to customers, or decreases in hardware unit sales stemming from a rise in the market penetration ratios of products. Also, delays in cost reductions and reductions in production/inventories, in response to a changeover to new hardware or slow sales, may adversely affect Sony's consolidated financial results and condition.

Furthermore, the fact that in the Game business Sony offers a relatively small range of products and is dependent upon seasonal demand makes it particularly susceptible to weak sales and supply shortages.

*Music Business*

In the Music business, market growth continues to contract due to the slowdown in worldwide economic growth, the saturation of the CD market, the effects of piracy and other illegal duplication, parallel imports, diversification of customer preferences, and pricing pressures. Due to this market contraction, it will be difficult for Sony to maintain profit margins. The Music business is highly dependent on establishing artists that appeal to customers, and the competition among record companies for such talent is intense. Therefore, if the Music business is unable to find and establish new talented artists, it may adversely affect Sony's consolidated financial results and condition. Furthermore, advances in technologies which allow for the transfer and downloading of digital music files from the Internet without authorization from rights owners may threaten the conventional copyright-based business model and may adversely affect Sony's Music business. Corresponding to this change in the business model, expenses to develop new services, which combine digital network technologies and music content, and other strategic investments may also adversely affect Sony's near-term consolidated financial results and condition.

*Pictures Business*

The Pictures business is highly competitive. Major motion picture studios and independent film production companies are aggressively competing in the production and distribution of films all over the world. Companies within the Pictures business also compete against other forms of entertainment and leisure-time activities, including sporting events, concerts, video games, the Internet and other computer-related activities. To remain competitive in this environment, higher levels of spending are generally required for production, talent, marketing and worldwide distribution of films. Although Sony is working to hold down production and exploitation costs for certain films by collaborating with and purchasing product from other studios, sales of film product may not adequately provide for the recovery of all related film costs due to factors such as a lack of acceptance by customers or varying customer preferences. Furthermore, technological developments have created new risks with respect to Sony's ability to protect its intellectual property, which may adversely affect Sony's consolidated financial results and condition.

In the fiscal year ended March 31, 2001, Sony consolidated its domestic television operations and downsized its network television development and production investments. Sony remains a producer and distributor for the broadcast syndication and cable markets while pursuing selected network programming opportunities. In the Television production and distribution business, available network broadcast time is limited and the audience is increasingly fragmented among the major broadcast networks, cable and independent television stations. Competition to obtain customers between major networks and other production and distribution companies is becoming more intense. Furthermore, broadcast networks are increasingly producing their own shows internally. 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. As a result, Sony, as well as other participants in the industry, have seen an increase in the number of new programs being distributed yet cancelled in their first or second season, shows which are generally less profitable, and a decrease in the number of network programs that are able to achieve syndication, the latter being shows which are generally more profitable. In addition, Sony and other members of the industry have experienced significant increases in talent spending. Such developments may adversely affect Sony’s consolidated financial results and condition despite the downsizing discussed above. Furthermore, spending required to develop new services which combine digital network technologies and movies/television programs and other strategic investments may adversely affect Sony’s consolidated financial results and condition.

The Pictures Business may be directly or indirectly dependent upon union members, and work stoppages or strikes organized by such unions could materially adversely impact Sony’s business or financial result and condition.

*Financial Services Business*

In the Financial Services business, with deregulation of the industry in Japan, the number of new market entrants from outside Japan and from other industries is increasing. Also, customers are becoming more exacting in regards to product selection and prices. In this environment, if Sony’s life insurance business cannot provide products and services that fit customers’ needs and achieve stable investment returns from its stock, bond, and real estate assets, Sony’s consolidated financial results and condition may be adversely affected. Moreover, increases in insurance claims that Sony cannot accurately predict and shifts in customers’ demand from such profitable products as life guarantees to such less profitable products as annuities may adversely affect Sony’s consolidated financial results and condition. Moreover, if additional competitors in the insurance industry go bankrupt, further increases in the amount of mandatory contributed reserves for the Life Insurance Policyholders Protection Corporation of Japan may adversely affect Sony’s consolidated financial results and condition. In the non-life insurance business, revenues have not yet been sufficient to cover such expenses as advertising expenses necessary for business expansion, and increases in insurance claims that Sony cannot accurately predict may adversely affect Sony’s consolidated financial results and condition.

In addition, Sony’s banking business, Sony Bank Inc. started operations in June 2001. This business may not be able to collect sufficient deposits from customers to earn sufficient return on its loans and portfolio investments to cover expenses such as development costs for the information systems and general expenses; this may adversely affect Sony’s consolidated financial results and condition. Furthermore the bank may not be able to effectively control the various risks it faces including, credit risks, liquidity risks, operational risk, legal risk, and reputational risk; this inability could also adversely affect the achievement of its business goals and may adversely affect Sony’s consolidated financial results and condition.

In the leasing and credit financing business, increases in funds required for purchasing goods to be leased and in leasehold assets, increases in non-performing receivables due to default in payment by customers, and decreases in profitability attributable to intensifying competition may adversely affect Sony’s consolidated financial results and condition.

*Internet Related Businesses and Other New Businesses*

Sony is actively expanding Internet related businesses and other new businesses. Such businesses include Sony Communication Network Corporation, whose main business is an Internet service provider. In addition, new businesses utilizing “FeliCa”, a non-contact IC card technology developed independently by Sony for Internet shopping and transportation services are also included in such businesses mentioned above. These businesses operate in competitive markets characterized by rapid advancements in technology and competition with existing large companies/new market entrants. In this environment, Sony’s consolidated financial results and condition may be adversely affected as a result of the substantial

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expenditures that are required to compete and that may exceed revenues. In addition, if these businesses fail to attract customers due to delays in expansion of Internet subscribers or customers' anxieties in terms of security, these businesses may be forced to change their business models.

*Equity Affiliates*

In recent years, Sony has recorded substantial losses and writedowns in some of its equity affiliates. These losses and writedowns have included those at Loews Cineplex Entertainment Corporation ("Loews"), including a total writedown of the carrying value of Loews, at Sony Ericsson Mobile Communications ("SEMC"), at The Columbia House Company ("CHC"), at American Video Glass Company ("AVGC"), and at Telemundo Communications Group, Inc. and affiliates ("Telemundo"). Similar losses and writedowns may occur in the future.

In April 2002, Sony completed the sale of its equity interest in Telemundo. Also, Sony plans to sell most of each interest in CHC by June 2002, subject to conditions including regulatory approval in the U.S.

In addition, equity affiliates include newly established businesses in which expenses may exceed revenues.

*Sony Is Subject to Increasing Financial and Reputational Risks Due to Product Quality/Liability Issues*

Corresponding to rapid advancements in technologies and increases in demand for digital equipment, such technologies as software and electronic devices including semiconductors, that are utilized in products and services Sony introduces in the market, are becoming increasingly sophisticated and complicated. At the same time, since the technological life cycle is becoming shorter, Sony is required to introduce products and services in a shorter period of time. These factors apply particularly to Sony because of the importance to it of technological and product leadership as a feature of its competitive success. Accordingly, product quality/liability issues present greater risks. Sony endeavors to prevent the occurrence of such issues in advance by incorporating such measures as the Six Sigma method for improving management quality. Further, in order to minimize damages generated from any product quality/liability issues, Sony is seeking to develop a risk management structure designed to allow Sony group headquarters and each business unit to closely cooperate and to enable prompt awareness of the situation and appropriate execution of countermeasures. However, there is no assurance that Sony will be able to completely eliminate or mitigate occurrences of the aforementioned issues and consequent damages. If such factors adversely affect Sony's operating activities, generate expenses such as those for product recalls, service, and compensation, or hurt Sony's brand image, Sony's consolidated financial results and condition or reputation for quality products may be adversely affected.

*Sony Is Subject to the Risks of International Operations*

A substantial portion of Sony's activity is conducted outside Japan, including in developing and emerging markets in Latin American and Asia. There are a number of risks inherent in doing business in those markets, including the following:

- less developed technological infrastructure, which can affect our production or other activities or result in lower customer acceptance of our services;
- unfavorable political or economic factors;
- unexpected legal or regulatory changes;
- difficulties in recruiting and retaining personnel, and managing international operations;
- fluctuations in currency exchange rates;
- reduced protection for intellectual property rights; and
- potentially adverse tax consequences.

Our inability to manage successfully the risks inherent in our international activities may adversely affect our business, financial condition and operating results.