SONY

News & Information

6-7-35 Kitashinagawa
Shinagawa-ku
Tokyo 141-0001

No: 99-061E
Date: July 28, 1999

CONSOLIDATED RESULTS FOR THE FIRST QUARTER ENDED JUNE 30, 1999

FOR IMMEDIATE RELEASE

Tokyo, July 28, 1999 -- Sony Corporation announced today its consolidated results for the first quarter ended June 30, 1999.

CONSOLIDATED RESULTS FOR THE FIRST QUARTER

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

	Three months ended June 30			
	1998	**1999**	Change	**1999**
			%	
Sales and operating revenue	¥ 1,618,262	¥ **1,482,252**	-8.4	$ **12,250,017**
Operating income	93,444	**42,236**	-54.8	**349,058**
Income before income taxes	93,063	**42,823**	-54.0	**353,909**
Net income	40,946	**18,427**	-55.0	**152,289**
Net income per share				
Basic	¥ 100.1	¥ **44.9**	-55.1	$ **0.37**
Diluted	89.5	**41.1**	-54.1	**0.34**

Note: Effective with the first quarter ended June 30, 1999, equity in net earnings (losses) of affiliated companies, which were previously included in sales and operating revenue, were separated. As a result, sales and operating revenue, operating income, and income before income taxes figures for the first quarter ended June 30, 1998 have been restated to conform to the 1999 presentation.

Performance Highlights

During the first quarter ended June 30, 1999, Sony's consolidated sales and operating revenue (herein referred to as "sales") decreased 8.4% to ¥1,482 billion ($12,250 million) and operating income decreased 54.8% to ¥42.2 billion ($349 million), compared to the first quarter of the previous year. Appreciation of the yen was a significant factor in these decreases. Income before income taxes decreased 54.0% to ¥42.8 billion ($354 million) and net income decreased 55.0% to ¥18.4 billion ($152 million) compared to that quarter.

By segment, sales declined principally in the Electronics, Pictures, and Game businesses. The substantial declines in operating income in the Electronics and Game businesses were the major factors for the decline in overall operating income for the first quarter. Compared to the first quarter of the previous year, in spite of absolute declines in cost of sales and selling, general, and administrative expenses, the ratios of those costs and expenses to sales increased due to the substantial decline in sales.

Beginning this quarter, equity in net earnings (losses) of affiliated companies, previously included in sales, is separately reported (refer to Note on page 1) and is no longer included in sales and operating income. Equity in net losses of affiliated companies during the first quarter was ¥5.5 billion ($45 million) compared to ¥1.0 billion during the first quarter of the previous year.

Sony realized a gain of approximately ¥4.1 billion ($34 million), which is included in other income, during the first quarter relating to certain investment securities in the U.S. and will realize an additional gain of approximately $51 million in the second quarter.

Basic net income per share for the first quarter was ¥44.9 ($0.37), compared to ¥100.1 in the first quarter of the previous year. Diluted net income per share was ¥41.1 ($0.34), compared to ¥89.5 in the first quarter of the previous year.

In terms of foreign exchange rates, the average value of the yen during the first quarter was ¥120.0 and ¥126.5, against the U.S. dollar and euro, respectively. Compared with the first quarter of the previous year, the yen appreciated 12.3% and 16.0% against the U.S. dollar and euro, respectively. This rise in the value of the yen negatively impacted the reported financial results translated into yen. (For comparative purposes only, for the first quarter of the previous year, the euro is hypothetically computed based on the German mark.) It is estimated that if the value of the yen had remained the same, sales were virtually flat and operating income would have decreased by approximately 17% compared with the first quarter of the previous year. These estimates are obtained by applying the yen's average exchange rate in the first quarter of the previous year to foreign currency-denominated sales, cost of sales, and selling, general and administrative expenses. (Constant currency growth rates discussed in Results by Business Segment below are calculated in the same way.)

Results by Business Segment

Note: The following discussion is based on segment information. Sales and operating revenue in each business segment include intersegment transactions (refer to Business Segment Information on page 5). In the Electronics business, sales and operating revenue by product category represent sales to customers, which do not include intersegment transactions (refer to Electronics Sales and Operating Revenue to Customers by Product Category on page 6).

Electronics

During the first quarter, sales in the Electronics business declined 8.7% to ¥1,049 billion ($8,673 million) (virtually flat on a constant currency basis), compared to the first quarter of the previous year. Operating income declined 74.4% to ¥14.1 billion ($116 million) (down approximately 24% on a constant currency basis) compared to that quarter. Sales of such products as audio equipment, color TVs, and cellular phones declined substantially, while sales of home-use PCs and digital AV equipment continued to be strong, and sales of semiconductors showed a trend towards recovery. Profit substantially declined primarily due to the color TV, computer display, and broadcast- and professional-use equipment product categories.

On a local currency basis, parts of Asia (excluding Japan), which had been experiencing weak market conditions, showed signs of a recovery in sales. However, sales in Latin America and Russia continued to be weak, and sales in Europe increased only slightly. Sales continued to increase in Japan and the U.S.

Breaking down Electronics sales to customers by product category, "Audio" sales decreased 20.5%. Sales of home stereos and radio-cassette tape recorders decreased substantially except in Japan and Asia, principally due to weak demand and intensified price competition. "Video" sales decreased 3.5% mainly due to weak sales of broadcast- and professional-use equipment and home-use video decks. However, despite lower sales of analog camcorders, sales of home-use camcorders increased due to a substantial increase in sales of digital camcorders. In addition, sales of products such as digital still cameras and DVD-Video players continued to be strong, principally in the U.S.

and Western Europe. "Televisions" sales fell 16.4%. Sales and profit of color TVs were substantially negatively impacted by both continuing weakness in Latin America and Russia and a lack of strong demand compared to the first quarter of the previous year, when sales were positively impacted by the World Cup, especially in Western Europe. Sales also decreased slightly in Japan, where strong sales of WEGA series color TVs had been recorded. "Information and communications" sales increased 10.9%. Sales of home-use PCs were significantly stronger, and sales of data recording systems such as CD-RW drives were also strong. However, sales of cellular phones substantially declined in the U.S. and losses continued to be recorded. In July 1999, Sony announced a plan to discontinue engineering, sales, and marketing of cellular phones in the U.S. within the first half of this fiscal year. In addition, sales and profit of computer displays were negatively impacted by price competition. "Electronic components and other" sales fell 9.9%. Sales of electronic components such as CRTs for computer displays and lithium-ion batteries decreased. On the other hand, sales of semiconductors, which had been slow, turned around as demand for digital AV equipment strengthened.

Game

Sales in the Game business decreased 15.5% to ¥115 billion ($950 million), and operating income decreased 28.4% to ¥17.5 billion ($145 million), compared to the first quarter of the previous year. In spite of strong software sales, overall sales were flat in Japan and significantly lower overseas due to a higher yen and price reductions for game consoles, and operating income also declined substantially. (On a constant currency basis, sales were down approximately 6% and operating income was up approximately 5%.)

While production shipments of game consoles increased in Europe, they decreased in Japan and the U.S. Worldwide shipments were 3.98 million units for the first quarter compared to 4.50 million units for the first quarter of the previous year, resulting in cumulative shipments of 58.40 million units as of June 30, 1999. However, total production shipments of software have continued to rise, reflecting the increased aggregate number of game consoles. Worldwide shipments of software (including both Sony and third parties under Sony licenses) were 32 million units for the first quarter compared to 28 million units for the first quarter of the previous year, resulting in cumulative shipments of 462 million units as of June 30, 1999. Software titles achieving strong growth during the first quarter included *Ape Escape* and *MLB 2000*.

Music

During the first quarter, sales in the Music business decreased 2.5% to ¥170 billion ($1,406 million) (up approximately 6% on a constant currency basis), and operating income decreased 44.1% to ¥4.6 billion ($38 million) (down approximately 43% on a constant currency basis), compared to the first quarter of the previous year. During the first quarter of the previous year, the Music group's operating income benefited from increased licensing fees from a new direct marketing arrangement. Excluding the benefit of such licensing fees and the impact of unfavorable exchange rates, sales and operating income this quarter would have increased over the first quarter of the previous year. New releases contributing to this quarter's results included Ricky Martin's self-titled English language album, Jamiroquai's *Synkronized*, and Jennifer Lopez's debut release *On the 6*. In Japan, two simultaneously released albums, *ark* and *ray*, by L'Arc~en~Ciel contributed to this quarter's results.

Pictures

During the first quarter, sales in the Pictures business decreased 22.7% to ¥101 billion ($836 million) (down approximately 13% on a constant currency basis), and operating income decreased 37.4% to ¥4.3 billion ($35 million) (down approximately 24% on a constant currency basis), compared to the first quarter of the previous year. Motion picture revenues were lower in the first quarter due to timing differences in the release of the film slate, the lack of carryover strength from prior year releases as compared to that in the previous year's first quarter, and the performance of certain films. While not a major contributor due to its late release in the first quarter, early results for the film *Big Daddy* were very strong. The U.S. home video release of *Stepmom* also positively contributed to this quarter's results. However, certain films released in the first quarter, primarily *Idle Hands*, were disappointing at the U.S. box office and resulted in losses that negatively affected operating income in the first quarter. In television, although revenues increased due to higher network sales, operating income declined compared to the first quarter of the previous year principally due to the absence of major syndication revenues from second cycle syndication renewals of *Seinfeld*, which were included in the first quarter of the previous year.

Insurance

Insurance revenue during the first quarter decreased 1.9% to ¥88.4 billion ($731 million), compared to the first quarter of the previous year. Operating income, however, increased 135.0 % to ¥5.2 billion ($43 million), compared to that quarter. While life insurance-in-force grew steadily primarily in individual insurance products, insurance revenue in Japan decreased slightly, principally because during the first quarter of the previous year there was a strong contribution from single premium policies in advance of a reduction in the guaranteed rate of return on policies. However, by their nature, single premium policies are low margin products and did not significantly affect operating income during this quarter. Operating income grew significantly due to both increased insurance revenues except for those from single premium policies and improved returns on investment income.

Other

Sales in the Other business were up by 18.2% to ¥84.0 billion ($694 million), compared to the first quarter of the previous year. The business, however, posted a small operating loss compared to an operating profit in the first quarter of the previous year. The increase in sales was principally due to the consolidation of a new subsidiary and higher sales from a financial subsidiary in Japan whose major business is leasing and credit financing. The small operating loss was due to expenses incurred in the U.S., both in the development of a location-based entertainment complex and in internet-related businesses.

Results of affiliated companies accounted for by the equity method

Equity affiliates include i) in the Electronics business – S.T. Liquid Crystal Display Corp. ("ST-LCD"), an LCD joint venture in Japan, ii) in the Music business – The Columbia House Company, a direct marketer of music and videos, iii) in the Pictures business – Telemundo, a U.S. based Spanish language television network and station group and Loews Cineplex Entertainment Corporation, a theatrical exhibition company, and iv) in the Other business – parts of satellite distribution services related businesses in Japan and the development of a location-based entertainment complex in Europe. During the first quarter, losses were primarily from ST-LCD, Telemundo, the satellite distribution services related businesses in Japan, and the development of the location-based entertainment business in Europe.

Contact:
Investor Relations
Sony Corporation
(03) 5448-2180

Business Segment Information

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

Three months ended June 30

Sales and operating revenue		1998	**1999**	Change	**1999**
Electronics					
	Customers	¥ 1,077,705	**¥ 993,976**	-7.8%	**$ 8,214,678**
	Intersegment	72,361	**55,462**		**458,363**
	Total	1,150,066	**1,049,438**	-8.7%	**8,673,041**
Game					
	Customers	131,102	**108,728**	-17.1%	**898,579**
	Intersegment	4,890	**6,214**		**51,355**
	Total	135,992	**114,942**	-15.5%	**949,934**
Music					
	Customers	167,400	**162,480**	-2.9%	**1,342,810**
	Intersegment	7,067	**7,687**		**63,529**
	Total	174,467	**170,167**	-2.5%	**1,406,339**
Pictures					
	Customers	130,881	**101,175**	-22.7%	**836,157**
	Intersegment	0	**26**		**215**
	Total	130,881	**101,201**	-22.7%	**836,372**
Insurance					
	Customers	90,155	**88,432**	-1.9%	**730,843**
	Intersegment	0	**0**		**0**
	Total	90,155	**88,432**	-1.9%	**730,843**
Other					
	Customers	21,019	**27,461**	+ 30.6%	**226,950**
	Intersegment	50,009	**56,490**		**466,860**
	Total	71,028	**83,951**	+ 18.2%	**693,810**
Elimination		(134,327)	**(125,879)**	—	**(1,040,322)**
Consolidated		¥ 1,618,262	**¥ 1,482,252**	- 8.4%	**$ 12,250,017**

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

Operating income (loss)	1998	**1999**	Change	**1999**
Electronics	¥ 55,157	**¥ 14,093**	-74.4%	**$ 116,471**
Game	24,437	**17,499**	-28.4%	**144,620**
Music	8,198	**4,586**	-44.1%	**37,901**
Pictures	6,796	**4,253**	-37.4%	**35,149**
Insurance	2,195	**5,159**	+135.0%	**42,636**
Other	726	**(4)**	—	**(33)**
Total	97,509	**45,586**	-53.2%	**376,744**
Corporate and elimination	(4,065)	**(3,350)**	—	**(27,686)**
Consolidated	¥ 93,444	**¥ 42,236**	-54.8%	**$ 349,058**

Electronics Sales and Operating Revenue to Customers by Product Category

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

	Three months ended June 30			
Sales and operating revenue	1998	**1999**	Change	**1999**
Audio	¥ 267,858	**¥ 212,874**	-20.5%	**$ 1,759,289**
Video	242,448	**233,888**	-3.5%	**1,932,959**
Televisions	168,367	**140,684**	-16.4%	**1,162,678**
Information and communications	226,022	**250,578**	+10.9%	**2,070,893**
Electronic components and other	173,010	**155,952**	-9.9%	**1,288,859**
Total	¥1,077,705	**¥ 993,976**	-7.8%	**$ 8,214,678**

The above table is a breakdown of Electronics sales and operating revenue to customers in the Business Segment Information on page 5. The Electronics business is managed as a single operating segment by Sony's management. However, Sony believes that the information in this table is useful to investors in understanding the sales contributions of the products in this business segment. Operating income information by product category is not available.

Geographic Segment Information

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

	Three months ended June 30			
Sales and operating revenue	1998	**1999**	Change	**1999**
Japan	¥ 447,217	**¥ 465,645**	+4.1%	**$ 3,848,306**
United States	489,019	**434,576**	-11.1%	**3,591,537**
Europe	395,315	**344,354**	-12.9%	**2,845,901**
Other Areas	286,711	**237,677**	-17.1%	**1,964,273**
Total	¥ 1,618,262	**¥ 1,482,252**	-8.4%	**$ 12,250,017**

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

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

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

	Three months ended June 30			
	1998	**1999**	Change	**1999**
Sales and operating revenue:			%	
Net sales	¥ 1,515,894	**¥ 1,377,389**		**$ 11,383,380**
Insurance revenue	90,155	**88,432**		**730,843**
Other operating revenue	12,213	**16,431**		**135,794**
	1,618,262	**1,482,252**	- 8.4	**12,250,017**
Costs and expenses:				
Cost of sales	1,075,070	**1,007,404**		**8,325,653**
Selling, general and administrative	361,788	**349,357**		**2,887,248**
Insurance expenses	87,960	**83,255**		**688,058**
	1,524,818	**1,440,016**		**11,900,959**
Operating income	93,444	**42,236**	- 54.8	**349,058**
Other income:				
Interest and dividends	5,964	**5,201**		**42,983**
Foreign exchange gain, net	—	**1,866**		**15,421**
Other	20,255	**18,606**		**153,769**
	26,219	**25,673**		**212,173**
Other expenses:				
Interest	12,175	**11,097**		**91,711**
Foreign exchange loss, net	1,134	**—**		**—**
Other	13,291	**13,989**		**115,611**
	26,600	**25,086**		**207,322**
Income before income taxes	93,063	**42,823**	- 54.0	**353,909**
Income taxes	47,561	**17,057**		**140,967**
Income before minority interest and equity in net losses of affiliated companies	45,502	**25,766**		**212,942**
Minority interest in consolidated subsidiaries	3,592	**1,841**		**15,215**
Equity in net losses of affiliated companies	(964)	**(5,498)**		**(45,438)**
Net income	¥ 40,946	**¥ 18,427**	- 55.0	**$ 152,289**
Net income per share				
Basic	¥ 100.1	**¥ 44.9**	- 55.1	**$ 0.37**
Diluted	89.5	**41.1**	- 54.1	**0.34**

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

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

ASSETS		June 30	
	1998	1999	1999
Current assets:			
Cash and time deposits	¥ 531,655	¥ **570,129**	$ **4,711,810**
Marketable securities	166,331	**100,799**	**833,050**
Notes and accounts receivable, less allowances	1,086,917	**1,012,869**	**8,370,818**
Inventories	1,189,529	**961,146**	**7,943,355**
Other	494,392	**501,353**	**4,143,413**
Total current assets	3,468,824	**3,146,296**	**26,002,446**
Noncurrent inventories — film	263,863	**254,481**	**2,103,149**
Investments and advances	928,347	**1,013,025**	**8,372,107**
Property, plant and equipment, less depreciation	1,301,820	**1,277,414**	**10,557,141**
Other assets:			
Intangibles	129,979	**126,979**	**1,049,413**
Goodwill	163,262	**139,033**	**1,149,033**
Deferred insurance acquisition costs	171,745	**210,754**	**1,741,769**
Other	279,486	**287,276**	**2,374,182**
Total other assets	744,472	**764,042**	**6,314,397**
	¥ 6,707,326	**¥ 6,455,258**	**$ 53,349,240**

LIABILITIES AND STOCKHOLDERS' EQUITY	1998	1999	1999
Current liabilities:			
Short-term debt	¥ 253,661	¥ **189,551**	$ **1,566,537**
Notes and accounts payable, trade	794,256	**774,306**	**6,399,223**
Accounts payable, other and accrued expenses	649,329	**657,502**	**5,433,901**
Accrued income and other taxes	106,837	**80,329**	**663,876**
Other	361,378	**349,875**	**2,891,529**
Total current liabilities	2,165,461	**2,051,563**	**16,955,066**
Long-term liabilities:			
Long-term debt	1,095,478	**1,028,689**	**8,501,562**
Accrued pension and severance costs	196,727	**133,331**	**1,101,909**
Deferred income taxes	167,126	**124,666**	**1,030,298**
Future insurance policy benefits and other	774,397	**958,218**	**7,919,157**
Other	210,021	**176,374**	**1,457,636**
Total long-term liabilities	2,443,749	**2,421,278**	**20,010,562**
Minority interest in consolidated subsidiaries	128,921	**138,902**	**1,147,951**
Stockholders' equity:			
Common stock, ¥50 par value	414,478	**417,679**	**3,451,893**
Additional paid-in capital	556,701	**560,542**	**4,632,578**
Retained earnings	1,006,030	**1,142,018**	**9,438,165**
Accumulated other comprehensive income	(5,142)	**(271,089)**	**(2,240,405)**
Treasury stock, at cost	(2,872)	**(5,635)**	**(46,570)**
Total stockholders' equity	1,969,195	**1,843,515**	**15,235,661**
	¥ 6,707,326	**¥ 6,455,258**	**$ 53,349,240**

Notes:

1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥121=U.S.$1, the approximate Tokyo foreign exchange market rate as of June 30, l999.
2. As of June 30, l999, Sony had 1,057 consolidated subsidiaries. It has applied the equity accounting method in respect to its 69 affiliated companies.
3. Weighted-average shares used for computation of basic net income per share for the three months ended June 30, 1998 and 1999 were 409,236 thousand shares and 410,265 thousand shares, respectively, and the weighted-average shares used for diluted net income per share for the three months ended June 30, 1998 and 1999 were 463,973 thousand shares and 463,742 thousand shares, respectively. The dilutive effect for both periods mainly resulted from the convertible bonds.
4. Comprehensive income for the three-month periods ended June 30, 1998 and 1999 were ¥137,070 million and ¥17,234 million ($142,430 thousand), respectively. Sony's other comprehensive income represents changes in foreign currency translation adjustments, unrealized gains on securities, and minimum pension liability adjustment. The change in foreign currency translation adjustments included in the other comprehensive income for the three-month period ended June 30, 1998 was an increase of ¥84,828 million. The other comprehensive income for the three-month period ended June 30, 1999 was insignificant.
5. Effective with the first quarter ended June 30, 1999, equity in net earnings (losses) of affiliated companies, which were previously included in sales and operating revenue, were separated. As a result, sales and operating revenue, operating income, and income before income taxes figures for the first quarter ended June 30, 1998 have been restated to conform to the 1999 presentation. Certain items in the consolidated balance sheets as of June 30, 1998 have been restated to conform to the 1999 presentation.

Proposed motion picture accounting change:

In October 1998, the Accounting Standards Executive Committee ("AcSEC") of the American Institute of Certified Public Accountants issued an exposure draft of a proposed Statement of Position, "Accounting by Producers and Distributors of Films" ("Exposure Draft") which, if adopted as issued, would significantly change the current accounting for the motion picture and television business. The Exposure Draft proposes, among many changes, that theatrical advertising expense be amortized over a significantly shorter period, that advertising expenses for other markets be expensed as incurred, and that revenue from television syndication contracts be recognized over the contract period rather than upon initial availability of the product to the licensee. The transition from Sony's current accounting practices to those required by the Exposure Draft would result in a cumulative charge to Sony's results of operations in the period of adoption, although there would be no cash flow impact. Comments on the Exposure Draft are being reviewed by AcSEC and the Financial Accounting Standards Board. Depending on the nature, scope, and merits of the comment letters, the Exposure Draft may be modified in part or in its entirety. Accordingly, the impact to Sony is not currently known, as it may vary significantly depending on the final Statement of Position as well as the exact date it becomes effective. For illustrative purposes, if the Exposure Draft were implemented as issued without change, as of June 30, 1999, the cumulative non-cash charge would be approximately $950 million. The date of issuance of the final Statement of Position has not yet been determined; however, as currently drafted, the earliest required implementation date for Sony would be April 1, 2000.

Other Consolidated Financial Data

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

	Three months ended June 30			
	1998	**1999**	Change	**1999**
Depreciation and amortization*	¥ 69,198	**¥ 68,506**	- 1.0%	**$ 566,165**
Capital expenditures (additions to fixed assets)	76,029	**93,406**	+ 22.9	**771,950**
R&D expenses	79,910	**90,217**	+ 12.9	**745,595**

*Including amortization of deferred insurance acquisition costs

Strategies and Outlook

In line with the previously announced plan to strengthen the Electronics business, regarding consolidation of manufacturing facilities, Sony decided during this quarter to merge video and color television plants in Malaysia. Sony continues to review restructuring its other manufacturing facilities. Separately, in July 1999, Sony announced a plan to reorganize its cellular phone business. In the U.S., this plan includes discontinuing engineering, sales, and marketing within the first half of this fiscal year and focusing on research and development of next-generation telecommunications technology. By optimizing its resources, Sony aims to strengthen its business in areas outside North America, and to reform and revitalize its cellular phone business.

Also, Sony is working to strengthen group management. In the Electronics business, Sony is transferring headquarters functions and delegating authority to three Network Companies - the Home Network Company, the Personal IT Network Company, and the Core Technology & Network Company. Research and development functions and certain other professional functions have been transferred from headquarters to the Network Companies, where Boards and Management Committees have been established as well.

Sony believes that in order to maintain its growth, it is important to build new platforms to offer via networks software assets such as music and pictures, or financial services, by utilizing its technology developed through the electronics business. In line with its network strategy, in June 1999, Sony received a Type I Telecommunications License, which allows the establishment of an independent infrastructure to offer telecommunications services in Japan, and will enter the Wireless Local Loop access system business over the quasi-millimeter and millimeter wavelength frequency bands.

In July 1999, Sony, Time Warner Inc., and CDnow Inc. jointly announced a plan to merge The Columbia House Company with the NASDAQ-listed CDnow Inc., an online retailer of CDs and other music-related products. The Columbia House Company, equally owned by Sony and Time Warner Inc., operates in the U.S., Canada, and Mexico as a direct marketer of music and videos. Subject to approval of the shareholders of CDnow Inc., the two companies will merge to become one of the world's leading online music and video sales companies. Following this transaction, Sony's share in the new company will be 37%.

In regards to the forecast for the consolidated results for the fiscal year ending March 31, 2000, in accordance with the separation of equity in net earnings (losses) of affiliated companies (refer to Note on page 1), sales and operating revenue, operating income, and income before income taxes are expected to increase slightly, however, there will be no impact on net income. Excluding the effects of this separation, income before income taxes and net income are expected to be slightly higher than the original forecast for the fiscal year ending March 31, 2000 announced in April 1999. This revised forecast reflects the following additional major factors, which were not included in the previously announced forecast:

i) Based on the actual results of the first quarter, sales of home-use PCs and digital AV equipment such as digital camcorders are expected to have a positive impact on the forecast of April 1999.

ii) There is a possibility of a loss of sales due to supply pressures in the areas of LCDs and semiconductors.

iii) Additional expenses are expected to be incurred relating to the discontinuation of engineering, sales, and marketing of the cellular phone business in the U.S.

iv) A gain relating to certain investment securities in the U.S. was realized in the first quarter, and an additional gain will be realized in the second quarter (refer to page 2).

Sony estimates that average market yen-dollar and yen-euro exchange rates for the remainder of the fiscal year ending March 31, 2000 will be approximately ¥116 and ¥125, respectively.

The Year 2000 Issue

Sony has been conducting integrated tests of internal information systems in Japan and the U.S. Such tests have been completed in the U.S. and are proceeding as scheduled in Japan. Sony's other Year 2000 plans are also proceeding as scheduled. For further information, refer to the Sony Annual Report for the year ended March 31, 1999.