do you dream in Sony?

Annual Report 2000

Year Ended March 31, 2000

SONY

TABLE OF

contents

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD–LOOKING STATEMENTS

Statements made in this annual report 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. These statements are based on management's assumptions and beliefs in light of the information currently available to it and therefore you should not place undue reliance on them. Sony cautions you that a number of important factors could cause actual results to differ materially from those discussed in the forward–looking statements. Such factors include, but are not limited to (i) general economic conditions in Sony's markets, particularly levels of consumer spending; (ii) exchange rates, particularly between the yen and the U.S. dollar, euro, and other currencies in which Sony makes significant sales or in which Sony's assets and liabilities are denominated; and (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).

FINANCIAL HIGHLIGHTS

Sony Corporation and Consolidated Subsidiaries
Year ended March 31

	Yen in millions except per share amounts		Percent change	Dollars in millions except per share amounts
	1999	**2000**	2000/1999	**2000**
FOR THE YEAR				
Sales and operating revenue	¥6,804,182	**¥6,686,661**	–1.7%	**$63,082**
Operating income	348,212	**240,627**	–30.9	**2,270**
Income before income taxes	377,691	**264,310**	–30.0	**2,493**
Net income	179,004	**121,835**	–31.9	**1,149**
Per share data:				
Net income — Basic	¥ 218.4	**¥ 144.6**	–33.8%	**$ 1.36**
— Diluted	195.5	**131.7**	–32.6	**1.24**
Cash dividends	25.0	**25.0**		**0.24**
AT YEAR-END				
Stockholders' equity	¥1,823,665	**¥2,182,906**	+19.7%	**$20,593**
Total assets	6,299,053	**6,807,197**	+8.1	**64,219**
Number of employees	185,200	**189,700**		

Notes:
1. *U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥106=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2000.*
2. *As of March 31, 2000, Sony had 1,080 consolidated subsidiaries. It has applied the equity accounting method in respect to its 81 affiliated companies.*
3. *All per share data are restated for all periods to reflect the two-for-one stock split that has become effective on May 19, 2000.*
4. *Cash dividends per share for the year ended March 31, 2000 include a dividend which is subject to approval of the Ordinary General Meeting of Shareholders to be held on June 29, 2000.*
5. *Effective with the year ended March 31, 2000, equity in net earnings (losses) of affiliated companies, which were previously included in sales and operating revenue, are shown separately below income before income taxes. As a result, sales and operating revenue, operating income, and income before income taxes figures for the year ended March 31, 1999 have been restated to conform to the presentation for the year ended March 31, 2000.*
6. *Income before income taxes and net income figures for the year ended March 31, 1999 include gains of ¥58.7 billion and ¥30.7 billion, respectively, which resulted from a contribution of securities to an outside trust for employee retirement benefit purposes.*
7. *The number of employees (including fixed-term employees) at March 31, 1999 was higher than that previously reported principally due to adjustments for undercounting.*

TO OUR shareholders

During the year ended March 31, 2000, Sony began to take major steps to refashion itself as a company that can continue to grow in the network era of the 21st century. In this sense, the year can be said to have been a significant turning point for Sony.

On a sad note, the past year was also marked by the October 1999 death of Sony's Founder and Honorary Chairman Akio Morita, a man who was instrumental to this company's growth for more than 50 years.

A REBOUND FOR THE ELECTRONICS BUSINESS AND A SUCCESSFUL INTRODUCTION OF PLAYSTATION 2

During the year under review, due to the impact of the yen's appreciation, Sony's consolidated net sales decreased 1.7% to ¥6,686.7 billion and operating income fell 30.9% to ¥240.6 billion. However, on a local currency basis, it was a year in which Sony's businesses performed well, with both consolidated sales and operating income rising. In the Electronics business, double-digit growth on a local currency basis was achieved in all four geographic areas – Japan, the U.S., Europe, and Other areas. By product category, information technology products such as VAIO

home-use PCs and digital AV products such as Digital Handycam home-use camcorders and DVD-Video players were introduced and well received, and semiconductors and electronic components also performed well. As a result, sales in the Electronics business on a local currency basis increased approximately 13%, and operating income increased 132%, compared with the previous year.

In the Game business, PlayStation 2 went on sale in Japan on March 4, 2000. The number of units shipped exceeded two million in less than three months. Considering the highly competitive nature of the Game business, we believe that the launch of PlayStation 2 was a success.

CONTINUING STRUCTURAL REFORM FOR THE NETWORK ERA OF THE 21ST CENTURY

To build on the results achieved during the year under review, Sony has defined the fiscal year ending March 31, 2001 as “Accelerating Corporate Reform – Phase 2” and has embarked on further steps to strengthen its management team, its management architecture, and the Electronics business.

At the meeting of the Board of Directors following the General Shareholders Meeting on June 29, 2000, the appointments of Nobuyuki Idei as Chairman and CEO and of Kunitake Ando as President and COO are expected to be approved. Together with the current Deputy President and CFO Teruhisa Tokunaka, they will form a new management team. In order to adapt to the era being brought about by broadband technologies, this management team will strive to accelerate development and achievement of the Sony Group's network strategies.

As President and COO, Mr. Ando will be responsible for the entire business of the Sony Group, but initially, he will focus on strengthening the core Electronics business.

To create the desired management model for the Sony Group in the network era, we will further pursue "unified dispersed" management. The group head office will set corporate management policies as well as plan and promote group-wide strategies. Concurrently, business units will be given much more decision-making authority so that each one can establish a self-reliant, autonomously operating business. The role of the group headquarters is to transform the Sony Group to meet the demands of the new era by making existing operations and management processes more network-oriented and by building new businesses rooted in networked environments. To clarify its role in spearheading Sony's realignment, we have defined the head office as eHeadquarters, or simply "eHQ". Within eHQ are the eManagement Committee, or "eMC", which will formulate networking business strategies and the eSONY Development Group, which will implement such strategies.

Regarding the entertainment businesses, we established Sony Broadband Entertainment Inc. (SBE) as a U.S. holding company for Sony Music Entertainment Inc. and Sony Pictures Entertainment Inc. in order to realign them towards the network era and to increase the value of our entertainment assets. SBE will pursue content creation and the strengthening of network distribution businesses both independently and in potential strategic alliances with other companies.

KUNITAKE ANDO
President and
Chief Operating Officer

NOBUYUKI IDEI
Chairman and
Chief Executive Officer

TERUHISA TOKUNAKA
Deputy President and
Chief Financial Officer

SONY'S NEW MANAGEMENT TEAM
Assuming shareholder approval, the appointments will become official
at the meeting of the Board of Directors to be held immediately after the Ordinary General Meeting of
Shareholders to be held on June 29, 2000.

Since the March 1999 announcement of our program to build a new group architecture for Sony in the 21st century, we have been making steady progress. To bolster and realign the Electronics business, during the year under review, we established the Home Network Company, the Personal IT Network Company, the Core Technology & Network Company, and the Communication System Solutions Network Company to develop and introduce competitive products and services. At the same time, to strengthen further these autonomous Network Companies, we have transferred management authority to them. And, we have been focusing increasingly on our key businesses, as illustrated in the cellular phone business in North America, where we have currently discontinued engineering, sales, and marketing activities but continue work in research and development. Regarding consolidation of our manufacturing plants, we reduced the number of facilities from 70 to 64 as of March 31, 2000, and we raised the efficiency of production within the Sony Group through actions including the outsourcing of the production of mature products such as alkaline batteries.

During the year ending March 31, 2001, we plan to continue focusing on our key businesses and realigning manufacturing activities, outsourcing production, building new supply chains, maintaining proper employment levels, and taking other restructuring measures. In addition, in the second half of the fiscal year ending March 31, 2001, we expect to establish new Production Platform Companies to manage manufacturing in areas such as product design, mass production, inventory management, and logistics. Upon establishing these Production Platform Companies, the role of the existing Network Companies will be redefined as Business Creation Units that will concentrate on research and development, business planning, product planning, and basic design. In this way, we plan to strengthen the functioning of both the Network Companies and the Production Platform Companies.

In January 2000, we completed the privatization of three previously listed subsidiaries, Sony Music Entertainment (Japan) Inc., Sony Chemical Corporation, and Sony Precision Technology Inc., to facilitate the implementation of our group strategy and to respond more rapidly to changing circumstances in the network environment.

To make “Value Creation Management” a reality, during the year under review, we introduced EVA®, a performance indicator that reflects the cost of capital, as a measurement tool for evaluating our performance in our Electronics business. We plan to expand EVA® to other business fields of the Sony Group starting from the fiscal year that began in April 2000 and to use it for business planning, performance monitoring, and evaluating investment. Additionally, part of the remuneration for directors and corporate executive officers became dependent on EVA® as of

April 2000. We plan to expand this system to encompass other levels of management in the following fiscal year.

AIMING TO CREATE GREATER SHAREHOLDER VALUE

At the end of March 2000, the market capitalization of Sony Corporation was ¥13 trillion, approximately three times greater than the amount at the end of March 1999, ¥4.5 trillion. We recognize that shareholders have high expectations as reflected in this increase in market capitalization.

To facilitate investment in Sony shares by individual investors, we carried out a two-for-one stock split for shareholders of record as of March 31, 2000. New shares were distributed in May to such shareholders.

We expect the challenges of the current operating environment to continue for the foreseeable future. However, as we look ahead to the age of broadband networks, we believe our new management team is fully committed to the vigorous implementation of Sony's reforms. By working to create even greater shareholder value, we pledge to do our best to meet the expectations of Sony's shareholders.

June 6, 2000

Norio Ohga
Chairman

Nobuyuki Idei
President and Chief Executive Officer

Founder and Honorary Chairman Akio Morita passed away on October 3, 1999. Since starting Sony in 1946 with Masaru Ibuka, who died on December 19, 1997 with the title of Founder and Chief Advisor, Mr. Morita remained a leader in all areas of management, including the creation of new products, marketing, overseas operations, and personnel development.

A BOUNDLESS SOURCE OF INNOVATIVE IDEAS

In 1958, Mr. Morita changed the company's name to "Sony Corporation" from "Tokyo Telecommunications Engineering Corporation". In the belief that a company's brand is its lifeblood, he worked to gain recognition for Sony around the world, an effort that led to the power of the SONY brand today.

His global perspective was also behind Sony's 1961 issuance of American Depositary Receipts, a first among Japanese companies, and the subsequent listing of Sony shares on the New York Stock Exchange in 1970.

In 1966, Mr. Morita wrote a book called *Never Mind School Records* that stressed that companies should place emphasis on the capabilities of individuals rather than academic background. This point of view raised questions regarding Japan's employment customs and sparked a heated debate in Japan.

New ideas springing from Mr. Morita's limitless curiosity led to many of Sony's best-known products. The Walkman was based on the unprecedented concept of enjoying your favorite music anywhere and anytime, even outdoors. This created an entirely new market category, compact headphone stereos designed exclusively for listening to music, that gave birth to new lifestyles.

Still pervading the Sony of today, more than 50 years after its founding, is the Ibuka-Morita belief that through distinctive R&D and products it is possible to offer customers new forms of enjoyment.

Mr. Morita wanted to globalize Sony's technology and management philosophy, making its day-to-day activities an integral part of local communities. This policy of "global localization" not only led to an extensive global expansion of Sony itself but also contributed greatly to raising the international stature of Japan's electronics industry.

REPRESENTING JAPAN AROUND THE WORLD

Mr. Morita's vitality and cheerful disposition allowed him to form a broad base of personal relationships in Japan and elsewhere. He constantly strove to build bridges between Japan and other nations, helping to build sound economic relationships and to make Japan a member of the global community. Mr. Morita clearly stated his opinions and beliefs by expressing himself frankly and in an easily understood manner and was one of only a few Japanese who could play an active role on the global stage. As such, Mr. Morita's statements always drew attention.

As a representative of Japan's business community, Mr. Morita served as a co-chair of various conferences, including the Japan-U.S. Business Council, The Trilateral Commission, and the World Economic Forum in Davos. He also helped ease trade friction with the U.S., assisting in improving Japan-U.S. relations by playing leading roles in the Keidanren (Japan Federation of Economic Organizations), the Japan-U.S. Economic Relations Group, also known as the "Wise Men's Group", and other organizations. Also, as author of *Made in Japan* and other books, he directed his energy to furthering mutual understanding between Japan and the rest of the world.

In 1998, Mr. Morita was chosen by the U.S. magazine *Time* as the only Asian member on its list of the 20 most influential business people of the 20th century.

message from the chief executive officer

Regarding the world of network businesses represented by the Internet, it can be said that the network revolution started when existing businesses were challenged by new network businesses in the mid-1990s. If this is considered to be the first phase, then the second phase of the network revolution began when existing large corporations started to enter into network business areas themselves. Now, at the dawn of the broadband network era, we are entering phase three, in which we are seeing existing businesses and network businesses cooperating and merging to create new business models.

LEVERAGING SONY'S STRENGTHS IN THE BROADBAND NETWORK ERA

Presently, music distribution services and e-commerce are readily available on the Internet. However, in the broadband network era, reams of data, including images and music, will be smoothly exchanged over high-capacity, high-speed communications infrastructures based on ADSL, cable, fiber optics, digital broadcasting, and other technologies. The day may not be far off when people can listen to a concert or watch a movie on the Internet. Also on the horizon is personal

broadcasting, whereby individuals produce and distribute their own programming globally over the web. It is precisely at this time, as broadband starts taking hold, that Sony is best positioned to leverage its strengths. Sony's Electronics business offers hardware that connects to networks. In addition, Sony can also tap a diverse range of content businesses, which can offer the creation and distribution of music, pictures, and games, as well as the provision of insurance and other financial services over networks.

NETWORKS AND THE EVOLUTION OF ELECTRONICS

In its Electronics business, Sony has positioned four product categories as gateways to the networked world: digital TVs and set-top boxes, VAIO home-use PCs, PlayStation 2, and mobile devices. Based on this gateway concept, we are upgrading our products with the aim of linking them with content and services. We want to create new ways to enjoy our products.

Sony is working to make it possible to enjoy various forms of content on both "home networks" consisting of connected electronic devices in the home, and "mobile networks", accessible through mobile terminals. Such content might be on networks and reachable through gateways, or it might be sound or image content on AV devices. For this purpose, Sony is striving to apply to electronic products technologies which allow the easy connection of digital AV devices and PCs, such as i.LINK (IEEE1394) and Memory Stick, a small-sized flash memory media that allows data recording and retrieval.

However, even in this broadband network era, one fact about Sony remains the same: our fundamental philosophy of supplying products that are fun to use.

We are convinced that users value hardware, in the form of electronic products, as well as content and services. Sony has proven itself adept at conceiving tasteful designs, easy-to-use functions, and product concepts that are new and exciting. By making use of this aptitude for technology and know-how, we expect to continue to create appealing products.

CONTENT AND SERVICES

In order to increase the value of content like music, pictures, and TV programs in the broadband network era, Sony will concentrate on bolstering its content production and network distribution operations, a mission that may include strategic alliances outside the Sony Group. For this purpose, Sony created a flexible entertainment business structure by establishing Sony Broadband Entertainment Inc., as a U.S. holding company for Sony Music Entertainment Inc. and Sony Pictures Entertainment Inc., in April 2000.

broadband networks

Sony has financial subsidiaries including Sony Finance International, Inc., Sony Life Insurance Co., Ltd., and Sony Assurance Inc. and believes that such financial services can be defined as a type of network business. In the area of network banking, Sony is in the process of establishing a "net bank" with the idea of offering convenience in the network era. Sony considers this net bank to be a very strategic project in the carrying out of Sony's network business strategy. Sony envisions net-based financial services as a business sector alongside electronics and entertainment and will be offering a growing selection of competitive services within a network environment.

BUILDING NETWORK PLATFORMS

For the distribution of content and the provision of services over networks, in addition to e-commerce of hardware such as electronic products, it is important to build network platforms that tie together hardware, in the form of gateways, with such content and services.

Sony's Internet service provider So-net, which has been operating in Japan since 1996, offers network-based content and services. So-net aims to become a widely recognized brand in the media industry by offering new value-added services such as combining broadcasting content with the Internet.

In Japan, Sony is involved in e-commerce through PlayStation.com, a site started to coincide with the launch of PlayStation 2 to sell both hardware and software. In the near future, we intend to begin distributing various content and services such as game software directly over the Internet.

In February 2000, Sony established SonyStyle.com in Japan to conduct marketing and sales of Sony products and to offer related services. We will offer products and services together that meet the needs and preferences of customers who can access the site through personal computers and mobile telephones.

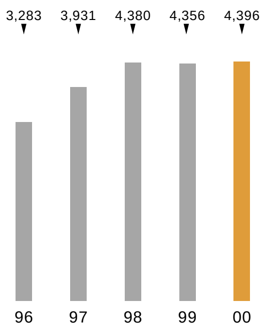
CREATING SHAREHOLDER VALUE IN THE BROADBAND NETWORK ERA

While accelerating strategies aimed at the broadband network era, we are striving to reinvigorate and to strengthen the fundamentals of the core Electronics business by applying information technologies to product design, production, distribution, and sales. As Sony's music, pictures, game, and financial services are offered over networks, we believe the value of such content and services can increase. As a hardware company and a provider of content and services, we think we have many opportunities to create greater shareholder value within the Sony Group in the broadband network era.

BUSINESS overview

ELECTRONICS

Sales to Customers*
(Billion ¥)



Electronics business consists of Audio, Video, Televisions, Information and communications, and Electronic components and other.

AUDIO—Audio encompasses MD systems, CD players, headphone stereos, personal component stereos, hi-fi components, radio-cassette tape recorders, tape recorders, IC recorders, radios, headphones, car audio, professional-use audio equipment, audiotapes, and recordable MDs.

VIDEO—Video comprises 8mm/Digital8-, DV-, and VHS-format VTRs, DVD-Video players, digital still cameras, broadcast- and professional-use video equipment, and videotapes.

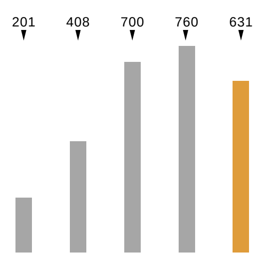
TELEVISIONS—Televisions includes color TVs, projection TVs, flat panel displays, personal LCD monitors, car TVs, and professional-use monitors/projectors.

INFORMATION AND COMMUNICATIONS—Information and communications consists of computer displays, personal computers, computer peripherals, data media, IC recording media, satellite broadcasting reception systems, cellular phones, telephones, car navigation systems, and video printers.

ELECTRONIC COMPONENTS AND OTHER—Electronic components and other consists of semiconductors, LCDs, electronic components, CRTs, optical pickups, batteries, FA systems, and an Internet-related business in Japan.

GAME

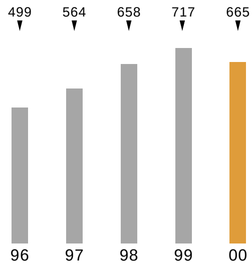
Sales to Customers*
(Billion ¥)



Game consoles and software business is conducted mainly through Sony Computer Entertainment.

MUSIC

Sales to Customers*
(Billion ¥)



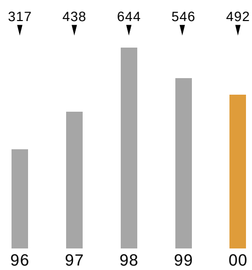
Music business is conducted through Sony Music Entertainment Inc. (SMEI) and Sony Music Entertainment (Japan) Inc. (SMEJ).

SMEI encompasses Columbia Records Group; Epic Records Group; Legacy Recordings; LOUD Records; New Technology and Business Development; Sony/ATV Music Publishing; Sony Classical; Sony Discos; Sony Disc Manufacturing; Sony Music Distribution; Sony Music International; Sony Music Nashville; Sony Music Special Products; and Sony Music Studios.

SMEJ encompasses Sony Records; Epic Records; Ki/on Records; SMEJ Associated Records; and SMEJ International.

PICTURES

Sales to Customers*
(Billion ¥)

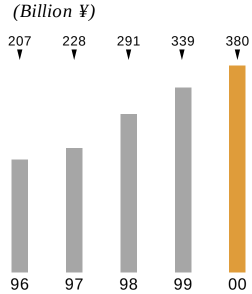


Motion picture and television business is conducted mainly through Sony Pictures Entertainment (SPE).

SPE includes the Columbia TriStar Motion Picture Group (Columbia Pictures, Screen Gems, Sony Pictures Classics, Sony Pictures Releasing, Columbia TriStar Film Distributors International); the Columbia TriStar Television Group (Columbia TriStar Television, Columbia TriStar Television Distribution, Columbia TriStar International Television, Game Show Network); Columbia TriStar Home Video; Sony Pictures Digital Entertainment; the Digital Studios Division; and Sony Pictures Studios and The Culver Studios.

INSURANCE

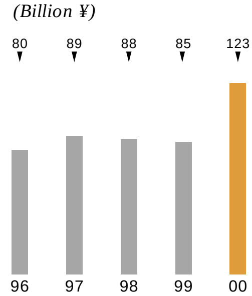
Revenue from Customers*
(Billion ¥)



Insurance business is conducted mainly through Sony Life Insurance Co., Ltd. and Sony Assurance Inc.

OTHER

Sales to Customers*
(Billion ¥)



Other business includes leasing and credit card businesses, satellite distribution-related businesses in Japan, development and operation of location-based entertainment complexes, and other businesses.

* *Year ended March 31*

A new addition to the Digital Handycam home-use camcorder series, this unit features a 1.07 mega-pixel CCD, a 3.5-inch LCD monitor, and up to 8 hours of continuous recording.

BUSINESS REVIEW

► electronics

As the world stands on the verge of a full-fledged network era catalyzed by broadband technology, the four Network Companies that carry forward Sony's Electronics business have been striving to offer customers new forms of enjoyment and lifestyles by developing broadband-ready AV products and network platforms. At the same time, the Network Companies have been steadily implementing the structural reorganization announced during the previous fiscal year, which involves focusing on key businesses, consolidating manufacturing plants, and maintaining proper employment levels.

SHIZUO TAKASHINO
NC President
Home Network Company

KATSUMI IHARA
NC President
Personal IT Network Company

SUEHIRO NAKAMURA
NC President
Core Technology & Network Company

JUNICHI KODERA
NC President
Communication System Solutions Network Company

FOUR NETWORK COMPANIES BOLSTER AND EXPAND THE ELECTRONICS BUSINESS

Major product areas of the Home Network Company (HNC) include color TVs, video decks, and audio. During the year ended March 31, 2000, HNC increased sales of Wega color TVs, which feature flat-surface cathode-ray tubes (CRTs), by expanding the product line. Also, by making efforts to introduce new products, HNC increased sales of new digital AV products such as large-screen, high-resolution projection TVs and DVD-Video players, which together can be easily enjoyed as a home theater system. In video decks, sales weakened as competition exerted downward pressure on prices and the market continued to mature. Halting color TV production in Germany at the end of December 1999 was one way in which HNC reorganized its existing operations.

While shifting AV product lines from analog to digital, HNC is also creating new forms of fun within the context of digital networks. During the year under review, HNC began selling the Memory Stick Walkman in Japan and the U.S. The unit incorporates Sony's MagicGate Memory Stick IC recording media, which protects copyrighted material. It is easily portable and almost impervious to shocks. In the U.S., HNC entered into alliances with TiVo, Inc., which offers an automatic recording service whereby customers can personalize their TV viewing, and with Cablevision Systems Corp., which provides cable TV service in the New York metropolitan area. In May 2000, HNC began selling digital network recorders that store TV programs on a hard disk and are designed for TiVo's service. For Cablevision Systems, HNC plans to supply approximately three million digital set-top boxes which can deliver video-on-demand of movies and television programs, interactive games, and other forms of entertainment.

This Memory Stick Walkman, which went on sale in December 1999, employs a MagicGate Memory Stick to offer a new way to enjoy music. This IC recording media incorporates technology to prevent unauthorized copying, making the Walkman the industry's first product to conform to SDMI (Secure Digital Music Initiative) standards for the protection of digital music content.

The main products of the Personal IT Network Company (PNC) include home-use camcorders, digital still cameras, telecommunications products, home-use PCs, and related products. During the year under review, in place of sales of 8mm analog camcorders, sales of DV format camcorders and Digital8 camcorders, which record and playback digital format as well as playback analog recordings on 8mm tape, were strong. Sales of VAIO home-use PCs, which feature unique functions and stylish exteriors, posted dramatic increases in Japan, the U.S., and Europe. Digital still cameras using the IC recording media Memory Stick or floppy disks to store pictures also performed well. On the other hand, in the North American digital cellular phone business, where results have been consistently weak, at the end of September 1999 PNC ceased engineering, sales, and marketing activities, excluding research and development and after-sales service. PNC instead shifted resources to the Japanese and European cellular phone markets as part of its drive to become more focused.

To create new forms of enjoyment in the digital network era, PNC aims to develop new product categories. In November 1999, PNC started collaborating with Palm Computing, Inc. of the U.S. to develop a next-generation platform for handheld consumer electronics products equipped with AV functions. The first model is scheduled to go on sale during the second half of the fiscal year ending March 31, 2001.

The Core Technology & Network Company (CNC) encompasses semiconductors, storage media, batteries, electronic components, computer peripherals, circuit boards, factory automation systems, and related businesses. During the year under review, CNC worked with Sony Computer Entertainment to initiate volume production of several key devices for PlayStation 2, including the critical semiconductor Graphics Synthesizer image rendering engine as well as a dual-wavelength semiconductor laser and an optical pickup, both of which are compatible with the DVD and CD formats. In addition, sales of semiconductors for digital AV products and CD-R/RW drives for computers were strong. Seeking to raise efficiency in existing businesses, CNC decided to entrust the production of CD-ROM drives to OEM suppliers and to outsource production of alkaline batteries to FDK Corporation.

Steps are being taken to heighten CNC's competitive edge in optical pickups, charge-coupled devices (CCD), and other sectors where the company ranks among the world's leading suppliers. At the same time, CNC is working at selecting and focusing its businesses and bolstering operations in existing product sectors. Plans call for improving profitability by aggressively stepping up the supply of products for both internal and external use. Another goal of CNC is to supply the key next-generation devices needed to make AV products for digital networks more appealing. In these ways, CNC is determined to play a role in increasing shareholder value for the Sony Group.

Introduced during the year, this top of the line Wega color TV with a flat-surface CRT has been an enormous success in the U.S. Sony is striving to expand the product lineup of the Wega series worldwide.

The Communication System Solutions Network Company (CSNC) was formed in October 1999 from the integration of the Broadcasting & Professional Systems Company (B&P) and the Digital Network Solutions (DNS) unit. CSNC unifies two valuable resources: the technical and marketing expertise that B&P had built up over many years in the broadcast- and professional-use video equipment market, and the expertise of DNS in networking and distribution platform technologies and network services. CSNC intends to strengthen its current businesses while developing new broadband network businesses.

In broadcast-use video equipment, Sony is the acknowledged industry leader around the world. Sony offers a complete lineup of systems covering everything from acquisition of images to editing and transmitting. During the year under review, CSNC received a ¥1.7 billion order from NBC, one of the four big U.S. TV networks, for digital broadcasting equipment including MPEG IMX video tape recorders (VTR). CSNC also received orders from Bayerischer Rundfunk of Germany and Osterreichischer Rundfunk of Austria for various types of MPEG IMX equipment, including VTRs and camcorders for creating next-generation digital broadcasting systems. In the area of high definition equipment, CSNC received a large order for Sony's HDCAM studio production equipment from Mexico's largest media company, Televisa Group. Televisa Group will be the first company to implement an HDCAM based studio in Latin America. Furthermore, regarding digital 24-frame progressive high definition HDCAM 1080/24P production systems, CSNC received an order for ¥1.9 billion of camcorders and related equipment from Panavision Co., a major U.S. supplier of cameras and other equipment to the movie and television industries. Movie director George Lucas announced plans to use the HDCAM format video system in the production of the next *Star Wars* film, *Episode II*. By introducing the HDCAM 24P system, Sony is working to bring about a new era of digital electronic cinematography in which motion picture production shifts from the previously used film to digital systems. Separately, in an effort to increase production efficiency, the manufacture of broadcast-use video cameras in the U.S. was discontinued in December 1999 and transferred to a facility in Europe.

Sony cellular phones allow reliable data communications and easy network connections. Shown above, from right, are three cellular phones that Sony introduced in Japan: a PDC model compatible with the i-mode service and two cdmaOne™ models compatible with EZWeb or EZAccess services. Also, a GSM cellular phone for WAP (Wireless Application Protocol) services was introduced in Europe.

As for new businesses, CSNC started to offer a digital asset management system which allows broadcasters to preserve digitally large volumes of stored visual content and to search, manage, and distribute such content. Because demand is high for systems such as this one, which was ordered by the U.S. broadcaster CNN, not only in the broadcast-use market, but also in the professional-use market, CSNC intends to expand such solutions work as one of its core businesses.

In the area of professional-use video equipment, CSNC's new business-use projector, which can be carried with ease thanks to its small size and light weight, has received a favorable reaction from the market and created a new style for mobile presentations. Regarding video conferencing systems, CSNC's new smallest class-size high cost performance model has been very well received.

In July 2000, Sony plans to start offering a corporate broadband Internet service called "bit-drive" in Japan through a broadband telecommunications infrastructure using WLL (Wireless Local Loop). This service takes advantage of WLL's ability to interactively transmit at high-speed large volumes of data, yielding a network that is extremely flexible. It can provide a total solutions service to customers by bringing together hardware, services, and content.

In the growing field of electronic money, Sony's FeliCa electronic money system, composed of Sony-developed non-contact IC cards and reader/writers, has been operating at office buildings in Tokyo since June 1999. The cards have been used as employee ID and office access cards as well as money.

Since its January 1996 start, Sony Communication Network Corporation's (SCN) So-net has rapidly grown into one of Japan's largest internet service providers. Members numbered approximately 1.28 million as of May 2000. Efforts to improve convenience continued during the year under review. In addition to credit cards, the Smash Internet settlement platform, which SCN and Sony Finance International, Inc. codeveloped, now accepts debit transactions using bank ATM cards. Furthermore, with the aim of building new business models to broaden services, SCN formed several alliances in the e-commerce field. For example, SCN has invested in Entertainment Plus Co., Ltd., which sells entertainment-related tickets over the phone and Internet, and Skygate Co., Ltd., which provides travel products, services, and information over the Internet. Also, SCN has started supplying networking services to Sony Music Entertainment (Japan) Inc. for its "bitmusic" electronic music distribution service. To attract more So-net members, SCN is working to further its high value-added connection services and to expand its range of content and e-commerce services. Looking towards the broadband network era, SCN hopes to create a new form of entertainment that integrates broadcasting and Internet technologies by participating in a communication satellite broadcasting venture.

SONY'S AIM TO OFFER NEW FORMS OF ENJOYMENT IN THE NETWORK ERA

Sony is going all out to develop the core technologies and software needed to make possible new forms of enjoyment in which hardware is linked to networks. Illustrating this was the broad range of Memory Stick products which Sony introduced during the year ended March 31, 2000. Sony's Memory Stick is an IC recording media capable of storing audio, video, and other data. During the year, Sony introduced Digital Handycam home-use camcorders, VAIO home-use PCs, digital still cameras, and an IC recorder with Memory Stick slots. Other introductions were a digital photo frame to view still images and a Memory Stick Walkman. The Memory Stick Business Center, which operates within the Electronics business to coordinate the adoption of this new media in all of Sony's Network Companies, is working to set the stage for more products that will further expand Memory Stick applications. At the same time, the Center is contacting other companies in many business fields to propose ways to make use of the Memory Stick format.

HDCAM camcorders for broadcasting- and professional-use can record high-definition images on a compact, half-inch videotape, thus greatly simplifying shooting and other tasks. Picture quality on a par with film and the convenience of digital technology have earned this camera high marks. *Star Wars: Episode II* is expected to be filmed using HDCAM equipment.

To protect copyrighted material, Sony developed the OpenMG and MagicGate technologies. These technologies were the first in the world with the capability to control unauthorized use of copyrighted music handled by electronic distribution services. During the year under review, Sony began selling the Memory Stick Walkman and VAIO Music Clip, both of which employ these technologies. By using a PC to transfer music to either of these devices, a user can easily enjoy such content downloaded from the Internet or uploaded from a CD.

To take advantage of the rapid acceptance of digital networks, Sony has started building a direct sales system using the Internet. In the U.S., Sony's VAIO Direct site has been selling configure-to-order VAIO home-use PCs since February 1999. Sony also sells batteries, headphones, and other AV accessories in the U.S. directly to customers through the Xtras Direct site. During the year under review, VAIO Online sites were established in Hong Kong, Singapore, and Malaysia to sell VAIO notebook PCs.

During the year under review, Sony established the Sony Style Internet site in Japan and Europe and began direct Internet sales of Sony products. In Japan, Sony is using this e-commerce platform to cater to individual customer preferences by selling selected products and combinations of products exclusively at this site.

Sony plans to take on the challenge of devising new network-based marketing techniques. For example, based on preferences gathered through e-commerce transactions, Sony can supply each customer with information tailored to his or her needs. Furthermore, in Japan, Sony is striving to build a system in which Sony Shops and other existing retailers will be able to deliver, install, and repair products purchased directly by consumers over the Internet.

The PlayStation 2 game console employs nine devices produced internally within the Sony Group. Shown above are, from right, a dual-wavelength semiconductor laser coupler with DVD / CD compatibility, the Graphics Synthesizer image rendering engine, and an optical pickup.

Sony remains committed to making its current businesses more competitive while launching new network-based ventures. Sony is working both to develop hardware products that allow the convenient enjoyment of large volumes of content without troublesome operation and to put together a framework for high-speed content distribution and interactive networking services. In this way, Sony is determined to create new markets for the age of broadband networks.

The revolutionary computer entertainment system PlayStation 2.

BUSINESS REVIEW

game

MESSAGE FROM TOP MANAGEMENT

Sony Computer Entertainment's (SCE) revolutionary computer entertainment system PlayStation 2 made its debut in Japan in March 2000. Not only does PlayStation 2 possess impressive image rendering capabilities, but also with backwards compatibility with PlayStation titles and an ability to play DVD-Video software, PlayStation 2 is designed to enable a broad audience to enjoy a wide variety of entertainment in the comfort of their homes. After its debut, PlayStation 2 console production shipments reached two million units in less than three months, and PlayStation 2 software sales have been brisk. At the same time, PlayStation 2 has spurred growth in Japan's DVD-Video software market as well. SCE is now preparing for the launch of PlayStation 2 in North America and Europe in October 2000.

By leveraging the PlayStation and PlayStation 2 platforms, SCE, along with enhancing the existing world of gaming entertainment, aims to create a new world of computer entertainment that integrates games with movies and music. At the same time, SCE is taking actions to be a leading company in the computer entertainment world in the coming broadband network era.

KEN KUTARAGI
President and Chief Executive Officer
Sony Computer Entertainment Inc.

EXPANDING THE PLAYSTATION FORMAT WORLDWIDE

Since its launch in December 1994, PlayStation has become the world's leading home game console, enjoying enormous popularity in Japan, North America, and Europe. By the end of March 2000, cumulative production shipments worldwide of PlayStation consoles had reached approximately 72.92 million units: 17.40 million units in Japan, 27.11 million units in North America, and 28.41 million units in Europe.

Various software developers and publishers in Japan and other countries have continued to release a steady stream of captivating titles in each region, including such mega-hits as *BioHazard 3~LAST ESCAPE~* by CAPCOM CO., LTD. in Japan, *Final Fantasy VIII* by Square Electronic Arts L.L.C. of the U.S. in North America, and *FIFA 2000* by Electronic Arts Inc. in Europe. SCE's *Gran Turismo 2*, which was a smash hit in Japan, subsequently became a bestseller in North America and Europe, lifting worldwide cumulative unit sales of this title over the 5 million mark.

ADVANCED SEMICONDUCTOR FABS AT THE HEART OF PLAYSTATION 2

SCE has established production facilities in Japan for the semiconductors at the heart of PlayStation 2, a 128-bit CPU called the EmotionEngine and a massively parallel rendering engine called the Graphics Synthesizer. For the EmotionEngine, SCE formed a joint venture with Toshiba Corporation, building a new production line with next generation 0.18-0.15 micron process technology at a Toshiba plant in Oita, Japan. For the Graphics Synthesizer, SCE built Fab1, a plant adjacent to Sony Nagasaki Corporation, equipped with 0.18 micron embedded process technology. Initial capital expenditures for the production of the EmotionEngine and the Graphics Synthesizer, are about ¥130 billion, approximately ¥110 billion of which was incurred during the year under review. Furthermore, in order to meet the expected enormous demand for PlayStation 2 in Japan, North America, and Europe, SCE decided to make additional investments of approximately ¥125 billion for both increasing production on the existing lines, as well as construction of a new Fab2 facility.

PLAYSTATION.COM (JAPAN) BEGINS DIRECT MARKETING

In February 2000, SCE established PlayStation.com (Japan) Inc. (URL: www.jp.playstation.com). On February 18, 2000, the company began direct sales of products over the Internet (e-commerce), including PlayStation 2 consoles as well as PlayStation 2 software, DVD-Video software, and other related products. The new site achieved sales of approximately 500,000 PlayStation 2 consoles by the end of March 2000, and has become one of the top e-commerce sites in Japan.

Furthermore, in March 2000, PlayStation.com (Japan) Inc. increased its capital through a third party allotment from companies including seven content companies, NAMCO LIMITED, Konami Co., Ltd., SQUARE CO., LTD., ENIX CORPORATION, CAPCOM CO., LTD., Bandai Co., Ltd., and KOEI Co., Ltd., as well as Seven-Eleven Japan Co., Ltd., Culture Convenience Club Co., Ltd., DIGICUBE CO., LTD., Happinet Corporation, and NTT DoCoMo, Inc.

MOVING INTO THE BROADBAND NETWORK AGE

SCE is currently preparing for a 2001 start of digital distribution of content (e-distribution) by using PlayStation 2 as a network terminal. This service, by connecting a PlayStation 2 console to a broadband network such as a CATV system, is designed to offer wide-ranging forms of enjoyment and enable users to download directly PlayStation 2 software and to engage in interactive communication. In order to expand the PlayStation and PlayStation 2 formats, SCE plans to embark on a growing array of broadband network initiatives with a variety of leading partners.

Ricky Martin's English-language album debuted at #1 on the Billboard 200 chart with the highest first-week sales in Columbia Records history.

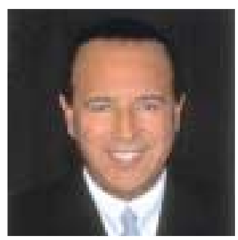
BUSINESS REVIEW

► music

MESSAGE FROM TOP MANAGEMENT

During the year ended March 31, 2000, Sony Music Entertainment Inc. (SMEI), responsible for Sony's Music business outside Japan, continued to emphasize artist development by cultivating new A&R sources globally and introducing local successes into other territories. As a result, the company earned record revenues on a U.S. dollar-basis, increased market share, and ushered in a new era of acceptance and excitement for Latin popular music with mainstream audiences worldwide.

In concert with Sony's vision for the network era, we strengthened our network distribution business to encompass the retail, advertising, and music licensing communities and began bringing streaming audio and video channels to broadband through Sony Music Online. SMEI finalized the infrastructure to support Sony's introduction of SDMI (Secure Digital Music Initiative) compliant portable digital devices with commercial downloading of titles from online retail and Sony sites. We also acquired and invested in digital media companies we believe will help define the direction of digital entertainment. Strategically, SMEI is positioned to fulfill the promise of the digital era and continue as one of the leading entertainment companies in the world.



THOMAS D. MOTTOLA
Chairman and
Chief Executive Officer
Sony Music Entertainment Inc.

HIGH NOTES

During the year, *All The Way – A Decade of Song* by Celine Dion and *Ricky Martin* sold more than 15 million and 14 million units worldwide, respectively, while aggregate sales of new albums by Marc Anthony, Mariah Carey, Destiny's Child, Dixie Chicks, Macy Gray, Jamiroquai, KoЯn, Jennifer Lopez, Rage Against The Machine, Savage Garden, and Will Smith eclipsed 50 million units.

ARTIST DEVELOPMENT

During the year, debut albums by Jennifer Lopez and Macy Gray underscored SMEI's artist development successes with sales of approximately 5.1 million and 4.5 million units, respectively, while second albums by Fiona Apple, B*Witched, Charlotte Church, Destiny's Child, Dixie Chicks, Mobb Deep, Savage Garden, Will Smith, and Travis cumulatively sold more than 25 million units. Debut recordings by Blaque, Mandy Moore, and Jessica Simpson each surpassed sales of one million units.

INTERNATIONAL GROWTH

During the year, SMEI launched a wholly-owned subsidiary in Russia, expanded its activities in Asia and the Middle East, invested in Diesel Music (Scandinavia) and acquired the independent record labels Luna Music (Mexico) and RTI (Italy). International growth was fueled by global hits and regional bestsellers from CoCo Lee, Nakarin Kingsak, and Sheila on 7, and the *Phir Bhi Dil Hai Hindustani* and *Dil Hi Dil Me* soundtracks (Asia); Claudio Baglioni, Frances Cabrel, Adriano Celentano, and Fatboy Slim (Europe); and Ricardo Arjona, ZeZe di Camargo & Luciano, Chayanne, Elvis Crespo, and Alejandro Fernandez (Latin America).

CLASSICAL MUSIC

Aggregate multimillion sales of Charlotte Church's *Voice of an Angel* and *Charlotte Church*, together with sales of the *Star Wars – Phantom Menace* soundtrack, positioned Sony Classical as the leading classical music label in the U.S. during the year. The division won its third consecutive Academy Award® for Best Original Score with John Corigliano's score for *The Red Violin*.

MUSIC PUBLISHING

During the year, Sony/ATV Music Publishing acquired the Alabama, Lowery Music Company, and Web IV catalogues; completed administration agreements with Marc Anthony, Ruben Blades, Graham Nash, Bruce Springsteen, and Trimark Pictures; and extended agreements with Babyface, the Miles Davis estate, Neil Diamond, Bob Dylan, Fox Film Music, and Sarah McLachlan.

► SONY MUSIC ENTERTAINMENT (JAPAN) INC. (SMEJ)

SMEJ continues to strive vigorously to improve business efficiencies. During the year under review, in the music business, SMEJ has been focusing and concentrating resources related to artist development and marketing costs. During the year, hits included releases by L'Arc~en~Ciel and other artists.

SMEJ has also been striving to adapt to the network era. During the year, SMEJ launched the Internet site "bitmusic" in Japan, thus starting the world's first electronic music site offering distribution compatible with the SDMI copyright-protection initiative.

The holiday hit ***Stuart Little***, blending live action and state-of-the-art computer generated imaging, presents opportunities to extend an exciting new brand over multiple product lines and platforms.

BUSINESS REVIEW

►pictures

MESSAGE FROM TOP MANAGEMENT

For the year ended March 31, 2000, we took key steps to position Sony Pictures Entertainment (SPE) as the premier content provider in Sony's quest to be the world's broadband entertainment leader.

We created a strategic business unit, Sony Pictures Digital Entertainment, to oversee our digital initiatives for the networked entertainment age. We delivered strong financial results from several film releases, home video titles, and television shows. For the third straight year, we increased SPE's profitability on a U.S. dollar-basis.

In our Motion Picture group, we had three big box office hits and delivered a consistent stream of motion pictures into our global distribution pipeline.

In our Television group, our game shows contributed strongly to earnings. We strengthened our local-language programming and remained the leading independent supplier in the U.S. market.

In digital entertainment, our Imageworks production center delivered an Academy Award® nomination for the lifelike animated mouse in the hit film *Stuart Little*. Imageworks is a key strategic asset, creating digital characters for motion pictures and other entertainment platforms. In addition, we extended our presence in the fast-growing digital video disc format, DVD.

JOHN CALLEY
Chairman and Chief Executive Officer
Sony Pictures Entertainment Inc.

THE DIGITAL & BROADBAND ENTERTAINMENT FUTURE

To help fulfill our strategic role in the Sony Group, Sony Pictures Digital Entertainment is aligning SPE's digital production, online content, and interactive gaming services to deliver next-generation broadband entertainment.

This new business unit supervises computer-generated imaging and digital production of original content for motion pictures, television, and online users. It is charged with developing new forms of interactive programming, supporting our drive to offer video downloading, and delivering interactive television and other digital services over emerging broadband networks.

During the year under review, we brought new interactive services, online content, and digital distribution to life. We launched interactive versions of *Wheel of Fortune* and *Jeopardy!* and original interactive programming on our cable channel Game Show Network.

MOTION PICTURE & HOME VIDEO PERFORMANCE

Columbia Pictures delivered box office hits with *Big Daddy*, *Stuart Little*, and *Blue Streak*, and our films received a total of nine Academy Award® nominations. Our movies captured two Oscars® – Best Supporting Actress for Angelina Jolie in Columbia Pictures' *Girl, Interrupted*, and Best Foreign Film for Sony Pictures Classics' *All About My Mother*.

Big Daddy and *Blue Streak* drove strong home video sales, while prior-year films *I Still Know What You Did Last Summer*, *The Mask of Zorro*, and *Cruel Intentions* performed well in different markets and formats. We also continued to leverage our film library of nearly 4,000 titles.

SPE's Screen Gems brand, which produces low-budget, targeted films, delivered a critical and financial success with its first release, *Arlington Road*.

With VHS transitioning to DVD, Columbia TriStar Home Video increased revenues in a challenging market environment. During the year under review, SPE issued more than 400 DVD titles and shipped more than 17 million units worldwide.

Our foreign-language productions showed strength, with *Not One Less*, a Chinese-language film, winning the Venice Film Festival Best Picture honors.

CONTINUED TELEVISION LEADERSHIP

Columbia TriStar Television reported strong earnings. Our game shows *Wheel of Fortune* and *Jeopardy!* and soap operas *Days of Our Lives* and *The Young & The Restless* remained among the top-ranked shows in their categories.

We remain the leading independent supplier in North America, with 33 programs – including 20 network prime-time series, among them *Family Law*.

We increased our focus on international channel operations, and for the first time we produced more programming hours internationally than we did in North America. The Japanese animation channel ANIMAX and action channel AXN were highly popular on the SKY PerfecTV! platform, and SET India ranked as India's leading cable channel.

With more than 35,000 episodes of 400 television series and 40,000 game show episodes, Columbia TriStar Television's library is the industry's largest and continues to deliver strong revenues for SPE.

Sony Life differentiates itself through its Lifeplanners who use both their extensive financial consulting training and sophisticated computer software to create customized solutions tailored for individual customers' present and future requirements.

BUSINESS REVIEW

insurance

MESSAGE FROM TOP MANAGEMENT

The basic mission of Sony Life Insurance Co., Ltd., to ensure the financial security and stability of our customers by offering effective life insurance and quality services, closely mirrors the philosophy of the entire Sony Group: making peoples' dreams come true. Due to our consulting-driven sales activities being well received by customers ever since the start of our operations, life insurance-in-force has steadily risen. Through the years, we have concentrated all our efforts on bolstering our operating base and the soundness of our management. As a result, not only have we maintained one of the highest solvency margin ratios among Japanese life insurers, but we have also received high ratings from rating agencies in Japan and overseas. Aiming to apply our life insurance expertise in countries other than Japan, our newly established subsidiary Sony Life Insurance (Philippines) Corporation began operations in that nation in November 1999. By taking advantage of the opportunities created by deregulation in Japan, Sony Life will work to expand its business, focusing on areas where we believe we can best leverage the resources of our core life insurance business.

KEN IWAKI
President and Chief Operating Officer
Sony Life Insurance Co., Ltd.

SUSTAINING BOTH GROWTH AND FINANCIAL SOUNDNESS

In recent years, insurance-in-force and total assets at Japan's life insurers have in general been declining. Nevertheless, Sony Life has sustained high growth rates in both categories. As of March 31, 2000, Sony Life's solvency margin ratio was 1,437%. This is many times greater than Japan's administrative guideline of 200% for life insurers and one of the highest of any life insurance company in Japan. Reflecting an excellent reputation for growth, profitability, quality of assets, policyholder reserves, and other financial attributes, Sony Life was rated AA- IFS (Insurer Financial Strength) as of May 2000 by the U.S. rating agency Standard & Poor's.

SALES ORGANIZATION

Sony Life's sales organization is distinguished most of all by its expertise in formulating life insurance plans tailored to the needs of each customer and offering well-considered advice through its Lifeplanners, who are well-trained in financial consulting. The Lifeplanners, critical to Sony Life's growth, numbered 4,440 as of March 31, 2000. These professionals are supported by a network of 97 Lifeplanner branch offices, 26 regional sales offices, and 1,572 independent agencies throughout Japan.

During the year ended March 31, 2000, Sony Life realigned the management system for branch offices and independent agencies in Japan and adopted a regional operating structure. These changes make possible the formulation of sales strategies closely attuned to local requirements.

AIMING TO BE THE COMPANY THAT CUSTOMERS CHOOSE FIRST

Sony Life remains committed to its long-standing policy of focusing on consulting-driven sales activities offered through its Lifeplanners. To complement this organization and better meet customers' needs, Sony Life offers direct sales of certain financial products through the Internet and its call center.

Direct sales of mutual funds through its call center began in April 1999. In addition, in a first for the Japanese life insurance industry, from October 1999, Sony Life has offered customers the ability to access their accounts over the Internet for purchases, sales, fund switching, and balance information.

Furthermore, Lifeplanners began selling the *Global Wrap* in February 2000. *Global Wrap* meets customers' needs by offering a choice of many mutual funds. Customers enter into an agreement with an asset management company under which detailed fund management reports and investment advice are supplied every three months. These efforts demonstrate Sony Life's commitment to becoming the first choice of customers.

► SONY ASSURANCE INC.

Sony Assurance Inc., a wholly-owned non-life insurance subsidiary of Sony Corporation, began operating in October 1999. Using a direct marketing model tailored to today's networked society, the new company is working to build a new type of relationship between customers and an insurer.

During the year under review, Sony Assurance started selling "one on one" brand automobile insurance directly to individuals by telephone and over the Internet. In a first for an auto insurer in Japan, Sony Assurance offers a "one step application" service. Customers can accomplish all steps, from obtaining a quotation through applying for and purchasing automobile insurance on the company's homepage. As of March 31, 2000, more than 6,000 policies had been sold using this service. Beyond the convenience of the Internet, Sony Assurance also provides policies offering upgraded protection, a negotiation service available on weekends, which is another Japanese industry first, and many other attributes that have drawn a steady stream of customers.

Looking ahead, Sony Assurance intends to design its products and services to reflect the preferences of customers even more closely, embodying the high quality and reliability that people have come to expect from the Sony brand.

TOPICS ►

electronics►

During the year under review, Sony introduced the entertainment robot AIBO, in Japan, the U.S., and Europe, creating a new type of robot entertainment. AIBO is able to communicate with people through its rich variety of emotions and expressions, as well as its ability to learn.

Sony's MD DISCAM, a MiniDisc (MD) AV recorder, stores moving images on a disc, the same size as an MD disc but with a large recording capacity, allowing users to edit material with ease by using a touch panel. No PC connection is necessary.

Based on ergonomics, this slim and stylish LCD monitor is crafted to provide the most comfortable viewing angle. It incorporates speakers with a wide-stereo function that are small yet deliver dynamic sound.

This high-fidelity compact component stereo system saves space and is a handsome addition to any room. This model employs a newly-developed vertical disc-loading system making the discs themselves a visual highlight of the system.

A compact-sized DVD-Video player that can be positioned vertically or horizontally.

This Xplod car audio speaker system, which delivers dynamic sound, reflects the pursuit of high-fidelity sound.

In addition to a DVD-Video playback function, this VAIO desktop PC has a full range of audio capabilities: an MD deck, FM text tuner, power amplifier, and speakers.

Sony's VAIO Music Clip portable music player incorporates copyright protection technology and makes it possible to enjoy music from such sources as the Internet and CDs through a VAIO home-use PC. A Sony-developed sound compression technology delivers excellent sound quality equal to an MD system.

This home-use camcorder based on the Digital8 format can record and playback in digital format as well as playback analog recordings on 8mm tape. Still images can be recorded on the Memory Stick IC recording media for easy transfer to PCs or Memory Stick compatible AV devices.

This VAIO notebook PC incorporates a network connector, which dispenses with the need for an adapter, as well as Sony's unique Jog Dial control and many other features.

A CCD with 3.34 mega-pixel resolution, a 3X Carl Zeiss optical zoom lens, and other sophisticated features give this digital still camera outstanding imaging capabilities. Use of the Memory Stick IC recording media permits the shooting of moving images for viewing on a TV as well.

CCDs for digital still cameras (1/1.8-inch, 3.24 million pixels).

Low-temperature poly-silicon TFT LCDs.

Sony's FeliCa is a credit card-sized non-contact IC card. The FeliCa system comprises these IC cards and reader/writers. These cards have the high processing speed demanded for use as commuter passes as well as the security required to handle electronic money.

This AIT (Advanced Intelligent Tape) format, high-capacity, high-transfer-rate tape streamer is mainly used for backup of computer data and has been favorably received.

This new data projector, introduced during the year under review, is easy to carry thanks to its compact dimensions and light weight. Its excellent cost performance has lead to its popularity for use not only in businesses but also in homes.

Lithium-ion polymer batteries.

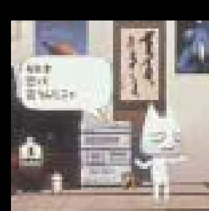
So-net, an Internet service provider operated by Sony Communication Network Corporation, increased its member base to approximately 1.28 million as of May 2000. Behind this growth are an expanding array of appealing content and customer support services as well as the popularity of its hit PostPet e-mail software.

game

Fab1, built in Japan's Nagasaki prefecture by Sony Computer Entertainment (SCE), manufactures one of the key semiconductor devices at the heart of PlayStation 2 consoles – the massively parallel image rendering engine called the Graphics Synthesizer.

An image from SCE's *Gran Turismo 2* for the PlayStation format, which made its debut during the year under review. It has been a worldwide hit, with aggregate shipments surpassing five million units.

The February 2000 establishment by SCE of PlayStation.com (Japan) Inc. gives consumers a direct channel to purchase PlayStation 2 consoles, software, DVD-Video software, and other products through its Internet site. Extending beyond just e-commerce, the new company plans to provide a diverse spectrum of content and information to consumers.



Pictured here is Toro, a character in *Dokodemo-Issyo* for SCE's PocketStation. Thanks to the popularity of this lovable character, the title has been a big hit. PocketStation, a portable game device for PlayStation and PlayStation 2, was introduced by SCE in Japan in 1999.

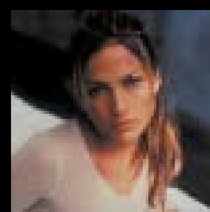
music

Celine Dion, a five-time Grammy Award® winner, has sold more than 100 million albums worldwide in the past decade.

"Heartbreaker", from her *Rainbow* album, gave Mariah Carey the biggest first-week sales of her career.

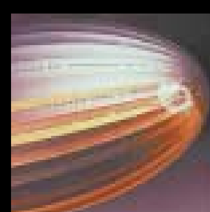
In 1999 Charlotte Church became the biggest-selling female classical artist in the world.

Dixie Chicks' second album, *Fly*, was the biggest selling album by a country music group in 1999.



Jennifer Lopez' *On The 6* album established her as a triple-threat talent in music, television, and films.

Sales of Macy Gray's *On How Life Is* have grown exponentially since the album's release.



L'Arc~en~Ciel's albums *ark* and *ray* debuted as the number one and number two albums, respectively, on the weekly Japanese ranking chart ORICON after their releases on July 1, 1999.

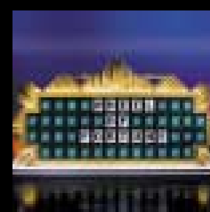
Ami Suzuki's 2nd album *infinity eighteen vol.1*, which was released on her 18th birthday on February 9, 2000, debuted in the top spot on ORICON.

pictures

The comedy *Big Daddy*, starring Adam Sandler, had the second-strongest domestic opening weekend ever for a Columbia Pictures film (after 1997's *Men In Black*) and became a major box office success worldwide.

The action comedy *Blue Streak*, featuring Martin Lawrence in the leading role, delivered a strong box office performance and solid home video sales.

The action thriller *Arlington Road* delivered a critical and financial success for Sony Pictures Entertainment's newly established brand, Screen Gems.



Wheel of Fortune remained the highest-rated show in the history of syndicated television and each week is seen by an estimated 100 million viewers worldwide.

For the 11th consecutive season, *The Young and the Restless* continued to be ranked the No. 1 daytime program on all U.S. networks.

The new legal drama *Family Law* produced by Columbia TriStar Television has become a popular prime time show for the CBS television network.

other

In April 2000, Sony opened Mediage, an urban entertainment complex at AQUA CiTY ODAIBA in the Tokyo-bay area. It has a 13-screen cinema-complex, various family-oriented attractions, restaurant cafés, and retail shops. Sony aims to create a new business category of urban entertainment.

Packaging cushion for TVs, which consists of a pulp-mold material made of recycled paper.

► environmental

ACTIVITIES AT SONY

Recognizing that environmental protection is one of the most pressing issues facing mankind today, Sony incorporates a sound respect for nature in all of its business activities. With this philosophy, Sony has defined environmental conservation as an important part of its management strategy. The Sony Group has created a global action plan and conducts environmental preservation programs. This program has five core components: reducing the environmental impact of business activities and production processes; designing environmentally sensitive products and promoting recycling; developing environmental technologies; promoting the environmental education and full participation of Sony employees; and disclosing environmental information to the public.

Sony has recently taken one more step to make environmental activities a core element of its management. From the start of the fiscal year ending March 31, 2001, environmental assessments will be used as an additional measure for evaluating the performance of each of Sony's Network Companies.

REDUCING THE IMPACT OF BUSINESS AND PRODUCTION PROCESSES

Sony is striving to build an environmental management system in order to reduce its environmental impact systematically and efficiently. As of April 2000, almost all of Sony's manufacturing bases had achieved ISO-14001 certification, an international standard for environmental management systems. As for non-manufacturing facilities, the remaining non-certified ones are moving forward with preparations to obtain certification by March 2001. Facilities including Sony's head office and Sony Marketing (Japan) Inc. received certification during the year ended March 31, 2000.

During the year under review, Sony formulated a unified set of environmental risk management guidelines to govern the supervision and handling of chemicals for the entire Sony Group. These guidelines are designed to help prevent releases of chemicals and the occurrence of environmentally harmful accidents. In the event that an incident occurs, the guidelines provide a framework for minimizing damage. Launched in April 2000, this system greatly bolsters Sony's environmental risk management capabilities.

ENVIRONMENTALLY SENSITIVE PRODUCTS AND PROMOTION OF RECYCLING

In order to reduce the environmental impact of its products, Sony makes efforts as much as possible to reduce the energy that products consume and the resources used to make them. Sony also tries to avoid using materials with a high environmental impact and exercises special care with regard to packaging materials. A color TV that went on sale in Japan in February 2000 is one example. Its printed wiring boards contain no halogenated flame retardant, standby power consumption is 0.1 watts, and the packaging cushion for the TV consists of a pulp-mold material made of recycled paper rather than styrene foam, an industry first for a CRT TV sold in Japan.

Regarding product recycling, the Environmental Center Europe in Germany and the Home Network Company (HNC) Recycling Research Center in Japan are working on new technologies. Currently, all Sony CRT plants worldwide recycle scrap CRT glass from the manufacturing process. In Japan, Sony is taking actions to prepare facilities for recycling necessary to comply with the Law for Recycling Specified Kinds of Home Appliances (Recycling Law) that will take effect in April 2001.

ENVIRONMENTAL TECHNOLOGIES

During the year under review, Sony developed a plastic identification system capable both of identifying black-colored plastic materials, a task that had baffled conventional methods, and of detecting flame retardants contained in plastics. Making this possible is mid-infrared reflectance spectroscopy and specialized software developed by Sony. Using these technologies, black plastics and flame retardants can be identified with an accuracy of over 99%. This technology also enables plastics to be reused as they are, thus being a potential form of "material recycling", and is attracting attention as a way to reuse plastics in home electronics and other products. This system was first developed at the Environmental Center Europe, and now it is undergoing verification aimed at its practical use at the HNC Recycling Research Center.

PROMOTING EMPLOYEES' ENVIRONMENTAL EDUCATION AND FULL PARTICIPATION

Based on the philosophy that all employees should be involved in environmental activities, Sony is aiming to provide employees with environmental education that turns awareness into action. Each member company of the global Sony Group strives to be a leader in its home region by continuously participating in environmental programs. Sony Magnetic Products (Thailand) Co. Ltd. (SMPT) is a prime example. Efforts to produce alkaline batteries in an environmentally responsible manner earned it the first Green Label status in Thailand for alkaline batteries. This company is also active in community programs such as planting mangrove trees. These actions are the result of SMPT's integrating its environmental management system into company-wide activities. In recognition of its environmental efforts, in 1998 SMPT won the Thai Prime Minister's Award for Outstanding Industries, and during the year under review, SMPT received an Environmental Award from the Pacific Basin Economic Council.

DISCLOSURE OF ENVIRONMENTAL INFORMATION

Sony discloses its environmental record in line with its strong belief that companies have an accountability to explain their environmental activities to the public. During the year, Sony's Environmental Report 1999 won Japan's Director-general of Environment Agency Minister Prize, the top prize for the Environmental Report Awards supported by Japan's Environment Agency. Sony's previous report received this same honor. Sony's manufacturing and non-manufacturing bases also produce their own environmental reports to disclose information to their home regions. During the year, Sony Motomiya Corporation, located in Fukushima prefecture in Japan, received the Excellence Prize for its report in the same competition. During the year, Sony opened the Sony Eco Plaza exhibition space at its head office to show employees and the general public the results of selected environmental initiatives.

Sony's Environmental Report 1999 and environmental reports of other bases.

MANAGEMENT

BOARD OF DIRECTORS

Norio Ohga
Chairman and Representative Director

Nobuyuki Idei
President and Representative Director

Minoru Morio
Executive Deputy President and Representative Director

Tamotsu Iba
Executive Deputy President and Representative Director

Teruhisa Tokunaka
Executive Deputy President and Representative Director

Teruo Masaki
Senior Managing Director

Howard Stringer
Director
(Chairman and CEO of Sony Corporation of America)

Peter G. Peterson
Director
(Chairman of The Blackstone Group)

Kenichi Suematsu
Director
(Counsellor of The Sakura Bank, Limited)

Iwao Nakatani
Director
(Director of Research, Sanwa Research Institute and Consulting Corporation)

CORPORATE EXECUTIVE OFFICERS

Chairman
Norio Ohga

President and Chief Executive Officer
Nobuyuki Idei

Executive Deputy Presidents
Minoru Morio
Tamotsu Iba

Executive Deputy President and Chief Operating Officer
Kunitake Ando

Executive Deputy President and Chief Financial Officer
Teruhisa Tokunaka

Executive Deputy President
Junichi Kodera

Corporate Senior Executive Vice Presidents
Akiyoshi Kawashima
Suehiro Nakamura
Kenichi Oyama
Masayoshi Morimoto
Shizuo Takashino
Akira Kondo

Corporate Executive Vice Presidents
Teruaki Aoki
Yasumasa Mizushima
Mario Tokoro
Sunobu Horigome
Mitsuyuki Watanabe

Corporate Senior Vice Presidents
Toshitada Doi
Seiichi Watanabe
Katsuaki Tsurushima
Takeo Eguchi
Shigeyuki Ochi
Nobuyuki Watanabe
Tadasu Kawai
Mitsuru Ohki
Yoshio Nishi
Yutaka Nakagawa
Yukio Kubota
Katsumi Ihara
Tadakatsu Hasebe
Kenichiro Yonezawa
Akira Kubota
Takeo Minomiya

Corporate Vice Presidents
Tsutomu Yamashita
Ryoji Chubachi
Tetsujiro Kondo
Kiyoshi Nishitani
Yoshiyuki Kamon
Tsutomu Niimura
Michiaki Tsurumi

STATUTORY AUDITORS

Standing Statutory Auditors
Akihisa Ohnishi
Yoshisuke Mohri
Takashi Hayashi

Statutory Auditor
Kazuaki Morita

GROUP EXECUTIVE OFFICERS

Ken Iwaki
Yoshio Ishigaki
Shigeo Maruyama
Ken Kutaragi
Sumio Sano
Masayuki Takano
Motoyasu Kanasugi
Masahiro Hayashi
Toshiyuki Yamada
Toshiharu Sawada
Masao Morita
Yoshihide Nakamura
Kazutoshi Shiraishi
Thomas D. Mottola
John Calley
Otto G. Zich
Jean-Michel Perbet
Masahiro Oki
Senji Yamamoto
Fujio Nishida
Nobuyuki Oneda
Edward Grebow

(As of June 6, 2000)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following "Management's Discussion and Analysis of Financial Condition and Results of Operations" is based on current information known to management as of June 6, 2000.

LIQUIDITY AND CAPITAL RESOURCES

Finance and Liquidity Management

Sony's financial policy is to assure adequate financing and liquidity for its operations and to maintain the strength of its balance sheet.

At present, Sony's primary financial policy for debt financing is to match the duration of its funding requirements to the terms of its debt. Long-term debt financing is utilized to meet long-term funding requirements, such as for investments in manufacturing facilities. Sony funds its short-term requirements with a combination of short-term and long-term financing. Sony uses long-term debt to fund a portion of its short-term requirements because such funds are necessary on an ongoing basis. Sony's long-term debt principally comprises notes including convertible bonds. During the fiscal year ended March 31, 2000, Sony engaged in no new long-term financing, except for 4.0 billion yen of bonds with detachable warrants.

In Japan, Sony Corporation centralizes the funding of most of its domestic subsidiaries through intra-group deposits and loans, and maintains 300 billion yen of Japanese commercial paper ("CP") issuance capacity. Sony Corporation issued 80 billion yen of CP from November 1999 to March 2000 to fund a temporary increase of working capital over the year-end. Sony Corporation started to operate a domestic funds centralization arrangement in the fiscal year ended March 31, 1999 and most major domestic subsidiaries had joined the arrangement in the fiscal year ended March 31, 2000. Through this arrangement, all the funds collected by domestic subsidiaries are automatically centralized in Sony Corporation's master bank account through zero balance arrangements, and Sony Corporation arranges payments on behalf of domestic subsidiaries so that those subsidiaries do not have to keep their own cash. Also, since Sony Music Entertainment (Japan) Inc. ("SMEJ"), Sony Chemicals Corporation, and Sony Precision Technologies Inc. became wholly-owned subsidiaries of Sony Corporation in January 2000 (refer to Note 4 of Notes to Consolidated Financial Statements), the investment and funding functions of those three subsidiaries have been transferred to Sony Corporation.

In the U.S., Europe, and Asia, Sony carries out financing functions regionally through its finance subsidiaries in order to respond efficiently to regional funding requirements. To meet long-term funding requirements and working capital needs, Sony's finance subsidiary in the U.S. maintains a 3 billion U.S. dollar medium term note ("MTN") program targeted for investors in the U.S. and a 2 billion U.S. dollar Euro MTN program. Also, Sony's finance subsidiary in the United Kingdom maintains a 1 billion U.S. dollar Euro MTN program. At March 31, 2000, the total outstanding balance of MTNs was approximately 123.6 billion yen. In addition, finance subsidiaries in the U.S. and the United Kingdom have U.S. CP programs of 6 billion U.S. dollars and 1 billion U.S. dollars, respectively, and finance requirements for working capital through these programs. During the fiscal year ended March 31, 2000, peak month-end outstanding balances were approximately 81.3 billion yen and approximately 31.6 billion yen, respectively. (There were no outstanding balances of such CPs at March 31, 2000.) In the fiscal year ended March 31, 2000, Sony began to manage its excess cash globally among finance subsidiaries in the U.S., the United Kingdom, Singapore, and Sony Corporation in order to improve use of available cash balances and to reduce unnecessary cash as well as debt. As of March 31, 2000, a total amount outstanding of approximately 82.8 billion yen was lent from cash-surplus subsidiaries in Asia to financial subsidiaries in other regions. Furthermore, in the U.S., Sony set up a 900 million U.S. dollar accounts receivable financing facility in the fiscal year ended March 31, 1999 to enhance its short-term financing capacity.

It is a principal policy of Sony that it will keep total liquid assets equal to at least 80% of the sum of the amount of the largest expected monthly gross sales and the amount of the largest expected monthly debt redemption during the fiscal year. Liquid assets consist of cash and cash equivalents, time deposits, and marketable securities. In addition to these, Sony also includes committed lines as liquid assets because funds are available from such lines during the period of the contracts. Sony has contracts for committed lines with banks in a total amount of approximately 310.0 billion yen at March 31, 2000. All of those contracts are short-term, expiring in less than one year. As a principal policy, Sony selects banks rated "C" or above in Moody's Bank Financial Strength ratings for its contracts for committed lines, and enters into contracts with banks rated "A" or "B" with respect to more than 70% of the total amount. (The policy and figures in this paragraph exclude Sony Life Insurance Co., Ltd., Sony Assurance Inc., and Aiwa Co., Ltd., each of whose liquidity is separately managed from the remainder of Sony.)

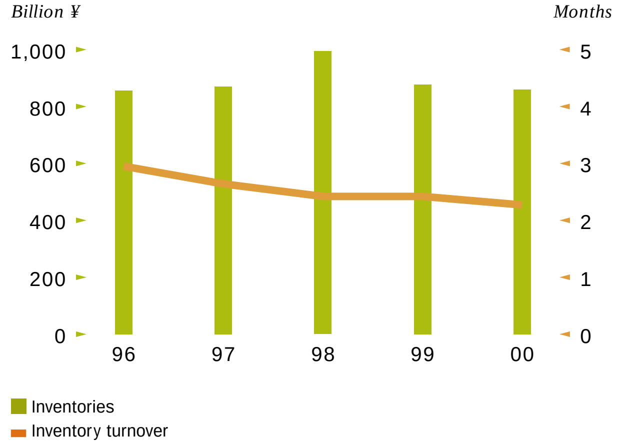
Sony's financial condition remains strong. Sony believes that its cash, other liquid assets, free cash flows and access to capital markets, taken together, provide adequate resources to fund ongoing operating requirements and future capital expenditures related to the expansion of existing businesses and development of new projects.

Assets, Liabilities and Stockholders' Equity

Total assets increased by 508.1 billion yen, or 8.1%, to 6,807.2 billion yen at March 31, 2000. (Total assets were significantly affected by currency translation. It is estimated that total assets would have increased by approximately 15% compared with the previous fiscal year-end if the value of the yen had remained the same at March 31, 2000 as at the previous fiscal year-end.) The increase was principally attributable to increases in goodwill, intangible assets, securities investments and other, deferred insurance acquisition costs, and notes and accounts receivable, trade.

Current assets increased by 65.2 billion yen, or 2.1%, to 3,134.6 billion yen at March 31, 2000. This increase was principally due to increases in notes and accounts receivable, trade, while inventories decreased. Among current assets, liquid assets, comprising cash and cash equivalents, time deposits, and marketable securities, slightly increased. Notes and accounts receivable, trade, less allowance for doubtful accounts and sales returns increased by 41.9 billion yen, or 4.1%, to 1,055.5 billion yen at March 31, 2000 principally due to sales increases in the Electronics business in the fourth quarter of the fiscal year ended March 31, 2000. Inventories decreased worldwide by 18.7 billion yen, or 2.1%, to 859.2 billion yen at March 31, 2000 principally due to currency translation, although they increased at manufacturing facilities especially in Japan, reflecting the start-up of PlayStation 2 in the Game business. The inventory to cost of sales turnover ratio (based on the average of inventories at March 31, 1999 and 2000) was 2.27 months, compared with 2.42 months in the previous year.

INVENTORIES and INVENTORY TO COST OF SALES TURNOVER RATIO



* As of March 31

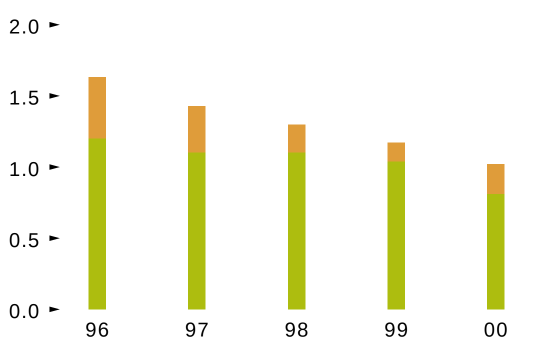
Investments and advances increased by 94.9 billion yen, or 9.7%, to 1,075.6 billion yen at March 31, 2000. This was principally due to an increase in securities investments and other although investments and advances to affiliated companies slightly decreased. The decrease in investments and advances to affiliated companies was principally due to recording of equity in net losses of affiliated companies. The increase in securities investments and other was principally due to higher investment assets in the Insurance business, reflecting net increases in life insurance-in-force, increases in unrealized gains on securities investments, and investments in other companies in such areas as new businesses in the U.S. during the year. However, sales of certain investment securities partially offset the increase in securities investments and other.

Tangible fixed assets increased by 5.8 billion yen, or 0.5%, to 1,255.6 billion yen at March 31, 2000 principally due to increases in capital expenditures for semiconductor equipment in the Game business, offset by decreases in capital expenditures in the Electronics and Music businesses.

Other assets increased by 360.4 billion yen, or 47.8%, to 1,115.0 billion yen at March 31, 2000. Among other assets, goodwill and intangible assets increased due to the acquisition transactions whereby three listed subsidiaries became wholly-owned subsidiaries of Sony Corporation (refer to Note 4 of Notes to Consolidated Financial Statements). In addition, deferred insurance acquisition costs increased due to net increases in life insurance-in-force in the Insurance business.

Total current and long-term liabilities increased by 250.5 billion yen, or 5.8%, to 4,589.7 billion yen at March 31, 2000. (It is estimated that total liabilities would have increased by approximately 10% compared with the previous fiscal year-end if the value of the yen had remained the same at March 31, 2000 as at the previous fiscal year-end.) The increase was principally attributable to increases in future insurance policy benefits and other and notes and accounts payable, trade, despite decreases in total long-term debt. Among current liabilities, the current portion of long-term debt increased due to reclassifications from long-term debt, despite redemption of unsecured notes due 2000 of 50 billion yen by Sony Corporation. Notes and accounts payable, trade increased due to increases in production reflecting sales increases in the Electronics business in the fourth quarter of the fiscal year ended March 31, 2000. Among long-term liabilities, the large decline in long-term debt was principally due to the reclassification to the current portion of long-term debt and the conversion of convertible bonds of Sony Corporation. As a result, the total of short-term borrowings, the current portion of long-term debt, and long-term debt decreased by 137.4 billion yen, or 11.8%, to 1,028.8 billion yen at March 31, 2000. Increases in future insurance policy benefits and other were due to net increases in life insurance-in-force in the Insurance business.

INTEREST-BEARING LIABILITIES
Trillion ¥

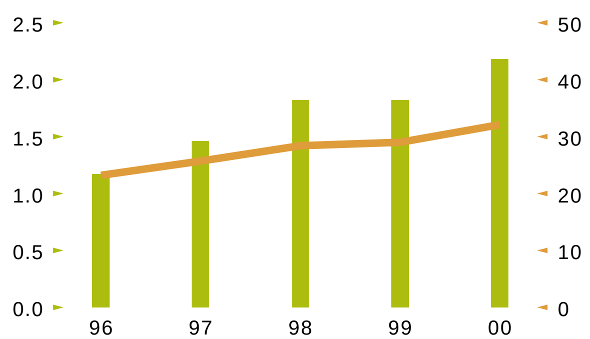


Short-term (Including the current portion of long-term debt)
Long-term

* As of March 31

Stockholders' equity increased by 359.2 billion yen, or 19.7%, to 2,182.9 billion yen at March 31, 2000. This was principally attributable to increases in common stock and additional paid-in capital reflecting the acquisition transactions whereby three listed subsidiaries became wholly-owned subsidiaries of Sony Corporation noted above. The ratio of stockholders' equity to total assets increased from 29.0% to 32.1%. Based on the number of shares outstanding at March 31, 2000, stockholders' equity per share (after taking into account the split of Sony Corporation's shares completed on May 19, 2000) was 2,409.36 yen, compared with 2,224.35 yen at the previous fiscal year-end. Foreign currency translation adjustments at March 31, 2000 increased in amount as a reduction of stockholders' equity to 483.6 billion yen from 284.4 billion yen at the previous fiscal year-end, principally due to the yen's appreciation.

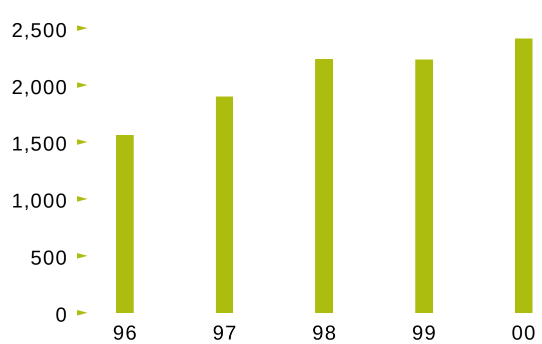
STOCKHOLDERS' EQUITY and STOCKHOLDERS' EQUITY RATIO
Trillion ¥ %



Stockholders' equity
Stockholders' equity ratio

* As of March 31

STOCKHOLDERS' EQUITY PER SHARE
¥



* As of March 31
* Restated to reflect the two-for-one stock split that has become effective on May 19, 2000

Cash Flows

(The fiscal year ended March 31, 2000 compared with the fiscal year ended March 31, 1999)

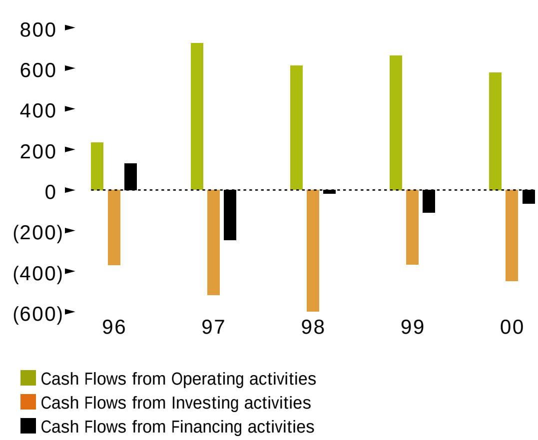
During the fiscal year ended March 31, 2000, Sony generated 579.5 billion yen (a decrease of 83.8 billion yen, or 12.6%, compared with the previous year) of cash from operating activities. Sony used 449.9 billion yen (an increase of 82.6 billion yen, or 22.5%, compared with the previous year) in investing activities. Sony used 68.1 billion yen (a decrease of 44.2 billion yen, or 39.3%, compared with the previous year) in financing activities. As a result, during the fiscal year ended March 31, 2000, cash and cash equivalents at end of year increased by 33.9 billion yen, or 5.7%, notwithstanding the negative effect of exchange rate changes on cash and cash equivalents of 27.6 billion yen, to 626.1 billion yen compared with the previous year.

The decrease in net cash provided by operating activities during the year was principally due to the increases in notes and accounts receivable as well as inventories in addition to the decrease in net income, despite the increase in notes and accounts payable (The decrease in inventories on the balance sheet was due to the effect of currency translation). The increase in notes and accounts receivable was principally due to the sales increases in the Electronics business in the fourth quarter of the year. Inventories increased principally at manufacturing facilities in Japan, reflecting the start-up of PlayStation 2 in the Game business. However, notes and accounts payable increased due to sales increases noted above. Increases in future insurance policy benefits and other were due to net increases in life insurance-in-force in the Insurance business. Depreciation and amortization (including amortization of deferred insurance acquisition costs) during the year was 306.5 billion yen, which was comprised of depreciation of fixed assets of approximately 261.0 billion yen, amortization of intangible assets of approximately 22.8 billion yen, and amortization of deferred insurance acquisition costs of approximately 22.7 billion yen. A gain on securities contribution to an employee retirement benefit trust of 58.7 billion yen (pre-tax) in the previous year did not impact cash flows.

With respect to net cash used in investing activities during the year, payments for purchases of fixed assets were 403.0 billion yen. Capital expenditures (additions to fixed assets on the balance sheets) during the year were 435.9 billion yen. The major components of capital expenditures (excluding unallocated amounts) were approximately 227.3 billion yen principally for semiconductors and new products equipment in the Electronics business, approximately 119.0 billion yen principally for semiconductor equipment in the Game business, approximately 24.6 billion yen principally for DVD discs equipment in the Music business, approximately 11.3 billion yen in the Pictures business, and approximately 48.5 billion yen principally for purchasing leasing assets in a leasing and credit card business in the Other business. Payments for investments and advances and proceeds from sales of investment securities and collections of advances were principally from activities in the Insurance business. Excluding the Insurance business, payments for investments and advances during the year included approximately 56.2 billion yen of investments in other companies in such areas as new businesses in the U.S. Proceeds from sales of investment securities and the collections of advances included approximately 70.7 billion yen of proceeds from sales of certain investment securities. In the previous year, cash flows from investing activities included approximately 53.0 billion yen of proceeds from the merger of Loews Theatres with Cineplex Odeon Corporation.

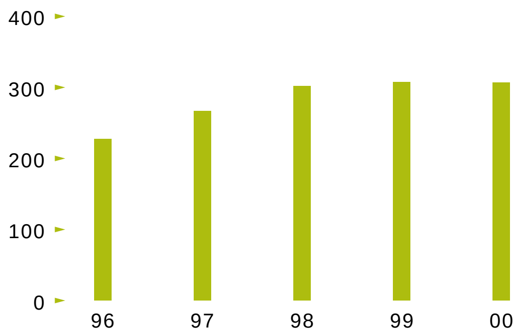
With respect to net cash used in financing activities during the year, payments of long-term debt included redemption of unsecured notes due 2000 of 50 billion yen by Sony Corporation. Sony Corporation paid cash dividends of 20.6 billion yen during the year.

CASH FLOWS
Billion ¥



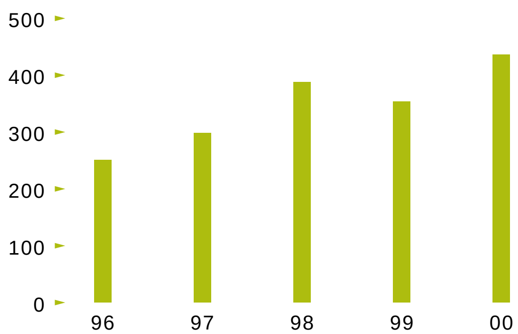
* Year ended March 31

DEPRECIATION AND AMORTIZATION
Billion ¥



* Year ended March 31
* Including amortization of deffered insurance acquisition costs

CAPITAL EXPENDITURES (ADDITIONS TO FIXED ASSETS)
Billion ¥



* Year ended March 31

RESULTS OF OPERATIONS

(The fiscal year ended March 31, 2000 compared with the fiscal year ended March 31, 1999)

Impact of Foreign Exchange Fluctuations and Basic Countermeasures

During the fiscal year ended March 31, 2000, the average value of the yen was 110.6 yen against the U.S. dollar, and 113.9 yen against the euro, which was 14.8% and 24.9% higher against the U.S. dollar and euro, respectively, compared with the level of the previous year. (For comparative purposes only, the euro until December 1998 is hypothetically computed based on the German mark.) Operating results on a local currency basis described in "Consolidated Results" show results of sales and operating revenue ("sales") and operating income obtained by applying the yen's average exchange rate in the previous year to local currency-denominated sales, cost of sales, and selling, general and administrative expenses for the fiscal year ended March 31, 2000, assuming the value of the yen had remained the same. Regarding the U.S. based Music and Pictures businesses, results of worldwide subsidiaries (in the case of Music, excluding those of Japan) are consolidated on a U.S. dollar basis. Local currency basis results are not reflected in Sony's financial statements and are not measures conforming with Generally Accepted Accounting Principles in the U.S. ("U.S. GAAP"). Also, Sony does not believe that these measures are a substitute for U.S. GAAP measures. However, Sony believes that local currency basis results provide additional useful information to investors regarding operating performance.

Sony employs foreign exchange forward contracts and foreign currency option contracts to hedge against foreign exchange risks that arise from its export and import transactions of materials, parts, and products. Furthermore, particularly in the Electronics business, to minimize the adverse effects of foreign exchange fluctuations on its financial results and to reduce inventory and costs, Sony seeks, when appropriate, to localize material and parts procurement, design, and manufacturing operations outside Japan.

Operating Performance

Note: Effective with the fiscal year ended March 31, 2000, equity in net earnings (losses) of affiliated companies, which was previously included in sales and operating revenue, is shown separately below income before income taxes. As a result, sales and operating revenue, operating income, and income before income taxes figures for the prior years have been restated to conform to the presentation for the fiscal year ended March 31, 2000.

During the fiscal year ended March 31, 2000, the U.S. economy continued to expand, and the Western European economy steadily advanced, although economic growth was sluggish in parts of South America such as Brazil. Eastern Europe and Russia bottomed out and Asia excluding Japan ("Asia") continued its recovery. In Japan, although a clear economic recovery could not be seen, demand relating to information and communication areas was favorable. Under such market conditions and reflecting the impact of the translation of financial results and condition into yen, the currency in which the financial statements are prepared, in accordance with U.S. GAAP, Sony's sales for the fiscal year ended March 31, 2000 decreased 1.7% and operating income decreased 30.9% compared with the previous year, due to the yen's appreciation. The decrease in sales was due to sales decreases in the Game, Music, and Pictures businesses, while sales increased in the Electronics, Insurance, and Other businesses. The decrease in operating income was due to profit decreases in the Electronics, Game, Music, and Pictures businesses and expansion of losses in the Other business, while profit increased in the Insurance business.

On a local currency basis (In connection with all references herein to results of operations expressed on a local currency basis, please refer to "Impact of Foreign Exchange Fluctuations and Basic Countermeasures" on page 43.), Sony's sales for the year ended March 31, 2000 increased approximately 9% and operating income increased approximately 39% compared with the previous year.

On January 5, 2000, the acquisition transactions by way of exchanges of stock, whereby SMEJ, Sony Chemicals Corporation, and Sony Precision Technology Inc. became wholly-owned subsidiaries of Sony Corporation, were completed (refer to Note 4 of Notes to Consolidated Financial Statements). As a result, of the approximately 348 billion yen which represented the increase in total capital (equivalent to the purchase price from external shareholders) of Sony Corporation, approximately 236 billion yen, which represents the excess of this amount over the total book value of the minority interests in the three subsidiaries, was recorded as tangible and intangible assets and goodwill of approximately 283 billion yen and as deferred tax liabilities of approximately 47 billion yen. The breakdown of the 236 billion yen is approximately 58 billion yen in the Electronics business, 158 billion yen in the Game business, and 20 billion yen in the Music business. These intangible assets and goodwill will be amortized over the useful life of up to a maximum of 20 years starting in the fourth quarter of the fiscal year ended March 31, 2000, and recorded in selling, general and administrative expenses. At the same time, the corresponding deferred tax liabilities will be reversed. During the fourth quarter, as a result of these factors, operating income and income before income taxes each decreased approximately 4.2 billion yen, and net income decreased approximately 3.3 billion yen. In addition, as a result of these transactions, minority interests in the three subsidiaries was eliminated and income or loss in minority interests in such subsidiaries is not recognized after January 5, 2000, the date of the transactions.

Sales

Sales for the fiscal year ended March 31, 2000 decreased by 117.5 billion yen, or 1.7%, to 6,686.7 billion yen compared with the previous year, for the reasons discussed above.

Cost of Sales and Selling, General and Administrative Expenses (Excluding the Insurance Business)

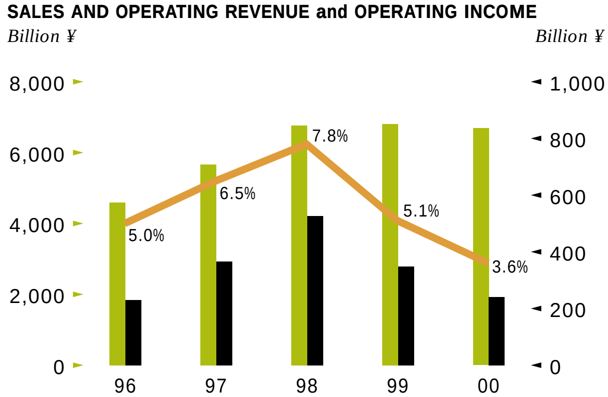
Cost of sales for the fiscal year ended March 31, 2000 decreased by 38.7 billion yen, or 0.8%, to 4,595.1 billion yen compared with the previous year and increased from 71.7% to 72.9% as a percentage of sales. The decrease of cost of sales was due to the yen's appreciation, although manufacturing expenses and research and development expenses increased, reflecting increases in production brought about by favorable demand. Research and development expenses for the fiscal year ended March 31, 2000 increased by 19.2 billion yen, or 5.1%, to 394.5 billion yen compared with the previous year and increased from 5.8% to 6.3% as a percentage of sales. Major areas of the research and development expenses during the year were the Electronics business, for semiconductors, telecommunications, and displays, and the Game business.

Selling, general and administrative expenses for the fiscal year ended March 31, 2000 decreased by 9.3 billion yen, or 0.6%, to 1,491.6 billion yen compared with the previous year and increased from 23.2% to 23.7% as a percentage of sales. The decrease of selling, general and administrative expenses was due to the yen's appreciation, although personnel, freight, advertising, and royalties expenses increased. Personnel expenses included a charge of approximately 19.2 billion yen for stock-price linked incentive compensation resulting from the sharp rise in Sony Corporation's stock price in the fiscal year ended March 31, 2000, compared with a minor charge in the previous year.

Operating Income

As a result of the factors discussed above, operating income for the fiscal year ended March 31, 2000 decreased by 107.6 billion yen, or 30.9%, to 240.6 billion yen compared with the previous year and the operating margin decreased from 5.1% to 3.6%.

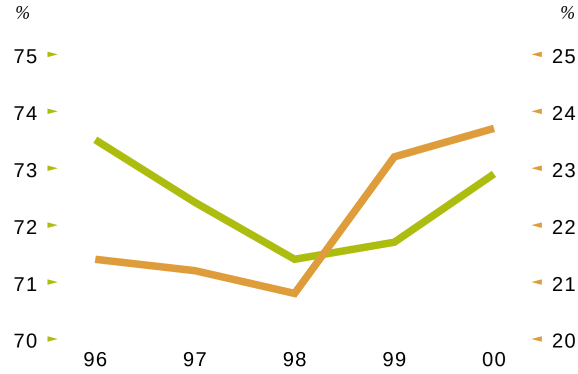
SALES AND OPERATING REVENUE and OPERATING INCOME



Sales and operating revenue (left)
Operating income (right)
Operating margin

* Year ended March 31

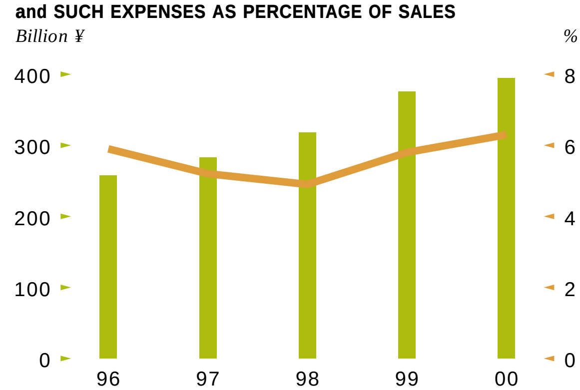
COST OF SALES and SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (SGA), AS PERCENTAGES OF SALES



Cost of sales/sales (left)
SGA/sales (right)

* Year ended March 31
* Excluding the Insurance business

RESEARCH AND DEVELOPMENT EXPENSES and SUCH EXPENSES AS PERCENTAGE OF SALES



Research and development expenses
Percentage of sales

* Year ended March 31
* Excluding the Insurance business

Operating Performance Highlights by Business Segment

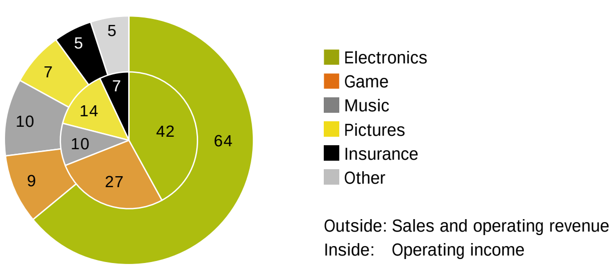
The following discussion is based on segment information. Sales and operating revenue in each business segment include intersegment transactions. In the Electronics business, sales and operating revenue by product category represent sales to customers, which do not include intersegment transactions (refer to Note 22 of Notes to Consolidated Financial Statements).

Business segment information

Year ended March 31

	Yen in billions 1999	Yen in billions 2000	Percent change	Percent change on a local currency basis
SALES AND OPERATING REVENUE				
Electronics	¥4,669.7	**¥4,719.6**	+1.1%	+13%
Game	783.8	**654.7**	–16.5	–6
Music	758.7	**706.9**	–6.8	+3
Pictures	545.8	**492.1**	–9.8	+3
Insurance	339.4	**380.3**	+12.1	–
Other	291.6	**364.1**	+24.9	–
Elimination	(584.8)	**(631.1)**	–	–
Consolidated	¥6,804.2	**¥6,686.7**	–1.7%	+9%
OPERATING INCOME (LOSS)				
Electronics	¥ 131.1	**¥ 118.6**	–9.5%	+132%
Game	136.5	**77.4**	–43.3	–5
Music	36.6	**28.4**	–22.4	–14
Pictures	43.0	**38.6**	–10.1	+3
Insurance	18.0	**20.9**	+16.0	–
Other	(4.5)	**(12.9)**	–	–
Elimination and Unallocated corporate expenses	(12.4)	**(30.3)**	–	–
Consolidated	¥ 348.2	**¥ 240.6**	–30.9%	+39%

SHARE OF SALES AND OPERATING REVENUE and OPERATING INCOME BY BUSINESS SEGMENT
%

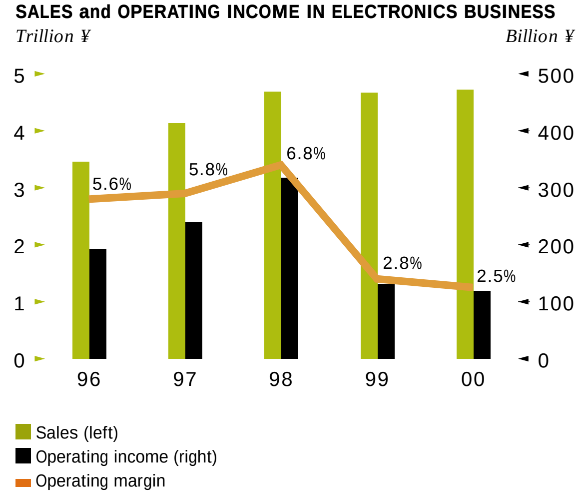


* Year ended March 31, 2000
* Including intersegment transactions
* Operating profit charts are calculated as if operating loss in other segment were 0.

Electronics

Sales for the fiscal year ended March 31, 2000 increased by 49.9 billion yen, or 1.1%, to 4,719.6 billion yen compared with the previous year. Operating income decreased by 12.5 billion yen, or 9.5%, to 118.6 billion yen and the operating margin decreased from 2.8% to 2.5%. During the year, despite strong demand in various product categories, the sales increase was limited to a low level and operating income decreased, principally due to the yen's appreciation. Regarding sales by area, sales increased in Japan, where demand relating to information and communication areas was favorable, and also increased in Asia, where economies showed a recovery trend. Sales decreased in the U.S. due to the weakness of the dollar against the yen and also decreased in Europe due to the substantial depreciation of the euro against the yen. Sales decreased in South America where economies continued to be sluggish. The decrease in operating income was due to an increase in the cost of sales while the sales increase was limited to a low level as a result of the yen's appreciation.

SALES and OPERATING INCOME IN ELECTRONICS BUSINESS



* Year ended March 31

Performance by product category

"Audio" sales decreased by 137.8 billion yen, or 12.8%, to 934.9 billion yen. This was principally due to decreases in sales of home stereos, radio-cassette tape recorders, and compact cassette headphone stereos. Although sales of home stereos increased in Asia, such sales decreased in the U.S. and South America, and also decreased in Europe, despite favorable demand, due to the yen's appreciation. The decreases in sales of radio-cassette tape recorders and compact cassette headphone stereos were principally due to decreases in demand in the U.S. and Europe. However, sales of MD format headphone stereos increased in the U.S. and Europe.

"Video" sales increased by 7.6 billion yen, or 0.8%, to 976.7 billion yen. This was principally due to increases in sales of digital still cameras and DVD-Video players although sales of home-use video decks and those of broadcast- and professional-use equipment decreased. Regarding home-use video cameras, sales of DV- and Digital 8-format video cameras increased, while those of analog 8mm format video cameras decreased, reflecting Sony's aggressive efforts for digitization of these products and shifting consumer demand. Sales of home-use video decks decreased due to the yen's appreciation although demand increased in the U.S. and Europe. Regarding broadcast- and professional-use equipment, sales decreased due to lower prices and the yen's appreciation despite favorable demand for digital VTR systems. Sales of digital still cameras increased in all areas principally due to Sony's efforts to improve picture quality and further penetration of PCs. Sales of DVD-Video players increased, especially in the U.S., reflecting increased software lineups and higher demand for home-theater use.

"Televisions" sales increased by 11.6 billion yen, or 1.6%, to 714.2 billion yen. This was principally due to increases in sales of color TVs and projection TVs. Regarding color TVs, demand significantly increased in all areas, especially in Asia and the U.S., reflecting aggressive introductions of large-screen color TVs which incorporate flat surface CRTs. In addition, demand for large-screen projection TVs for home-theater use increased especially in the U.S. As a result, overall sales of both categories increased despite sales decreases in certain areas, such as Europe where the significant appreciation of the yen negatively affected sales.

"Information and communications" sales increased by 138.6 billion yen, or 15.2%, to 1,052.7 billion yen. This was principally due to significant sales increases of notebook PCs in Japan, the U.S., and Europe and increases in sales of desktop PCs in Japan. Due to higher demand for recording of large amounts of digital data, sales of CD-R/RW drives increased, primarily in the U.S. and Asia, while those of CD-ROM drives decreased, primarily in the U.S. and Europe. Regarding computer displays, despite strong demand primarily in the U.S., sales decreased due to the yen's appreciation. Despite increased sales in Japan and Western Europe, overall sales of cellular phones decreased due to the termination of production in the U.S. brought about by the discontinuation of the business in North America, excluding research and development and after-sales service.

"Electronic components and other" sales increased by 19.7 billion yen, or 2.8%, to 717.4 billion yen. This was principally due to significant sales increases of electronic components including CCDs, LCDs, system LSIs, and optical pickups, reflecting higher demand for electronics products in all categories including digital AV equipment, such as digital video cameras and digital still cameras, and computer related equipment.

The increase in the cost of sales, despite the yen's appreciation, was principally attributable to the increased cost of raw materials reflecting increases in production brought about by favorable demand and to depreciation expenses in connection with a high level of capital expenditures, primarily for semiconductors equipment. Selling, general and administrative expenses decreased due to the yen's appreciation although personnel, freight, and royalties expenses increased. Regarding profit performance by product category, that of such products as color TVs and broadcast- and professional-use equipment deteriorated, while that of semiconductors, computer peripherals, optical devices, and PCs improved reflecting higher sales of those products. The performance of color TVs was negatively affected by increases in research and development expenses in connection with broadcast digitization, and that of broadcast- and professional-use equipment was negatively affected by an increased number of competitors and severe price competition. In cellular phones, although significant losses were recorded due to additional expenses related to the discontinuation of the business in North America noted above, the amount of losses decreased compared with the previous year. In addition, loss on disposal of fixed assets in connection with this discontinuation was recorded under "Other Income and Expenses."

During the year, regarding the geographical breakdown of Sony's total production amount (excluding Aiwa, which represented less than 10% of sales in Sony's Electronics business) and the final destination of such production, more than half of the total production was in Japan, where production of digital AV equipment, information and communication products, and electronic components increased significantly, and approximately 50% of such production was destined for other regions. Asia accounted for approximately a quarter of total production, approximately 70% of which was destined for other regions. The Americas and Europe together accounted for the remaining quarter of total production, most of which was destined for use in the respective area of production. Regarding consolidation of manufacturing facilities, during the year, Sony restructured several manufacturing facilities in North America and emphasized production in Mexico. In Europe, Sony terminated most of its production in Germany. In Asia, Sony consolidated several manufacturing facilities in Malaysia and also consolidated several facilities in Singapore. As a result, the number of manufacturing facilities at the end of March 2000 was reduced to 64, from 70 at the end of March 1999.

Results in the Electronics business were significantly negatively impacted by the yen's appreciation. On a local currency basis, sales for the fiscal year ended March 31, 2000 increased approximately 13% and operating income increased approximately 132% compared with the previous year. This was due to improved profitability principally from higher demand for such products as PCs and digital AV equipment and increases in sales in almost all regions except for South America, along with improved efficiencies in manufacturing facilities.

Regarding sales by area on a local currency basis, in Japan, sales of such products as PCs, cellular phones, and semiconductors increased, while those of AV products such as color TVs and home-use video decks decreased. In the U.S., sales of such products as PCs, color TVs and projection TVs, digital still cameras, DVD-Video players, home-use video cameras, computer peripherals, and computer displays increased, while those of cellular phones decreased. In Europe, sales of such products as PCs, home-use video cameras, home stereos, and DVD-Video players increased in Western Europe. In Other areas, sales of such products as color TVs, semiconductors, and home stereos increased in Asia.

Game

Sales for the fiscal year ended March 31, 2000 decreased by 129.1 billion yen, or 16.5%, to 654.7 billion yen compared with the previous year. Operating income decreased by 59.1 billion yen, or 43.3%, to 77.4 billion yen and the operating margin decreased from 17.4% to 11.8%.

Sales fell due to such factors as decreased shipments of PlayStation hardware in Japan and the U.S., reflecting high penetration ratios, as well as strategic price reductions of hardware in certain areas, although hardware shipments in Europe increased. The overall decrease in sales was limited, even during the introduction period of PlayStation 2, due to higher demand for software especially in the U.S. and Europe reflecting the increased penetration of PlayStation hardware.

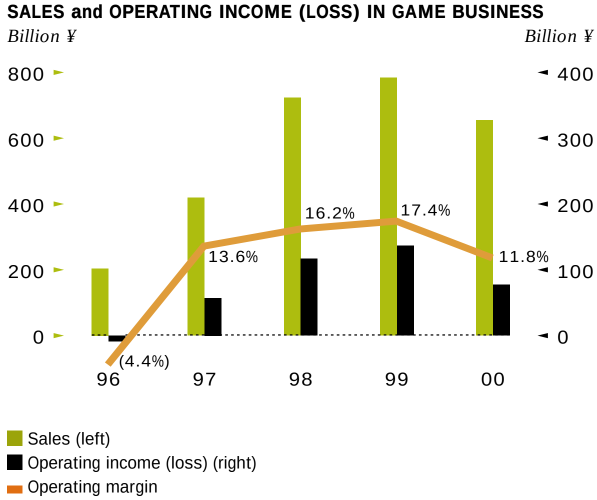
Worldwide shipments of PlayStation hardware for the fiscal year ended March 31, 2000 were 18.50 million units for the year compared with 21.60 million units for the previous year, resulting in cumulative shipments of 72.92 million units as of March 31, 2000. Cumulative shipments of PlayStation 2 hardware, which was introduced in Japan in March 2000, were 1.41 million units as of March 31, 2000. Worldwide shipments of PlayStation software (including both Sony and third parties under Sony licenses) were 200 million units for the year compared with 194 million units for the previous year, resulting in cumulative shipments of 630 million units as of March 31, 2000. In addition, cumulative shipments of PlayStation 2 software were 2.9 million units.

Profit decreased compared with the previous year due to the decrease in sales and start-up expenses of PlayStation 2. Total capital expenditures for the system's semiconductor production equipment, the "EmotionEngine" and the "Graphics Synthesizer," are approximately 130 billion yen, approximately 110 billion yen of which was incurred during the year. Sony Computer Entertainment ("SCE") intends to introduce PlayStation 2 in North America and Europe in October 2000. In line with these introductions, principally aiming at increases in production for the system, SCE is planning additional investments for semiconductor production equipment of approximately 125 billion yen. As a result, cumulative capital expenditures in semiconductor production equipment for the system will be approximately 255 billion yen. Based upon these investments and the increase in semiconductor production capacity, SCE plans in the future to sell the PlayStation 2 chipset to third parties and also to work to develop and sell to third parties next-generation processors for digital home electronics products.

Results in the Game business were significantly negatively impacted by the yen's appreciation. On a local currency basis, sales for the fiscal year ended March 31, 2000 decreased approximately 6% and operating income decreased approximately 5% compared with the previous year.

Also, SCE established PlayStation.com (Japan) Inc., with a view towards direct sales through the Internet as well as future distribution services via PlayStation 2, planned to begin in 2001, of content such as games, music, and pictures. The newly established company began its service in February 2000, and in March 2000 allocated newly issued shares to twelve third parties including Seven-Eleven Japan Co., Ltd.

SALES and OPERATING INCOME (LOSS) IN GAME BUSINESS



* Year ended March 31

Music

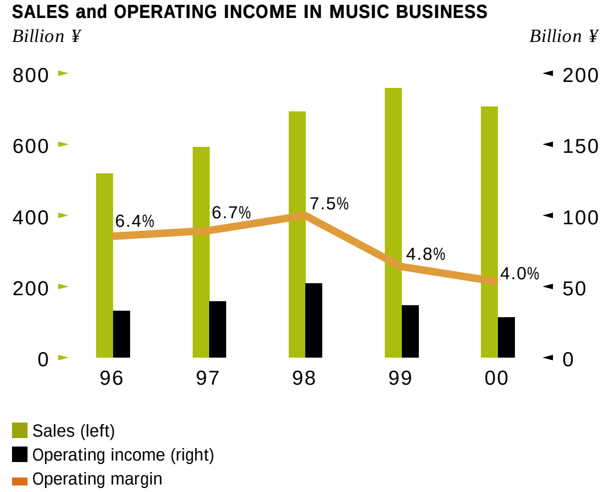
Sales for the fiscal year ended March 31, 2000 decreased by 51.8 billion yen, or 6.8%, to 706.9 billion yen compared with the previous year. Operating income decreased by 8.2 billion yen, or 22.4%, to 28.4 billion yen and the operating margin decreased from 4.8% to 4.0%.

Regarding results of Sony Music Entertainment Inc. ("SMEI"), the U.S. based operation, sales and profit decreased. The decrease in sales was principally due to sluggish sales in Europe and Brazil and the yen's appreciation, although sales reached record levels in the U.S. Regarding profit performance, profit decreased due to the decrease in sales and the inclusion in the previous year of a one-time license contract fee for direct marketing results that did not reoccur as well as expenses for the year incurred in advancing SMEI's digital media initiatives. Regarding results of the Music business in Japan, comprised of Sony Music Entertainment (Japan) Inc. ("SMEJ") and its subsidiaries, although overall sales decreased slightly, profit performance improved. The decrease in sales was principally due to decreases in sales of creative goods and magazines at certain subsidiaries, although sales of SMEJ itself increased due to the success of certain albums, the releases of which were postponed from the previous year to this year. As a result, the overall profit performance of the Music business in Japan improved.

Results in the Music business were significantly negatively impacted by the yen's appreciation. On a local currency basis, sales for the fiscal year ended March 31, 2000 increased approximately 3% and operating income decreased approximately 14% compared with the previous year.

Regarding digital music distribution services, in December 1999, SMEJ started in Japan a fee-based music content distribution service in compliance with SDMI (Secure Digital Music Initiative), a forum with the aim of protecting copyrights of digital music content. In addition, SMEI started a similar kind of service in the U.S. in April 2000.

SALES and OPERATING INCOME IN MUSIC BUSINESS



* Year ended March 31

Pictures

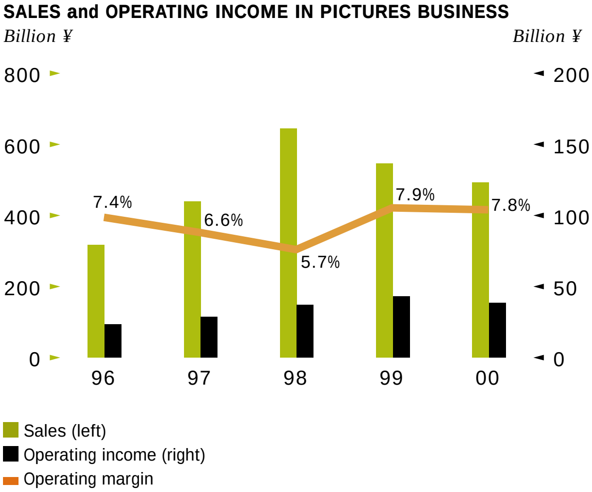
Sales for the fiscal year ended March 31, 2000 decreased by 53.7 billion yen, or 9.8%, to 492.1 billion yen compared with the previous year. Operating income decreased by 4.3 billion yen, or 10.1%, to 38.6 billion yen and the operating margin decreased from 7.9% to 7.8%.

The decreases in sales and profit were primarily due to the yen's appreciation. In the Motion Picture group, although several theatrical releases recorded losses, several other films contributed to box-office revenues, and home video revenues increased, particularly from DVD format unit sales. In the Television group, international pay television revenues increased and new licensing revenues for television programs favorably impacted sales.

Results in the Pictures business were significantly negatively impacted by the yen's appreciation. On a local currency basis, sales for the fiscal year ended March 31, 2000 increased approximately 3% and operating income increased approximately 3% compared with the previous year.

In January 2000, Sony and Starz Encore Media Group LLC ("Starz Encore"), a provider of cable and satellite-delivered premium movie channels in the U.S., jointly announced that they had entered into a long-term strategic partnership which includes a license agreement that, beginning in January 2005, grants Starz Encore exclusive, first-run pay television rights to all films released theatrically in the U.S. by Sony during the initial 6 year term of the agreement, with Sony having the option to extend the term for an additional 3 years. Under the agreement, Sony retains the right to distribute its films on the Internet via video-on-demand during the Starz Encore "window" in the future broadband network era.

SALES and OPERATING INCOME IN PICTURES BUSINESS



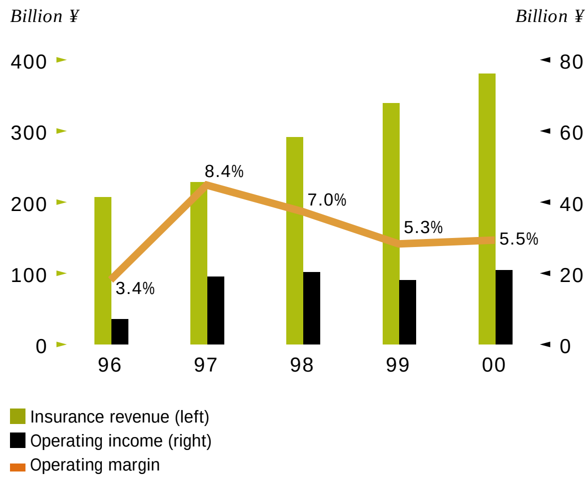
* Year ended March 31

Insurance

Insurance revenue for the fiscal year ended March 31, 2000 increased by 41.0 billion yen, or 12.1%, to 380.3 billion yen compared with the previous year. Operating income increased by 2.9 billion yen, or 16.0%, to 20.9 billion yen and the operating margin increased from 5.3% to 5.5%.

During the fiscal year ended March 31, 2000, regarding results of Sony Life Insurance Co., Ltd., revenue and profit increased due to an increase in life insurance-in-force and improved returns on investment income. Life insurance-in-force increased in high margin individual life insurance products such as whole life and medical expense coverage. However, losses were recorded from start-up expenses for Sony Assurance Inc.

INSURANCE REVENUE and OPERATING INCOME IN INSURANCE BUSINESS



* Year ended March 31

Condensed insurance business balance sheets

The Insurance business is included on a consolidated basis in Sony's consolidated financial statements. The following schedule shows unaudited condensed balance sheets for the Insurance business and for Sony with the Insurance business' financial position reflected on the equity basis. (Although inter-business balances between the Insurance business and businesses other than the Insurance business are not eliminated in the respective balance sheets shown below, such amounts are not material.) While this presentation differs from that provided under U.S. GAAP used in Sony's consolidated financial statements, because the Insurance business is different in nature from Sony's Electronics, Game, Music, and Pictures businesses, Sony believes that this type of comparative presentation helps the understanding and analysis of Sony's consolidated financial statements.

Condensed balance sheets (unaudited)

March 31

Yen in millions	Insurance business 1999	Insurance business 2000	Sony with Insurance business on the equity basis 1999	Sony with Insurance business on the equity basis 2000
ASSETS				
Cash and time deposits	¥ 114,695	**¥ 218,995**	¥ 501,819	**¥ 413,207**
Marketable securities	62,112	**87,539**	55,745	**19,960**
Other current assets	10,000	**12,331**	2,326,837	**2,384,161**
Investments and advances	720,020	**810,963**	260,716	**264,631**
Investments in insurance operations	–	**–**	133,546	**159,821**
Deferred insurance acquisition costs	199,868	**239,981**	–	**–**
Other long-term assets	22,310	**13,908**	2,027,909	**2,345,094**
	¥1,129,005	**¥1,383,717**	¥5,306,572	**¥5,586,874**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Future insurance policy benefits and other	¥ 913,937	**¥1,124,873**	–	**–**
Other liabilities and minority interest	81,226	**98,356**	¥3,482,907	**¥3,403,968**
Total liabilities and minority interest	995,163	**1,223,229**	3,482,907	**3,403,968**
Stockholders' equity	133,842	**160,488**	1,823,665	**2,182,906**
	¥1,129,005	**¥1,383,717**	¥5,306,572	**¥5,586,874**

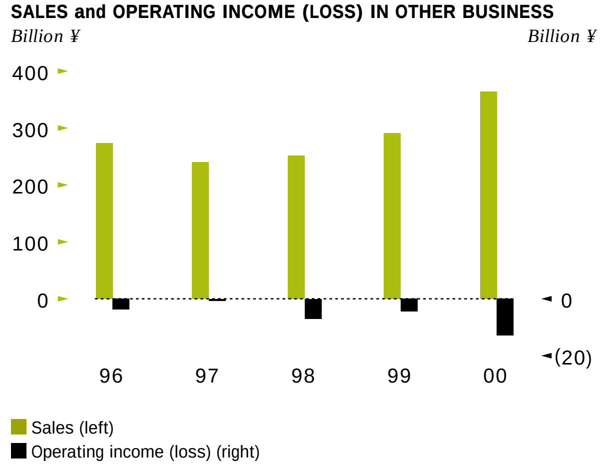
Other

The Other business consisted of various operating activities, including a leasing and credit card business in Japan, a business focused on parts trading services within the Sony group, certain satellite distribution services businesses in Japan, an advertising agency business in Japan, an Internet-related business in the U.S., and a location-based entertainment complex in the U.S. Sales for the fiscal year ended March 31, 2000 were up by 72.5 billion yen, or 24.9%, to 364.1 billion yen, compared with the previous year. Approximately 70 percent of sales in the Other business reflected intersegment transactions during the year. The business posted an operating loss of 12.9 billion yen.

During the year, sales increased primarily due to a subsidiary engaged in an advertising agency business being newly consolidated and increased sales of a subsidiary engaged in a parts trading services business within the Sony group. Losses were recorded primarily from the location-based entertainment complex in the U.S. and certain satellite distribution services businesses in Japan.

Regarding the location-based entertainment complexes business, an entertainment complex including stores and theatres in San Francisco opened in June 1999. Total investment for this project was approximately 13.8 billion yen. In addition, a location-based entertainment complex business that opened in Tokyo in April 2000 will be included in the Other business starting in the fiscal year ending March 31, 2001. Total investment for this project was approximately 13.0 billion yen.

SALES and OPERATING INCOME (LOSS) IN OTHER BUSINESS



* Year ended March 31

Other Income and Expenses

In consolidated results for the fiscal year ended March 31, 2000, other income decreased by 4.1 billion yen, or 2.7%, to 148.8 billion yen, while other expenses increased by 1.7 billion yen, or 1.4%, to 125.2 billion yen.

The decrease in other income was principally due to inclusion in the previous year of both a 58.7 billion yen gain on securities contribution to an employee retirement benefit trust and a 5.2 billion yen gain resulting from the merger of the Theatrical exhibition group in the Pictures business with Cineplex Odeon Corporation (refer to Note 7 of Notes to Consolidated Financial Statements). This decrease was partly offset by an increase in foreign exchange gain, net and by a gain of approximately 28.1 billion yen on certain investment securities during the fiscal year ended March 31, 2000. Interest and dividends during the year was 17.7 billion yen, compared with 23.3 billion yen in the previous year, principally due to decrease in interest received at subsidiaries outside Japan.

To hedge risks from exchange rate fluctuations, Sony primarily employs foreign exchange forward contracts and foreign currency option contracts. Foreign exchange gain, net, was 27.5 billion yen, compared with 2.9 billion yen in the previous year. This was principally due to gains from foreign exchange hedging in Sony Corporation.

The increase in other expenses was principally due to loss on disposal of fixed assets related to the discontinuation of the cellular phone business in North America. Interest expense was 42.0 billion yen, compared with 48.3 billion yen in the previous year. This was due to a decrease in the average outstanding balances of debt outside Japan in addition to the yen's appreciation. As a result, the balance of interest and dividends income, less interest expense, improved by 0.6 billion yen compared with the previous year and net interest expense came to 24.3 billion yen.

Income before Income Taxes

Income before income taxes for the fiscal year ended March 31, 2000 decreased by 113.4 billion yen, or 30.0%, to 264.3 billion yen compared with the previous year. Excluding the effect of the one-time gain on securities to an outside trust in the previous year noted above, the decrease of income before income taxes would have been limited to 17.1%.

Income Taxes

Income taxes for the fiscal year ended March 31, 2000 decreased by 82.3 billion yen, or 46.5%, to 94.6 billion yen, and the percentage of income taxes to income before income taxes (the effective tax rate) decreased from 46.9% to 35.8%. This was principally due to the performance improvement in certain U.S. subsidiaries that had operating loss carryforwards for tax purposes and a reduction in the Japanese corporate statutory income tax rate effective April 1, 1999, which had the effect of lowering the effective tax rate by approximately 6 percentage points.

Deferred tax assets are recognized on operating loss carryforwards for tax purposes since these losses may reduce future taxable income. However, a valuation allowance is established against those deferred tax assets that are not expected to be realized because sufficient taxable income is not expected to be generated before those loss carryforwards expire. Sony has recognized a valuation allowance for deferred tax assets principally relating to operating loss carryforwards of consolidated subsidiaries in the U.S.

Results of Affiliated Companies Accounted for by the Equity Method

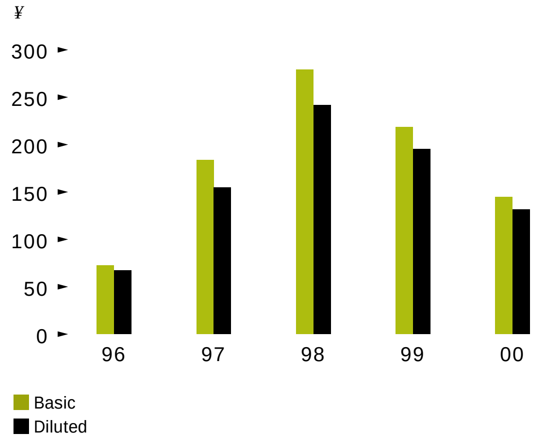
Equity affiliates include i) in the Electronics business - S.T. Liquid Crystal Display Corp. ("ST-LCD"), an LCD joint venture in Japan, ii) in the Music business - The Columbia House Company ("CHC"), a direct marketer of music and videos, iii) in the Pictures business - Telemundo group, a U.S. based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

During the fiscal year ended March 31, 2000, equity in net losses of affiliated companies was 37.8 billion yen, compared with 9.6 billion yen in the previous year, principally due to losses in CHC, ST-LCD, the location-based entertainment complex in Europe, Telemundo group, and several satellite distribution services businesses in Japan. During the year, the expansion of losses in CHC was largely due to approximately 7.6 billion yen of costs relating to shortened amortization periods for and an impairment of deferred advertising and member acquisition expenses. Regarding the location-based entertainment complex in Europe, which opens in June 2000 in Berlin, Germany, additional expenses were incurred due to an approximately 5.1 billion yen devaluation of real estate for sale. The total investment for this project was approximately 1.5 billion German marks.

In March 2000, Sony, Time Warner Inc., and CDNOW Inc., which provides services for selling music and video software via the Internet, announced the termination of a merger plan between CDNOW Inc. and CHC, which is equally owned by Sony and Time Warner Inc. Instead, Sony and Time Warner Inc. will commit a total of 51 million U.S. dollars to CDNOW Inc. (50% of which is from Sony), by investing 21 million U.S. dollars in addition to an existing 30 million U.S. dollars loan commitment. Also, Sony provided CHC in April 2000 with an approximately 93 million U.S. dollars loan.

During the year, Sony invested approximately 3.8 billion yen in Telemundo group, which resulted in a total investment of approximately 18.9 billion yen. In the fiscal year ending March 31, 2001, it is expected that Sony will make an additional investment of approximately 21.7 million U.S. dollars in Telemundo group.

NET INCOME PER SHARE

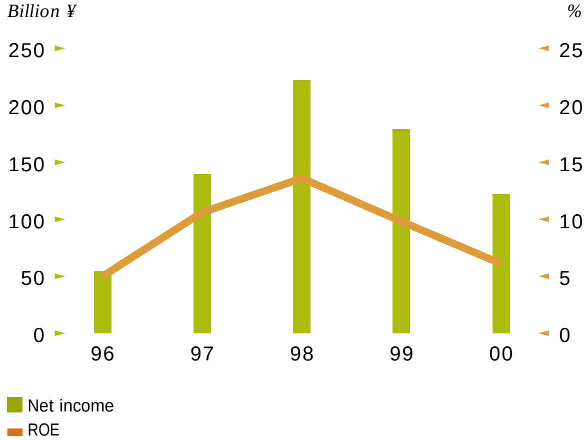


* Year ended March 31
* Restated to reflect the two-for-one stock split that has become effective on May 19, 2000

Net Income

Net income for the fiscal year ended March 31, 2000 decreased by 57.2 billion yen, or 31.9%, to 121.8 billion yen compared with the previous year. As a percentage of sales, net income decreased from 2.6% to 1.8%, and the return on stockholders' equity (using the average of such amounts at March 31, 1999 and at March 31, 2000) decreased from 9.8% to 6.1%. Net income in the previous year included 30.7 billion yen (net of tax) from the aforementioned gain on securities contribution to an employee retirement benefit trust which was recorded in other income. Excluding this effect, the decrease of net income would have been limited to 17.8%.

NET INCOME and ROE



* Year ended March 31

Basic net income per share was 144.6 yen compared with 218.4 yen in the previous year, and diluted net income per share was 131.7 yen compared with 195.5 yen in the previous year (refer to Note 2 of Notes to Consolidated Financial Statements).

STRATEGIES AND OUTLOOK

This section contains forward-looking statements about the future performance of Sony and should be read in light of the cautionary statement on that subject, which appears on inside front cover page and applies to this entire document.

Sony's management is endeavoring to develop the most appropriate plans for its businesses, considering the current general economic and operating environment and available information. The following is a summary of certain of Sony's current basic strategies and outlook for its fiscal year ending March 31, 2001.

Management Policy

At the dawn of the broadband network era, Sony aims to offer an environment where individuals can enjoy new lifestyles of entertainment and convenience. To achieve this vision, Sony has embarked on a series of corporate reforms including the strengthening and reorganization of its Electronics business. Sony regards the fiscal year ending March 31, 2001 as a second phase of accelerating corporate reform and will strive to increase the corporate value of its entire group.

Reinforcement of Sony Group Headquarters Accelerating Corporate Reform

As a model for group management in the broadband network era, Sony aims to further promote the "unified dispersed" management model. This model combines the function of Sony's Group Headquarters, which decides the basic group management policy and plans and carries out overall strategy, with those of each business unit, which autonomously operate under substantial delegation of authority. The role of Sony Group Headquarters is to create new businesses that utilize the network environment, to convert the existing businesses and management processes to those that correspond to a network context, and to aggressively promote reform, aiming to adapt the Sony group to the new era. In order to achieve these goals, Sony designated the Group Headquarters as "eHQ" and will strive to clarify its role as a promoter of reform and to strengthen its function.

Acceleration of Net Business as a New Growing Area

For a strategy of growth in the broadband network era, Sony is positioning such terminals as digital TVs/set top boxes, PCs, PlayStation 2, and cellular phones as network gateways. Sony intends to establish new businesses by integrating these terminals with various services. To achieve these aims, Sony recognizes the importance of strengthening such areas as major devices, content, telecommunications, and services as a key way of differentiating itself from other companies, and as necessary, Sony will seek to promote cooperation and alliances with other companies. In line with this strategy, Sony is actively proceeding with strategic investments in venture companies, especially in the U.S. During the fiscal year ended March 31, 2000, approximately 11.0 billion yen of investments were made, both through Sony Corporation initiatives and through digital media initiatives in the U.S. (most investments were for companies principally in the U.S.). During the fiscal year ending March 31, 2001, Sony is investing in a number of venture companies, including Transmeta Corporation which is working on processor technologies for mobile terminals.

In addition, to establish platforms to develop Internet businesses strategically, Sony, as a group, is aggressively promoting "So-net," originally started for providing Internet services, and "PlayStation.com," which is working to realize via the Internet direct sales and content distribution services in the future over broadband networks. In addition, "SonyStyle.com," providing customers with access to Sony products integrated with network services and such, has begun operations. These Internet businesses will develop new relationships with customers by responding to various individual needs.

From July 2000, Sony intends to launch a corporate broadband Internet service in Japan using WLL, or wireless local loop access system. In addition, during the fiscal year ended March 31, 2000, Sony invested approximately 4.1 billion yen in Crosswave Communications Inc. resulting in a total investment of 6.0 billion yen. Crosswave Communications Inc. was established for developing a high-capacity and high-speed network infrastructure and is currently developing next-generation network services all over Japan.

In the entertainment area, which Sony believes will assume greater importance in a networked society, in March 2000, Sony established Sony Broadband Entertainment Inc. ("SBE"), a U.S. holding company of the Music and Pictures businesses. To increase the value of its software assets, SBE will pursue content creation and network distribution businesses including potential strategic alliances.

Strengthening the Electronics Business

As part of its strategy of building competitiveness in the existing Electronics business, Sony is proceeding with its reorganization plans, including focusing on key businesses, consolidation of manufacturing facilities, optimization of logistics operations, maintaining of proper employment levels, and the introduction of the Six Sigma method for improving management quality. At the same time, for a strategy of future growth, Sony aims to develop platforms for providing customers content and services via networks using Sony's technologies in the Electronics business.

With regard to focusing on key businesses, Sony sold its business for the development, production, and support of thin film deposition materials for semiconductors and decided to consign its production of alkaline batteries to another company and to sell its in-flight entertainment business. Sony continues to review restructuring of its manufacturing facilities and to seek to streamline its supply chains including optimization of logistics operations, in order to counteract foreign exchange fluctuations, improve profitability, and reduce inventory. In addition, aiming to create new engineering and manufacturing systems directly linked to the market, Sony redefined the roles of its "Network Companies," which further the Electronics business, as business creation units which will focus on activities such as research and development and product planning. Also, Sony intends to gradually transfer major parts of work relating to design and manufacture to new platform companies currently planned to be established from the second half of the fiscal year ending March 31, 2001.

For a strategy of future growth, Sony has been promoting the development and introduction of network related equipment which employs Memory Stick IC recording media and i.LINK digital interface protocol and adopts copyright protection technology. Sony also intends to achieve interoperability among digital distribution technologies and digital distribution services. Memory Stick was developed for various kinds of digital equipment and already more than 3 million units have been shipped. Sony is working for the adoption of the format in such industries as electronics, computers, telecommunications, and automobiles worldwide, and many companies have agreed to support it. Regarding network related equipment, Sony, in collaboration with other companies, is proceeding with the development of hard-disk based personal video recorders, the establishment of a new-generation digital broadband communications platform that will permit the offering of an array of advanced interactive services including video-on-demand, the development of next-generation handheld network products, and others. In the area of flat panel displays, Sony reached a basic agreement in April 2000 to cooperate with Fujitsu Limited and Hitachi, Ltd. in the plasma display panels business, by investing approximately 5.0 billion yen in Fujitsu Hitachi Plasma Display Limited. Also, Sony is undertaking joint development efforts with respect to high-voltage Field Emission Displays for next-generation flat panel displays with Candescent Technologies Inc.

Positioning of Finance and Insurance Businesses in the Sony Group

Sony is seeking to position such businesses as Sony Finance International, Inc., Sony Life Insurance Co., Ltd., Sony Assurance Inc., and a net bank that is preparing to obtain a banking license together as another main business pillar alongside such sectors as electronics and entertainment. The total capitalization of the net bank, which Sony Corporation plans to establish with The Sakura Bank, Limited and J.P. Morgan & Co. Incorporated or an affiliate, will be 37.5 billion yen, 30.0 billion yen of which will be provided by Sony Corporation.

Sony has invested in Monex, Inc., which was established for providing individual customers with securities trading services via the Internet. Monex, Inc. started the services in October 1999.

Forecast of Consolidated Results

Factors which may affect Sony's financial performance include the following: general market factors in major areas where Sony conducts its businesses such as general economic conditions and levels of consumer spending, foreign exchange fluctuations, taxation policies of individual countries, and trading tariffs as well as subjective and changing consumer preferences and changing demographics, penetration ratios of products, Sony's ability to continue to design, develop, manufacture, sell, and win acceptance of its products and services, procurement of key devices, high levels of research and development expenses and long-term investment for making high value-added and digital network products, and various costs including expenses for raw materials, personnel, and licenses.

Regarding the forecast of consolidated results for the fiscal year ending March 31, 2001, although strong demand for digital AV and information and communication equipment is expected to continue, in view of expected severe competition and lower prices, along with an increase in the number of competitors in the digital network area and the impact of foreign currency fluctuations, the environment for Sony is expected to remain difficult. As a result, Sony forecasts that sales and operating income are expected to increase, income before income taxes to decrease, and net income to be virtually flat compared with the fiscal year ended March 31, 2000. This forecast assumes that the yen will continue to strengthen against the U.S. dollar and euro compared with the fiscal year ended March 31, 2000. Also, this forecast does not include the effect of a proposed new accounting statement, the final version of which is expected to be issued by the Accounting Standards Executive Committee ("AcSEC") of the American Institute of Certified Public Accountants shortly.

In October 1998, AcSEC issued an exposure draft of a proposed Statement of Position, “Accounting by Producers and Distributors of Films” (the “SOP”). The proposed SOP would significantly change the current accounting for the motion picture and television businesses. AcSEC currently is in the process of finalizing these proposed rules. Based on the conclusions AcSEC reached as of March 31, 2000, the SOP would require that advertising costs for theatrical and television product be expensed as incurred. In addition, the SOP would require development costs for abandoned projects be charged directly to expense. The SOP would also require all film costs to be classified in the balance sheet as a non-current asset. The proposed SOP’s provisions in other areas, such as revenue recognition, generally are consistent with Sony’s current accounting policies.

The provisions of the SOP are still being deliberated by AcSEC and the Financial Accounting Standards Board and could change prior to the issuance of a final standard. Accordingly, the impact to Sony is not currently known, as it may vary depending on the final SOP as well as the exact date it becomes effective. Although the proposed SOP has not been finalized, Sony believes it will be issued during the first quarter of the fiscal year ending March 31, 2001. The SOP, when issued, is expected to be effective for fiscal years beginning on or after December 16, 2000, with early application encouraged. Sony expects to adopt the provisions of the SOP upon issuance. Also, if adopted for the fiscal year ending March 31, 2001, certain expenses, primarily advertising costs for theatrical and television product and abandoned development costs, which are currently capitalized and recognized over time, would be recognized when incurred. For illustrative purposes, if the SOP had been implemented as of March 31, 2000, based upon AcSEC’s current proposal, the aforementioned operating income, income before income taxes, and net income for the fiscal year ending March 31, 2001 could each be expected to decrease by approximately 200 to 250 million dollars as a result of the accounting change. Sony would also have to record in the fiscal year ending March 31, 2001, a one-time non-cash cumulative effect adjustment of approximately 900 to 950 million dollars for the period through the end of the fiscal year ended March 31, 2000, which would appear in the income statement directly above the caption of “net income.” These items have no impact on cash flow.

The aforementioned consolidated forecast for the fiscal year ending March 31, 2001 includes the following factors. Research and development expenses for the fiscal year ending March 31, 2001 are expected to remain at a high level as in the fiscal year ended March 31, 2000. Major areas are semiconductors, communications, and displays. Capital expenditures for the fiscal year ending March 31, 2001 are expected to be approximately 475.0 billion yen, which is approximately 39.0 billion yen, or approximately 9%, higher than those in the previous year. This is principally because investments for semiconductors and new products production equipment in the Electronics business, for semiconductor production equipment in the Game business, and for DVD discs manufactured in the Music business are expected to increase. Regarding the breakdown of capital expenditures for the fiscal year ending March 31, 2001, the portion attributable to the Other business is expected to be the largest after the Electronics and Game businesses. This is principally because the Other business includes large amounts of purchases for leasing assets in the leasing and credit card business. Depreciation and amortization (including amortization of deferred insurance acquisition costs) for the fiscal year ending March 31, 2001 is expected to be approximately 350.0 billion yen, which is approximately 44.0 billion yen, or approximately 14%, higher than that in the previous year. This is principally because investments for semiconductors and other products production equipment in the Electronics business and for semiconductor production equipment in the Game business are expected to increase.

In the Electronics business, although a difficult environment, characterized by such factors as price competition and an increase in the number of competitors that have new technologies, is expected to continue, Sony intends to increase sales by introducing high value-added products in the areas of digital equipment and electronic components where Sony believes it has advantages. Regarding profit performance, although high levels of research and development expenses aimed at developing new products and strengthening basic technologies such as semiconductors, telecommunications, and displays; increases in depreciation expenses for investments targeted at digital networks; increases in advertising expenses for further sales expansion; and increases in licensing expenses reflecting acquisition of indispensable technologies for expansion of product lineups in information and communication areas are expected to partially offset profit, profit is expected to increase due to sales expansion and continuing cost control efforts.

In the Game business, although overall sales are expected to increase along with the start-up of the PlayStation 2 format, sales of the PlayStation format especially in hardware are expected to decrease due to generation transition and increases in the hardware penetration ratio. Regarding profit performance, profit is expected to decrease principally because start-up expenses for PlayStation 2 are expected to be recorded for a period of time. In addition, sales decreases of PlayStation hardware are expected to negatively impact profit.

In the Music business, market growth is expected to be relatively flat due to the saturation of the CD configuration in developed markets, ongoing effects of worldwide piracy, continued diversification in customers' preferences, and pricing pressures. In the U.S. based Music business, expenses associated with pursuing digital media initiatives are expected to negatively affect profitability. However, these factors are expected to be offset by the continued emphasis on global cost reduction as well as improved sales in Europe and Latin America. In the music business in Japan, cost reductions in such areas as advertising expenses are expected to improve profitability.

In the Pictures business, in the Motion Picture group, revenue is expected to increase due to releases of certain event films during the fiscal year ending March 31, 2001. In the Home Video group, Sony intends to increase video sales by focusing on the DVD format. In the Television group, a decrease in the number of continuing network television series is expected to reduce revenues during the fiscal year. Expenses relating to development of new interactive services that combine digital technology and film and television assets, and other strategic investments are expected to negatively affect profit.

In the Insurance business, although the life insurance business faces increasing competition due to deregulation and a continuation of the difficult environment for managing assets, Sony intends to expand the business through offering products suitable for customers' needs and further strengthening of its sales force. Start-up losses are expected in the non-life insurance business, which commenced operations in September 1999.

In the Other business, losses are expected in such businesses as location-based entertainment complexes in Japan and the U.S.

Amortization expenses (refer to Note 4 of Notes to Consolidated Financial Statements) in connection with the acquisitions of minority interests through exchanges of stock in January 2000 are expected to negatively affect profit for and after the fiscal year ending March 31, 2001.

In the fiscal year ending March 31, 2001, the amount of gains on sales of investment securities and subsidiaries is expected to decrease compared with the previous year.

In the fiscal year ending March 31, 2001, results of certain affiliated companies are expected to improve. In particular, equity losses from The Columbia House Company are expected to decrease from the previous year, which included the shortened amortization periods and the impairment of deferred advertising and certain other expenses (refer to Note 9 of Notes to Consolidated Financial Statements).

Dividend Policy

In the coming broadband network era, Sony Corporation, as the Sony Group Headquarters, considers that it is important to return profit to each shareholder by maintaining future competitiveness and increasing corporate value. As for retained earnings, Sony Corporation plans to utilize them effectively to carry out research and development and investments that are indispensable for continuing future growth of the Sony group.

A year-end cash dividend per share of Sony Corporation at the rate of 25 yen will be subject to approval at the Ordinary General Meeting of Shareholders, which will be held on June 29, 2000. Sony Corporation has already paid 25 yen per share to each shareholder; accordingly the annual cash dividend per share will be 50 yen.

Sony Corporation completed the split of its shares at the ratio of 2 shares for each share as of May 19, 2000. Subject to Board of Directors and shareholder approval, the annual cash dividend per share, after the split, for the fiscal year ending March 31, 2001 would be 25 yen (12.5 yen for interim dividend), which is half of the level of the annual cash dividend per share on a pre-split basis, thus, Sony intends to maintain the same overall dividend as the fiscal year ended March 31, 2000 after taking the split into account.

THE YEAR 2000 ISSUE

After the transition period toward 2000, Sony gathered information through its customer service support centers and internal communication structure for Year 2000 related issues. Although some minor issues have been discovered in some internal information systems at the end of February 2000 relating to a leap year problem, Sony does not currently believe that any issues exist that will materially affect Sony's customers, operations, or consolidated financial results or condition.

COMPLIANCE WITH STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("FAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." This standard requires all derivatives to be recognized in the balance sheet as either assets or liabilities and measured at fair value. To implement this standard, all hedging relationships must be reassessed. In June 1999, the FASB issued FAS 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133." The statement defers the effective date of FAS 133 for one year until the fiscal year beginning after June 15, 2000. Sony will adopt this standard as of April 1, 2001. Sony is now in the process of assessing the impact that this standard will have on Sony's results of operations and consolidated financial position.

QUARTERLY FINANCIAL AND STOCK INFORMATION

Sony Corporation and Consolidated Subsidiaries
(Unaudited)
Year ended March 31

	Yen in billions except per share amounts							
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	1999	**2000**	1999	**2000**	1999	**2000**	1999	**2000**
Sales and operating revenue	¥1,618.3	**¥1,482.3**	¥1,752.2	**¥1,632.7**	¥1,951.5	**¥ 1,916.0**	¥1,482.3	**¥1,655.7**
Operating income (loss)	93.4	**42.2**	111.2	**70.2**	182.9	**164.2**	(39.3)	**(36.0)**
Income (loss) before income taxes	93.1	**42.8**	102.5	**90.0**	235.5	**165.9**	(53.3)	**(34.4)**
Income taxes	47.6	**17.1**	53.5	**34.7**	112.4	**60.3**	(36.5)	**(17.4)**
Net income (loss)	40.9	**18.4**	45.1	**46.5**	112.3	**93.6**	(19.4)	**(36.7)**
Net income (loss) per share*								
Basic	¥ 50.0	**¥ 22.5**	¥ 55.0	**¥ 56.5**	¥ 137.0	**¥ 113.3**	¥ (23.6)	**¥ (40.8)**
Diluted	44.8	**20.6**	49.3	**50.8**	121.7	**101.6**	(23.6)	**(40.8)**
Depreciation and amortization**	¥ 69.2	**¥ 68.5**	¥ 78.0	**¥ 72.9**	¥ 78.2	**¥ 77.5**	¥ 81.8	**¥ 87.6**
Capital expenditures (additions to fixed assets)	76.0	**93.4**	86.2	**99.0**	82.5	**95.5**	109.0	**148.0**
R&D expenses	79.9	**90.2**	96.3	**103.8**	85.7	**90.6**	113.4	**109.9**
Tokyo Stock Exchange price per share of Common Stock*:								
High	¥ 6,020	**¥ 6,730**	¥ 6,745	**¥ 8,630**	¥ 4,710	**¥ 15,150**	¥ 5,965	**¥ 16,950**
Low	5,215	**5,360**	4,380	**6,605**	3,615	**7,565**	3,645	**11,715**
New York Stock Exchange price per American Depositary Share*:								
High	$44 21/32	**$ 55 1/4**	$48 1/2	**$ 80 1/4**	$ 38 7/16	**$147 15/16**	$ 50 3/8	**$ 157 3/8**
Low	38 3/4	**44 5/8**	33 15/32	**54 31/32**	30 1/8	**71 5/8**	32 3/4	**104 1/4**

* *All per share data are restated for all periods to reflect the two-for-one stock split that has become effective on May 19, 2000.*
** *Including amortization of deferred insurance acquisition costs*

Notes: 1. Basic net income (loss) per share ("EPS") is computed based on the average number of shares of common stock outstanding during each period and diluted EPS assumes the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock.

2. Effective with the year ended March 31, 2000, equity in net earnings (losses) of affiliated companies, which were previously included in sales and operating revenue, are shown separately below income before income taxes. As a result, sales and operating revenue, operating income, and income before income taxes figures for the year ended March 31, 1999 have been restated to conform to the presentation for the year ended March 31, 2000.

3. Income before income taxes and net income figures for the third quarter of the year ended March 31, 1999 include gains of ¥58.7 billion and ¥30.7 billion, respectively, which resulted from a contribution of securities to an outside trust for employee retirement benefit purposes.

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Sony Corporation and Consolidated Subsidiaries · Year ended March 31

	Yen in millions except per share amounts					Dollars in millions except per share amounts
	1996	1997	1998	1999	**2000**	**2000**
FOR THE YEAR						
Sales and operating revenue	¥4,586,740	¥5,658,253	¥6,761,004	¥6,804,182	**¥6,686,661**	**$63,082**
Operating income	229,499	365,449	525,724	348,212	**240,627**	**2,270**
Income before income taxes	132,334	307,548	459,263	377,691	**264,310**	**2,493**
Income taxes	77,158	163,570	214,868	176,973	**94,644**	**892**
Net income	54,252	139,460	222,068	179,004	**121,835**	**1,149**
Per share data*:						
Net income						
— Basic	¥ 72.5	¥ 183.9	¥ 278.9	¥ 218.4	**¥ 144.6**	**$ 1.36**
— Diluted	67.0	154.6	241.7	195.5	**131.7**	**1.24**
Cash dividends	25.0	27.5	30.0	25.0	**25.0**	**0.24**
Depreciation and amortization**	¥ 227,316	¥ 266,532	¥ 301,665	¥ 307,173	**¥ 306,505**	**$ 2,892**
Capital expenditures (additions to fixed assets)	251,197	298,078	387,955	353,730	**435,887**	**4,112**
R&D expenses	257,326	282,569	318,044	375,314	**394,479**	**3,722**
AT YEAR-END						
Net working capital	¥ 816,361	¥ 843,500	¥1,151,152	¥1,126,848	**¥ 974,298**	**$ 9,191**
Stockholders' equity	1,169,147	1,459,332	1,815,555	1,823,665	**2,182,906**	**20,593**
Stockholders' equity per share*	¥ 1,562.77	¥ 1,899.31	¥ 2,230.69	¥ 2,224.35	**¥ 2,409.36**	**$ 22.73**
Total assets	¥5,045,699	¥5,680,246	¥6,403,043	¥6,299,053	**¥6,807,197**	**$64,219**
Number of shares issued at year-end (thousands of shares) *	374,068	384,185	407,195	410,439	**453,639**	

* *All per share data are restated for all periods to reflect the two-for-one stock split that has become effective on May 19, 2000. However, no adjustment to reflect such stock split has been made to the number of shares issued at year-end.*

** *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 ¥106=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2000.*
2. *Basic net income per share ("EPS") is computed based on the average number of shares of common stock outstanding during each period and diluted EPS assumes the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock.*
3. *Cash dividends per share for the year ended March 31, 2000 include a dividend which is subject to approval of the Ordinary General Meeting of Shareholders to be held on June 29, 2000.*
4. *Effective with the year ended March 31, 2000, equity in net earnings (losses) of affiliated companies, which were previously included in sales and operating revenue, are shown separately below income before income taxes. As a result, sales and operating revenue, operating income, and income before income taxes figures for the prior years have been restated to conform to the presentation for the year ended March 31, 2000.*
5. *Income before income taxes and net income figures for the year ended March 31, 1999 include gains of ¥58.7 billion and ¥30.7 billion, respectively, which resulted from a contribution of securities to an outside trust for employee retirement benefit purposes.*

COMPOSITION OF SALES AND OPERATING REVENUE BY BUSINESS AND GEOGRAPHIC SEGMENT

Sony Corporation and Consolidated Subsidiaries · Year ended March 31

	Yen in millions					Dollars in millions**
	1996	1997	1998	1999	**2000**	**2000**
BY BUSINESS SEGMENT *						
Electronics	¥3,282,549	¥3,930,614	¥4,380,084	¥4,356,254	**¥4,395,906**	**$41,471**
	71.6%	69.5%	64.8%	64.0%	**65.7%**	
Game	200,894	408,335	699,574	760,071	**630,662**	**5,950**
	4.4	7.2	10.4	11.2	**9.4**	
Music	499,344	564,364	658,381	717,297	**665,047**	**6,274**
	10.9	10.0	9.7	10.5	**10.0**	
Pictures	316,945	438,399	644,183	545,693	**492,093**	**4,642**
	6.9	7.7	9.5	8.0	**7.4**	
Insurance	206,802	227,920	291,061	339,368	**380,317**	**3,588**
	4.5	4.0	4.3	5.0	**5.7**	
Other	80,206	88,621	87,721	85,499	**122,636**	**1,157**
	1.7	1.6	1.3	1.3	**1.8**	
Consolidated total	¥4,586,740	¥5,658,253	¥6,761,004	¥6,804,182	**¥6,686,661**	**$63,082**

** Sales and operating revenue to customers*

Note: As a result of a change in the accounting period in Pictures, results for the year ended March 31, 1998 in the segment include the thirteen-month period from March 1, 1997 to March 31, 1998.

《 Electronics Sales and Operating Revenue to Customers by Product Category 》

	1996	1997	1998	1999	**2000**	**2000**
Audio	¥ 900,400	¥1,029,961	¥1,127,788	¥1,072,621	**¥ 934,865**	**$ 8,820**
	27.4%	26.2%	25.7%	24.6%	**21.3%**	
Video	731,097	816,582	870,854	969,129	**976,705**	**9,214**
	22.3	20.8	19.9	22.3	**22.2**	
Televisions	554,023	704,075	709,043	702,620	**714,188**	**6,738**
	16.9	17.9	16.2	16.1	**16.2**	
Information and communications	540,719	764,512	894,810	914,140	**1,052,707**	**9,931**
	16.5	19.4	20.4	21.0	**24.0**	
Electronic components and other	556,310	615,484	777,589	697,744	**717,441**	**6,768**
	16.9	15.7	17.8	16.0	**16.3**	
Total	¥3,282,549	¥3,930,614	¥4,380,084	¥4,356,254	**¥4,395,906**	**$41,471**

Note: The above table is a breakdown of Electronics sales and operating revenue to customers by product category. 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.

BY GEOGRAPHIC SEGMENT	1996	1997	1998	1999	**2000**	**2000**
Japan	¥1,380,518	¥1,589,521	¥1,848,023	¥1,917,028	**¥2,121,249**	**$20,012**
	30.1%	28.1%	27.3%	28.2%	**31.7%**	
United States	1,254,132	1,635,044	2,101,222	2,158,006	**2,027,129**	**19,124**
	27.3	28.9	31.1	31.7	**30.3**	
Europe	1,055,524	1,305,195	1,568,830	1,667,010	**1,470,447**	**13,872**
	23.0	23.1	23.2	24.5	**22.0**	
Other Areas	896,566	1,128,493	1,242,929	1,062,138	**1,067,836**	**10,074**
	19.6	19.9	18.4	15.6	**16.0**	
Consolidated total	¥4,586,740	¥5,658,253	¥6,761,004	¥6,804,182	**¥6,686,661**	**$63,082**

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

*** U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥106=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2000.*

CONSOLIDATED BALANCE SHEETS

Sony Corporation and Consolidated Subsidiaries · March 31

	Yen in millions		Dollars in millions (Note 3)
	1999	**2000**	**2000**
ASSETS			
Current assets:			
Cash and cash equivalents (Note 13)	¥ 592,210	**¥ 626,064**	**$ 5,906**
Time deposits (Note 13)	24,304	**6,138**	**58**
Marketable securities (Note 10)	117,857	**107,499**	**1,014**
Notes and accounts receivable, trade (Note 9)	1,135,598	**1,156,065**	**10,906**
Allowance for doubtful accounts and sales returns	(122,015)	**(100,596)**	**(949)**
Inventories (Note 8)	877,898	**859,174**	**8,106**
Deferred income taxes (Note 16)	102,588	**117,258**	**1,106**
Prepaid expenses and other current assets	340,953	**363,038**	**3,425**
Total current assets	3,069,393	**3,134,640**	**29,572**
Noncurrent inventories—film (Note 8)	244,537	**226,387**	**2,136**
Investments and advances:			
Affiliated companies (Note 9)	116,786	**114,670**	**1,082**
Securities investments and other (Note 10)	863,950	**960,924**	**9,065**
	980,736	**1,075,594**	**10,147**
Property, plant and equipment (Notes 11 and 20):			
Land	191,434	**185,736**	**1,752**
Buildings	781,876	**774,372**	**7,306**
Machinery and equipment	1,952,276	**1,955,015**	**18,444**
Construction in progress	76,736	**92,787**	**875**
	3,002,322	**3,007,910**	**28,377**
Less—Accumulated depreciation	1,752,571	**1,752,340**	**16,532**
	1,249,751	**1,255,570**	**11,845**
Other assets:			
Intangibles, net (Notes 6 and 14)	123,272	**218,496**	**2,061**
Goodwill, net (Note 6)	139,888	**293,777**	**2,772**
Deferred insurance acquisition costs (Note 12)	199,868	**239,981**	**2,264**
Other (Note 16)	291,608	**362,752**	**3,422**
	754,636	**1,115,006**	**10,519**
	¥6,299,053	**¥6,807,197**	**$64,219**

The accompanying notes are an integral part of these statements.

	Yen in millions		Dollars in millions (Note 3)
	1999	**2000**	**2000**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings (Notes 11 and 13)	¥ 40,877	**¥ 56,426**	**$ 532**
Current portion of long-term debt (Notes 11, 13 and 20)	87,825	**158,509**	**1,496**
Notes and accounts payable, trade (Note 9)	722,690	**811,031**	**7,651**
Accounts payable, other and accrued expenses (Note 14)	670,631	**681,458**	**6,429**
Accrued income and other taxes	107,031	**87,520**	**826**
Other (Note 16)	313,491	**365,398**	**3,447**
Total current liabilities	1,942,545	**2,160,342**	**20,381**
Long-term liabilities:			
Long-term debt (Notes 11, 13 and 20)	1,037,460	**813,828**	**7,678**
Accrued pension and severance costs (Note 14)	129,115	**129,604**	**1,223**
Deferred income taxes (Note 16)	120,822	**184,020**	**1,736**
Future insurance policy benefits and other (Note 12)	913,937	**1,124,873**	**10,612**
Other	195,382	**177,059**	**1,670**
	2,396,716	**2,429,384**	**22,919**
Minority interest in consolidated subsidiaries	136,127	**34,565**	**326**
Stockholders' equity (Notes 4 and 17)**:**			
Common stock, ¥50 par value—			
Authorized: 1,350,000,000 shares			
Issued and outstanding: 1999 — 410,439,111 shares	416,373		
2000 — 453,639,163 shares		**451,550**	**4,260**
Additional paid-in capital	559,236	**940,716**	**8,875**
Retained earnings	1,123,591	**1,223,761**	**11,545**
Accumulated other comprehensive income—			
Unrealized gains on securities (Note 10)	23,483	**61,915**	**584**
Minimum pension liability adjustment (Note 14)	(8,999)	**(3,678)**	**(35)**
Foreign currency translation adjustments	(284,380)	**(483,553)**	**(4,562)**
	(269,896)	**(425,316)**	**(4,013)**
Treasury stock, at cost			
(1999 — 506,175 shares, 2000 — 633,139 shares)	(5,639)	**(7,805)**	**(74)**
	1,823,665	**2,182,906**	**20,593**
Commitments and contingent liabilities (Note 21)			
	¥6,299,053	**¥6,807,197**	**$64,219**

CONSOLIDATED STATEMENTS OF INCOME

Sony Corporation and Consolidated Subsidiaries · Year ended March 31

	Yen in millions			Dollars in millions (Note 3)
	1998	1999	**2000**	**2000**
Sales and operating revenue:				
Net sales (Note 9)	¥6,424,805	¥6,415,418	**¥6,238,401**	**$58,853**
Insurance revenue	291,061	339,368	**380,317**	**3,588**
Other operating revenue	45,138	49,396	**67,943**	**641**
	6,761,004	6,804,182	**6,686,661**	**63,082**
Costs and expenses:				
Cost of sales (Notes 15 and 19)	4,618,961	4,633,787	**4,595,086**	**43,350**
Selling, general and administrative (Notes 15, 18 and 19)	1,345,584	1,500,863	**1,491,560**	**14,071**
Insurance expenses	270,735	321,320	**359,388**	**3,391**
	6,235,280	6,455,970	**6,446,034**	**60,812**
Operating income	525,724	348,212	**240,627**	**2,270**
Other income:				
Interest and dividends (Note 9)	20,976	23,313	**17,700**	**167**
Foreign exchange gain, net	10,094	2,895	**27,466**	**259**
Gain on securities contribution to employee retirement benefit trust (Note 10)	—	58,698	**—**	**—**
Gain on sale of securities investments and other, net (Notes 7 and 10)	739	7,645	**28,099**	**265**
Other	52,154	60,354	**75,583**	**713**
	83,963	152,905	**148,848**	**1,404**
Other expenses:				
Interest	62,524	48,275	**42,030**	**397**
Other (Note 15)	87,900	75,151	**83,135**	**784**
	150,424	123,426	**125,165**	**1,181**
Income before income taxes	459,263	377,691	**264,310**	**2,493**
Income taxes (Note 16):				
Current	210,113	158,386	**120,803**	**1,139**
Deferred	4,755	18,587	**(26,159)**	**(247)**
	214,868	176,973	**94,644**	**892**
Income before minority interest and equity in net losses of affiliated companies	244,395	200,718	**169,666**	**1,601**
Minority interest in consolidated subsidiaries	16,813	12,151	**10,001**	**95**
Equity in net losses of affiliated companies (Note 9)	5,514	9,563	**37,830**	**357**
Net income	¥ 222,068	¥ 179,004	**¥ 121,835**	**$ 1,149**

	Yen			Dollars (Note 3)
Per share data (Note 5):				
Net income — Basic	¥278.9	¥218.4	**¥144.6**	**$1.36**
— Diluted	241.7	195.5	**131.7**	**1.24**
Cash dividends	30.0	25.0	**25.0**	**0.24**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Sony Corporation and Consolidated Subsidiaries · Year ended March 31

	Yen in millions			Dollars in millions (Note 3)
	1998	1999	**2000**	**2000**
Cash flows from operating activities:				
Net income	¥ 222,068	¥ 179,004	**¥ 121,835**	**$ 1,149**
Adjustments to reconcile net income to net cash provided by operating activities—				
Depreciation and amortization, including amortization of deferred insurance acquisition costs	301,665	307,173	**306,505**	**2,892**
Accrual for pension and severance costs, less payments	40,367	25,817	**22,860**	**216**
Loss on disposal of fixed assets	22,678	15,079	**18,849**	**178**
Gain on securities contribution to employee retirement benefit trust (Note 10)	—	(58,698)	**—**	**—**
Deferred income taxes	4,755	18,587	**(26,159)**	**(247)**
Equity in net losses of affiliated companies, net of dividends	6,588	14,580	**38,699**	**365**
Changes in assets and liabilities:				
(Increase) decrease in notes and accounts receivable	(113,050)	38,942	**(132,566)**	**(1,251)**
(Increase) decrease in inventories	(96,138)	70,693	**(35,498)**	**(335)**
Increase in film inventories	(7,194)	(27,103)	**(34,330)**	**(324)**
Increase (decrease) in notes and accounts payable	109,785	(24,063)	**110,207**	**1,040**
Decrease in accrued income and other taxes	(28,775)	(30,125)	**(15,433)**	**(145)**
Increase in future insurance policy benefits and other	134,707	199,967	**210,936**	**1,990**
Increase in deferred insurance acquisition costs	(39,553)	(57,417)	**(62,821)**	**(593)**
Changes in other current assets and liabilities, net	86,203	55,286	**87,328**	**824**
Other	(31,756)	(64,455)	**(30,949)**	**(292)**
Net cash provided by operating activities	612,350	663,267	**579,463**	**5,467**
Cash flows from investing activities:				
Payments for purchases of fixed assets	(378,053)	(368,355)	**(403,013)**	**(3,802)**
Proceeds from sales of fixed assets	22,413	28,783	**29,077**	**274**
Payments for investments and advances by insurance business	(398,779)	(651,226)	**(178,866)**	**(1,687)**
Payments for investments and advances (other than insurance business)	(64,460)	(89,827)	**(105,031)**	**(991)**
Proceeds from sales of investment securities and collections of advances by insurance business	297,186	498,738	**97,200**	**917**
Proceeds from sales of investment securities and collections of advances (other than insurance business)	26,257	31,359	**86,493**	**816**
Proceeds from merger of Loews Theatres exhibition business (Note 7)	—	53,007	**—**	**—**
Payments for purchases of marketable securities	(95,163)	(121,483)	**(70,053)**	**(661)**
Proceeds from sales of marketable securities	46,730	171,868	**78,370**	**739**
(Increase) decrease in time deposits	(54,831)	79,876	**15,930**	**150**
Net cash used in investing activities	(598,700)	(367,260)	**(449,893)**	**(4,245)**
Cash flows from financing activities:				
Proceeds from issuance of long-term debt	342,101	54,208	**30,783**	**290**
Payments of long-term debt	(332,154)	(69,889)	**(99,454)**	**(938)**
Increase (decrease) in short-term borrowings	(2,345)	(71,601)	**19,824**	**187**
Dividends paid	(21,582)	(24,501)	**(20,589)**	**(194)**
Other	(3,790)	(445)	**1,361**	**13**
Net cash used in financing activities	(17,770)	(112,228)	**(68,075)**	**(642)**
Effect of exchange rate changes on cash and cash equivalents	(1,112)	(14,855)	**(27,641)**	**(261)**
Net increase (decrease) in cash and cash equivalents	(5,232)	168,924	**33,854**	**319**
Cash and cash equivalents at beginning of year	428,518	423,286	**592,210**	**5,587**
Cash and cash equivalents at end of year	¥ 423,286	¥ 592,210	**¥ 626,064**	**$ 5,906**
Supplemental data:				
Cash paid during the year for—				
Income taxes	¥ 239,054	¥ 191,378	**¥ 132,891**	**$ 1,254**
Interest	64,102	49,096	**43,668**	**412**
Non-cash investing and financing activities—				
Integration of three listed subsidiaries through exchange offerings (Note 4)				
Fair value of assets acquired	—	—	**¥ 282,488**	**$ 2,665**
Deferred tax liabilities thereon	—	—	**(46,794)**	**(442)**
Minority interest eliminated	—	—	**112,242**	**1,059**
Net	—	—	**¥ 347,936**	**$ 3,282**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Sony Corporation and Consolidated Subsidiaries · Year ended March 31

	Yen in millions					
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total
Balance at March 31, 1997	¥332,037	¥474,033	¥ 767,301	¥(113,943)	¥ (96)	¥1,459,332
Exercise of stock purchase warrants	861	860				1,721
Conversion of convertible bonds	73,298	73,214				146,512
Common stock warrants		315				315
Comprehensive income:						
Net income			222,068			222,068
Other comprehensive income, net of tax (Note 17)—						
Unrealized gains on securities:						
Unrealized holding gains arising during the period				(22,105)		(22,105)
Minimum pension liability adjustment				(5,714)		(5,714)
Foreign currency translation adjustments				40,496		40,496
Total comprehensive income						234,745
Dividends declared			(24,286)			(24,286)
Purchase of treasury stock					(7,948)	(7,948)
Reissuance of treasury stock					5,164	5,164
Balance at March 31, 1998	406,196	548,422	965,083	(101,266)	(2,880)	1,815,555
Exercise of stock purchase warrants	81	80				161
Conversion of convertible bonds	10,096	10,094				20,190
Common stock warrants		640				640
Comprehensive income:						
Net income			179,004			179,004
Other comprehensive income, net of tax (Note 17)—						
Unrealized gains on securities:						
Unrealized holding gains arising during the period				9,009		9,009
Less: Reclassification adjustment for gains included in net income				(30,699)		(30,699)
Minimum pension liability adjustment				(3,285)		(3,285)
Foreign currency translation adjustments				(143,655)		(143,655)
Total comprehensive income						10,374
Dividends declared			(20,496)			(20,496)
Purchase of treasury stock					(4,084)	(4,084)
Reissuance of treasury stock					1,325	1,325
Balance at March 31, 1999	¥416,373	¥559,236	¥1,123,591	¥(269,896)	¥(5,639)	¥1,823,665

(Continued on following page.)

	Yen in millions					
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total
Balance at March 31, 1999	¥416,373	¥559,236	¥1,123,591	¥(269,896)	¥(5,639)	¥1,823,665
Exercise of stock purchase warrants	**1,025**	**1,025**				**2,050**
Conversion of convertible bonds	**32,503**	**32,494**				**64,997**
Stock issued under exchange offerings (Note 4)	**1,649**	**346,287**				**347,936**
Common stock warrants		**686**				**686**
Comprehensive income:						
Net income			**121,835**			**121,835**
Other comprehensive income, net of tax (Note 17)—						
Unrealized gains on securities:						
Unrealized holding gains arising during the period				**52,819**		**52,819**
Less: Reclassification adjustment for gains included in net income				**(14,387)**		**(14,387)**
Minimum pension liability adjustment				**5,321**		**5,321**
Foreign currency translation adjustments				**(199,173)**		**(199,173)**
Total comprehensive income						**(33,585)**
Dividends declared			**(21,665)**			**(21,665)**
Purchase of treasury stock					**(8,697)**	**(8,697)**
Reissuance of treasury stock		**988**			**6,531**	**7,519**
Balance at March 31, 2000	**¥451,550**	**¥940,716**	**¥1,223,761**	**¥(425,316)**	**¥(7,805)**	**¥2,182,906**

	Dollars in millions (Note 3)					
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total
Balance at March 31, 1999	$3,928	$5,276	$10,600	$(2,547)	$(53)	$17,204
Exercise of stock purchase warrants	**10**	**10**				**20**
Conversion of convertible bonds	**307**	**307**				**614**
Stock issued under exchange offerings (Note 4)	**15**	**3,267**				**3,282**
Common stock warrants		**6**				**6**
Comprehensive income:						
Net income			**1,149**			**1,149**
Other comprehensive income, net of tax (Note 17)—						
Unrealized gains on securities:						
Unrealized holding gains arising during the period				**498**		**498**
Less: Reclassification adjustment for gains included in net income				**(135)**		**(135)**
Minimum pension liability adjustment				**50**		**50**
Foreign currency translation adjustments				**(1,879)**		**(1,879)**
Total comprehensive income						**(317)**
Dividends declared			**(204)**			**(204)**
Purchase of treasury stock					**(82)**	**(82)**
Reissuance of treasury stock		**9**			**61**	**70**
Balance at March 31, 2000	**$4,260**	**$8,875**	**$11,545**	**$(4,013)**	**$(74)**	**$20,593**

The accompanying notes are an integral part of these statements.

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's principal manufacturing facilities are located in Japan, the United States of America, Europe, and Asia, and its products are marketed by sales subsidiaries and unaffiliated local distributors as well as direct sales via the Internet throughout the world. Sony also develops, produces, manufactures, and markets home-use game consoles and software. 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 conducts insurance operations through a Japanese stock life insurance subsidiary and non-life insurance subsidiaries. In addition to the above, Sony is engaged in a financial business through leasing and credit card operations, satellite distribution services including program supplying businesses in Japan, Internet-related businesses, development and operation of location-based entertainment complexes, and others.

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.

The preparation of 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.

Significant accounting policies are as follows:

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 more than 20% but less than or equal to 50% are accounted for under the equity method. Under the equity method, investments are stated at cost plus/minus Sony's equity in undistributed earnings/losses. Consolidated net income includes Sony's equity in current earnings/losses of such companies, after elimination of unrealized intercompany profits. Effective with the fiscal year ended March 31, 2000, equity in net earnings/losses of affiliated companies, which were previously included in sales and operating revenue, are shown separately below income before minority interest and equity in net losses of affiliated companies.

On occasion, a subsidiary or affiliated company accounted for by the equity method may issue its shares to third parties as either a public 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, the resulting gains or losses arising from the change in interest are recorded in income for the year the change in interest transaction occurs.

The excess of the cost over the underlying net equity of investments in 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.

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.

Revenue recognition

Revenues from electronics, game and music sales are recognized when products are shipped to customers.

Motion picture revenue is recognized beginning on the date of theatrical exhibition. Revenue from television licensing agreements is recognized when the motion picture or television series first becomes available for telecast. Revenue from home videocassette sales is generally recognized on the date of shipment.

Insurance premiums are reported as revenue when due from policyholders. Benefits and expenses are associated with earned insurance premiums so as to result in the recognition of profits over the life of the contracts. This association is accomplished through a provision for liabilities for future benefits and amortization of acquisition costs.

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 securities

Marketable securities consist of 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.

Inventories

Inventories in electronics, game and music 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 include production, print, certain advertising costs and allocated overhead. Film costs are amortized in the proportion that revenue for a period relates to management’s estimate of ultimate revenues.

Unamortized film costs are compared with estimated net realizable value on an individual film basis and write-downs are recorded when indicated. Film costs for motion pictures and television programs that are expected to be amortized against revenues from primary markets are classified as current assets. Primary markets for motion pictures include theatrical, home videocassette and pay television. Primary markets for television programs include network and first-run syndication. All other film costs are classified as noncurrent.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is principally computed on the declining-balance method for Sony Corporation and Japanese subsidiaries and on the straight-line method for foreign subsidiary companies 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.

Intangibles and goodwill

Intangibles, which mainly consist of artist contracts, music catalogs and trademarks, are being amortized on a straight-line basis principally over 16 years, 21 years and 20 years, respectively.

Goodwill recognized in acquisitions accounted for as purchases is being amortized on a straight-line basis principally over a 20 or 40-year period.

Sony evaluates the amortization period of intangibles and goodwill on an ongoing basis in light of changes in any business conditions, events or circumstances that may indicate potential impairment of those assets.

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.

Future insurance policy benefits

Future insurance policy benefits are computed based on actuarial assumptions.

Accounting for the impairment of long-lived assets

Long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. When the sum of expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized, based on the fair value of the asset. The fair value of goodwill is determined using a discounted cash flows analysis.

Goodwill not identified with assets that are subject to an impairment loss is evaluated by using discounted cash flow method.

Advertising cost

Except for advertising costs for film product, insurance policies and direct-response advertising, Sony expenses the production costs of advertising the first time the advertising takes place. Advertising costs for film product are capitalized and amortized over the related revenue streams in each market that such costs are intended to benefit in accordance with Financial Accounting Standards Board ("FASB") Statement No. 53, "Financial Reporting by Producers and Distributors of Motion Picture Films". Advertising costs for acquiring new insurance policies are deferred and amortized as part of the insurance acquisition costs. Direct-response advertising costs are capitalized and amortized over its expected period of future benefits.

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.

Derivative financial instruments

Derivative financial instruments, which include foreign exchange forward contracts, foreign currency option contracts, interest rate swap agreements, and interest rate and currency swap agreements, are used in Sony's risk management of foreign currency and interest rate risk exposures of its financial assets and liabilities.

Foreign exchange forward contracts

Sony enters into foreign exchange forward contracts to limit exposure, affected by changes in foreign currency exchange rates, on accounts receivable and payable and cash flows generated from anticipated transactions denominated in foreign currencies. Foreign exchange forward contracts which are designated and effective as hedges of such currency exchange rate risk on existing assets and liabilities are marked to market and included as an offset to foreign exchange gains/losses recorded on the existing assets and liabilities. Such contracts on anticipated transactions, including contracts used to hedge intercompany foreign currency commitments, which do not qualify as firm commitments, are marked to market with changes in value recognized in foreign exchange gains/losses.

Foreign currency option contracts

Sony enters into purchased foreign currency option contracts to limit exposure, affected by changes in foreign currency exchange rates, on cash flows generated from anticipated transactions denominated in foreign currencies. Sony also enters into written foreign currency option contracts, of which the majority are part of range forward contracts corresponding to the purchased foreign currency option contracts. In addition to the range forward contracts, Sony enters into written foreign currency option contracts to minimize its hedging costs. The carrying values of all foreign currency option contracts are marked to market with changes in value recognized in foreign exchange gains/losses.

Interest rate swap agreements and interest rate and currency swap agreements

Sony enters into interest rate swap agreements or interest rate and currency swap agreements in order to lower funding costs, to diversify sources of funding and to limit Sony's exposure in relation to underlying debt instruments resulting from adverse fluctuations in interest rates or foreign currency exchange rates. The related interest differentials paid or received under the interest rate swap agreements and under the interest rate and currency swap agreements are recognized over the terms of the agreements in interest expense. Currency swap portions of the interest rate and currency swap agreements which are designated and effective as hedges of exposure resulting from changes in foreign currency exchange rates on underlying debt denominated in foreign currency are marked to market and included as an offset to foreign exchange gains/losses on the underlying debt.

After an underlying hedged transaction is settled or ceases to exist, all changes in fair value of related derivatives which have not been settled are recognized in foreign exchange gains/losses.

Stock-based compensation

In accordance with Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees", stock-based compensation cost is recognized in income based on the excess, if any, of the quoted market price of the stock at the grant date of the award or other measurement date over the stated exercise price of the award.

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 of the applicable par value 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 accounted for as excess of par value in the common stock account.

Under 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 Shareholders' Meeting, 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 financial statements only when it becomes effective, except for the calculation and presentation of per share amounts.

Net income per share

Basic net income per share ("EPS") is computed based on the average number of shares of common stock outstanding during each period and diluted EPS assumes the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock. Basic and diluted EPS for the current and prior years are adjusted to reflect stock split that became effective subsequent to the date of the financial statements but before the issuance of the statements.

Common stock issue costs

Common 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.

Recent pronouncements

Derivative instruments and hedging activities

In June 1998, the FASB issued Statement of Financial Accounting Standards ("FAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities". This standard requires all derivatives to be recognized in the balance sheet as either assets or liabilities and measured at fair value. To implement this standard, all hedging relationships must be reassessed. In June 1999, the FASB issued FAS 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133". The statement defers the effective date of FAS 133 for one year until fiscal year beginning after June 15, 2000. Sony will adopt this standard as of April 1, 2001. Sony is now in the process of assessing the impact that this standard will have on Sony's results of operations and consolidated financial position.

Reclassifications

Certain reclassifications of the financial statements for the years ended March 31, 1998 and 1999 have been made to conform to the presentation for the year ended March 31, 2000.

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 ¥106 = U.S.$1, the approximate current rate at March 31, 2000, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

4. Integration of three listed subsidiaries

On January 5, 2000, Sony Corporation made three listed subsidiaries, Sony Music Entertainment (Japan) Inc. ("SMEJ"), Sony Chemicals Corporation ("SCC") and Sony Precision Technology Inc. ("SPT"), wholly owned subsidiary companies through exchange offer procedures. Prior to the exchange offer procedures, Sony Corporation owned 71.0%, 69.6% and 69.2% of common stock of SMEJ, SCC and SPT, respectively. SMEJ operates primarily in the recording business; SCC is engaged in manufacturing and sale of recording media, electrical parts and joint materials; and SPT is engaged in manufacturing and sale of precise measuring and recording machines and equipment. Sony Computer Entertainment Inc., which is owned by Sony Corporation and SMEJ, also became a wholly owned subsidiary company of Sony Corporation.

The share exchange ratios were one share of SMEJ, SCC and SPT for 0.835 shares, 0.565 shares and 0.203 shares of Sony Corporation, respectively. As a result, approximately 26,156 thousand, 5,606 thousand and 1,218 thousand shares of Sony Corporation's common stock were issued, respectively.

All of the exchanges were accounted for as purchases. The fair value of the acquired minority interests were determined based on the quoted market price of ¥10,550 ($100) per share of Sony Corporation for a few days before and after March 9, 1999 when the terms of the acquisition were agreed to and announced. The costs of the acquired minority interest were ¥276,169 million ($2,605 million), ¥59,174 million ($558 million) and ¥12,868 million ($121 million) for SMEJ, SCC and SPT, respectively. The direct costs were included in the cost of acquisition. The excess of the purchase price of each subsidiary over the net assets acquired has been allocated to identifiable assets such as land and intangible assets (primarily the PlayStation trade name, PlayStation format, music distribution agreements and artist contracts), based upon the estimated fair value of such assets, and relevant deferred tax liabilities. The excess of the acquisition costs over the sum of the amounts assigned to identifiable assets less liabilities assumed is recognized as goodwill. Goodwill on this transaction is being amortized on a straight-line basis over a 20-year period.

Prior to the exchange those three subsidiaries were consolidated subsidiaries, and Sony's consolidated financial statements include operating results of those subsidiaries for the full year. After the date of the exchange, minority interest income or losses relating to these subsidiaries were no longer recognized in Sony's consolidated financial statements. The following unaudited consolidated pro forma information shows the results of Sony's consolidated operations for the years ended March 31, 1999 and 2000 as though the exchanges were made as of the beginning of each year presented.

	Unaudited		
	Year ended March 31		
	1999	**2000**	**2000**
	Yen in millions		Dollars in millions
Net sales (No change)	¥6,415,418	**¥6,238,401**	**$58,853**
Net income	174,870	**123,183**	**1,162**
	Yen		Dollars
Net income per common share:			
Basic	¥197.5	**¥138.1**	**$1.30**
Diluted	178.4	**126.5**	**1.19**

The pro forma results of operations are not necessarily indicative of the actual results of operations that would have occurred had the exchanges been consummated at the beginning of the respective years, or of results that may occur in the future. The pro forma net income per common share for the years ended March 31, 1999 and 2000 reflects the two-for-one stock split that has become effective on May 19, 2000.

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

Basic and diluted EPS as well as the number of shares in the following table are restated for all periods to reflect the two-for-one stock split that has become effective on May 19, 2000. Reconciliation of the differences between basic and diluted EPS for the years ended March 31, 1998, 1999 and 2000 is as follows:

	Yen in millions	Thousands of shares	Yen
	Net income	Weighted-average shares	EPS
For the year ended March 31, 1998:			
Basic EPS			
Net income available to common stockholders	¥ 222,068	796,363	¥ 278.9
Effect of Dilutive Securities			
Warrants		101	
Convertible bonds	2,271	131,779	
Diluted EPS			
Net income for computation	¥ 224,339	928,243	¥ 241.7
For the year ended March 31, 1999:			
Basic EPS			
Net income available to common stockholders	¥ 179,004	819,506	¥ 218.4
Effect of Dilutive Securities			
Warrants		60	
Convertible bonds	2,361	108,095	
Diluted EPS			
Net income for computation	¥ 181,365	927,661	¥ 195.5

	Yen in millions	Thousands of shares	Yen	Dollars
	Net income	Weighted-average shares	EPS	
For the year ended March 31, 2000:				
Basic EPS				
Net income available to common stockholders	**¥121,835**	**842,679**	**¥144.6**	**$1.36**
Effect of Dilutive Securities				
Warrants		**500**		
Convertible bonds	**2,537**	**101,174**		
Diluted EPS				
Net income for computation	**¥124,372**	**944,353**	**¥131.7**	**$1.24**

6. Accumulated amortization of intangibles and goodwill

Accumulated amortization of intangibles and goodwill amounted to ¥211,248 million and ¥202,750 million ($1,913 million) at March 31, 1999 and 2000, respectively.

7. Proceeds from merger of Loews Theatres exhibition business

During the quarter ended June 30, 1998, Sony merged its Loews Theatres exhibition business with Cineplex Odeon Corporation to create Loews Cineplex Entertainment Corporation ("Loews"). Subsequent to the merger, Loews completed a public offering of its common stock.

After these transactions, Sony's ownership in Loews is 39.5%. As a result of these transactions, Sony no longer consolidates the results of Loews; Loews' results are now reported on an equity basis. In connection with the Loews merger and the subsequent public offering, Sony received proceeds of ¥53,007 million and recorded a gain of ¥5,181 million, which is reflected in gain on sale of securities investments and other on the consolidated statement of income for the year ended March 31, 1999.

8. Inventories

Inventories comprise the following:

	Yen in millions		Dollars in millions
	March 31		March 31,
	1999	2000	2000
Current:			
Finished products	¥525,548	**¥461,675**	**$4,356**
Work in process	101,754	**106,749**	**1,007**
Raw materials, purchased components and supplies	133,629	**165,866**	**1,565**
Film — released	110,740	**113,333**	**1,069**
— in process	6,227	**11,551**	**109**
	¥877,898	**¥859,174**	**$8,106**
Noncurrent:			
Film — released	¥159,877	**¥137,920**	**$1,301**
— in process	84,660	**88,467**	**835**
	¥244,537	**¥226,387**	**$2,136**

9. Investments in and transactions with affiliated companies

Sony accounts for its investments in affiliated companies over which Sony has significant influence or ownership of more than 20% but less than or equal to 50% under the equity method. Such investments include but are not limited to Sony's interest in The Columbia House Company (50%), BE-ST Bellevuestrasse Development GmbH & Co. First Real Estate KG, Berlin (50%) and ST Liquid Crystal Display Corporation (50%).

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

	Yen in millions		Dollars in millions
	March 31		March 31,
	1999	2000	2000
Current assets	¥271,796	**¥217,419**	**$2,051**
Property, plant and equipment	222,346	**263,895**	**2,490**
Other assets	162,648	**207,338**	**1,956**
Total assets	¥656,790	**¥688,652**	**$6,497**
Current liabilities	¥247,672	**¥288,838**	**$2,725**
Long-term liabilities	200,250	**228,938**	**2,160**
Stockholders' equity	208,868	**170,876**	**1,612**
Total liabilities and stockholders' equity	¥656,790	**¥688,652**	**$6,497**
Number of companies at end of year	65	**81**	

	Yen in millions			Dollars in millions
	Year ended March 31			Year ended
	1998	1999	2000	March 31, 2000
Net sales	¥369,443	¥459,168	**¥503,186**	**$4,747**
Gross profit	109,716	146,678	**135,828**	**1,281**
Net income (loss)	(8,728)	(36,862)	**(89,207)**	**(842)**

During the year ended March 31, 2000, additional costs relating to shortened amortization periods and an impairment of deferred direct-response advertising and member acquisition expenses in The Columbia House Company and devaluation of real estate for sale in BE-ST Bellevuestrasse Development GmbH & Co. First Real Estate KG, Berlin, which develops and operates location-based entertainment complexes, negatively affected the equity in net losses of affiliated companies by approximately ¥7,632 million ($72 million) and ¥5,154 million ($49 million), respectively.

An affiliated company accounted for by the equity method with carrying amounts of ¥30,684 million and ¥24,958 million ($235 million) at March 31, 1999 and 2000, respectively, was quoted on an established market at an aggregate value of ¥27,719 million and ¥8,584 million ($81 million), respectively.

Account balances and transactions with affiliated companies are presented below:

	Yen in millions		Dollars in millions
	March 31		**March 31,**
	1999	**2000**	**2000**
Accounts receivable, trade	¥14,744	**¥14,453**	**$136**
Accounts payable, trade	132	**1,085**	**10**

	Yen in millions			Dollars in millions
	Year ended March 31			**Year ended**
	1998	1999	**2000**	**March 31, 2000**
Sales	¥27,419	¥25,885	**¥32,045**	**$302**
Purchases	3,199	1,932	**5,301**	**50**

Dividends from affiliated companies accounted for by the equity method for the years ended March 31, 1998, 1999 and 2000 were ¥1,074 million, ¥5,017 million and ¥869 million ($8 million), respectively.

10. 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 are as follows:

	Yen in millions							
	March 31, 1999				**March 31, 2000**			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:								
Debt securities	¥746,005	¥36,632	¥12,187	¥770,450	**¥739,563**	**¥ 40,646**	**¥7,268**	**¥772,941**
Equity securities	57,712	13,774	3,156	68,330	**55,321**	**66,905**	**2,594**	**119,632**
Total	¥803,717	¥50,406	¥15,343	¥838,780	**¥794,884**	**¥107,551**	**¥9,862**	**¥892,573**

	Dollars in millions			
	March 31, 2000			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:				
Debt securities	**$6,977**	**$ 384**	**$69**	**$7,292**
Equity securities	**522**	**631**	**24**	**1,129**
Total	**$7,499**	**$1,015**	**$93**	**$8,421**

At March 31, 2000, debt securities mainly consist of Japanese government and municipal bonds and corporate debt securities due within 1 to 15 years.

Proceeds from sales of available-for-sale securities were ¥359,815 million, ¥621,045 million and ¥231,419 million ($2,183 million) for the years ended March 31, 1998, 1999 and 2000, respectively. On those sales, gross realized gains computed on the average cost basis were ¥18,028 million, ¥9,475 million and ¥21,572 million ($203 million) and gross realized losses were ¥13,793 million, ¥3,554 million and ¥4,376 million ($41 million), respectively.

In December 1998, Sony Corporation 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 ¥81,413 million. Upon contribution of these available-for-sale securities, the net unrealized gain was realized and was disclosed as "gain on securities contribution to employee retirement benefit trust" on the consolidated statement of income. Since the unrealized gain, net of tax, had already been recorded as accumulated other comprehensive income, the contribution itself did not impact the amount of comprehensive income.

Marketable securities and securities investments and other as of March 31, 1999 and 2000 include short-term investments in money market funds and long-term advances to third parties of ¥101,618 million and ¥136,854 million ($1,291 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 nonpublic companies. The aggregate carrying amounts of the investments in nonpublic companies were ¥41,203 million and ¥38,826 million ($366 million) at March 31, 1999 and 2000, respectively. The corresponding fair values at those dates were not computed as such estimation was not readily determinable.

The net change in unrealized gain or loss on trading securities that has been included in earnings during the years ended March 31, 1998, 1999 and 2000 was insignificant.

11. Short-term borrowings and long-term debt

Short-term borrowings comprise the following:

	Yen in millions		Dollars in millions
	March 31		**March 31,**
	1999	**2000**	**2000**
Loans, principally from banks, with weighted-average interest rates of 2.34% and 3.72% per annum at March 31, 1999 and 2000, respectively	¥40,877	**¥54,566**	**$515**
Commercial paper of a consolidated subsidiary in India with interest of 10.5% per annum	—	**1,860**	**17**
	¥40,877	**¥56,426**	**$532**

Long-term debt comprises the following:

	Yen in millions		Dollars in millions
	March 31		March 31,
	1999	**2000**	**2000**
Unsecured loans, representing obligations principally to banks:			
Due 1999 to 2017 with interest ranging from 1.0% to 6.25% per annum	¥ 60,385		
Due 2000 to 2018 with interest ranging from 1.0% to 6.39% per annum		**¥ 58,193**	**$ 549**
Secured loans, representing obligations principally to banks:			
Due 1999 to 2005 with interest ranging from 5.10% to 10.13% per annum	29,501		
Due 2000 to 2009 with interest ranging from 5.10% to 6.25% per annum		**24,833**	**234**
Medium-term notes of consolidated subsidiaries:			
Due 1999 to 2006 with interest ranging from 2.87% to 8.04% per annum	172,698		
Due 2000 to 2006 with interest ranging from 3.21% to 7.55% per annum		**123,625**	**1,166**
Unsecured 2.0% convertible bonds due 2000, convertible currently at ¥2,080.0 ($20) for one common share, redeemable before due date	330	**53**	**1**
Unsecured 0.15% convertible bonds due 2001, convertible currently at ¥3,259.5 ($31) for one common share, redeemable before due date	89,762	**34,114**	**322**
Unsecured 1.5% convertible bonds due 2002, convertible currently at ¥2,194.0 ($21) for one common share, redeemable before due date	700	**338**	**3**
Unsecured 1.4% convertible bonds due 2003, convertible currently at ¥2,707.8 ($26) for one common share, redeemable before due date	13,627	**9,380**	**88**
Unsecured 1.4% convertible bonds due 2005, convertible currently at ¥3,995.5 ($38) for one common share, redeemable before due date	297,586	**293,120**	**2,765**
Unsecured 0.1% bonds, due 1999 with detachable warrants	1,000	**—**	**—**
Unsecured 0.1% bonds, due 2000 with detachable warrants	2,000	**2,000**	**19**
Unsecured 0.1% bonds, due 2001 with detachable warrants	3,500	**3,500**	**33**
Unsecured 0.03% bonds, due 2004 with detachable warrants, net of unamortized discount	3,671	**3,733**	**35**
Unsecured 0.1% bonds, due 2005 with detachable warrants, net of unamortized discount	—	**3,696**	**35**
Unsecured 6.875% bonds due 2000, net of unamortized premium	50,066	**—**	**—**
Unsecured 4.4% bonds due 2001	80,000	**80,000**	**755**
Unsecured 6.125% U.S. dollar notes due 2003, net of unamortized discount	193,104	**193,186**	**1,822**
Unsecured 2.55% notes of a consolidated subsidiary, due 2000	5,000	**5,000**	**47**
Unsecured 5.01% yen/U.S. dollar dual currency notes of a consolidated subsidiary, due 2000	23,356	**20,465**	**193**
Unsecured 2.0% bonds of a consolidated subsidiary, due 2001	15,000	**15,000**	**142**
Unsecured 1.35% bonds of a consolidated subsidiary, due 2001	15,000	**15,000**	**142**
Unsecured 2.5% bonds of a consolidated subsidiary, due 2003	15,000	**15,000**	**142**
Unsecured 2.0% bonds of a consolidated subsidiary, due 2005	15,000	**15,000**	**142**
Unsecured fixed coupon U.S. dollar notes linked to the Yen/U.S. dollar rate of a consolidated subsidiary, due 2001	784	**690**	**7**
Secured 3.8% bonds of a consolidated subsidiary, due 2001, redeemable before due date	3,000	**3,000**	**28**
Long-term capital lease obligations:			
Due 1999 to 2009 with interest ranging from 1.18% to 11.67% per annum	21,568		
Due 2000 to 2013 with interest ranging from 1.20% to 11.67% per annum		**35,808**	**338**
Guarantee deposits received	13,647	**17,603**	**166**
	1,125,285	**972,337**	**9,174**
Less—Portion due within one year	87,825	**158,509**	**1,496**
	¥1,037,460	**¥813,828**	**$7,678**

A summary of the exercise rights of the detachable warrants as of March 31, 2000 is as follows:

Issued on	Exercisable during	Exercise price Yen	Exercise price Dollars	Number of shares per warrant	Status of exercise
August 16, 1996	October 1, 1996 through August 15, 2000	¥3,511	$33	569 shares of common stock of Sony Corporation	950 warrants exercised; 50 warrants outstanding
October 13, 1997	November 2, 1998 through October 12, 2001	¥5,894	$56	339 shares of common stock of Sony Corporation	701 warrants exercised; 1,049 warrants outstanding
August 17, 1998	September 1, 1999 through August 16, 2004	¥6,264	$59	319 shares of common stock of Sony Corporation	152 warrants exercised; 1,848 warrants outstanding
August 23, 1999	September 1, 2000 through August 22, 2005	¥7,167	$68	279 shares of common stock of Sony Corporation	2,000 warrants outstanding

The conversion prices, exercise prices and the number of shares in the proceeding tables are restated for all periods to reflect the two-for-one stock split that has become effective on May 19, 2000.

On March 4, 1998, Sony Corporation issued unsecured 1.5 billion U.S. dollar Notes due 2003 with an interest rate of 6.125%. By entering into several interest rate and currency swap agreements and interest rate swap agreements, Sony has effectively converted the cash stream for these Notes into yen with fixed interest rates of 1.287% to 1.515% per annum for ¥150,000 million principled amount and LIBOR plus 0.06997% per annum for ¥43,425 million principled amount as of March 31, 1999 and thereafter.

At March 31, 2000, property, plant and equipment with a book value of ¥4,060 million ($38 million) was mortgaged as collateral for loans and bonds issued by consolidated subsidiaries.

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
2001	¥158,509	$1,496
2002	163,001	1,538
2003	226,288	2,135
2004	39,581	373
2005	309,938	2,924

At March 31, 2000, Sony had unused committed lines of credit amounting to ¥346,070 million ($3,265 million) and can borrow up to generally 90 days from the bank with whom Sony has committed line contracts. Furthermore, Sony had Commercial Paper Programs, size of which was ¥1,064,910 million ($10,046 million). At March 31, 2000, the total outstanding balance of commercial paper was ¥1,860 million ($17 million). In the United States of America, Sony set up a ¥95,535 million ($901 million) accounts receivable financing facility to enhance its short-term financing capacity. Under those programs and the facility, Sony can issue commercial papers and sell receivables for the period not in excess of generally 270 days up to the size of the programs and the facility. In addition, for non-current financing purposes, Sony had Medium Term Notes programs, size of which was ¥636,900 million ($6,008 million). At March 31, 2000, the total outstanding balance of Medium Term Notes was ¥123,625 million ($1,166 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.

12. Insurance-related operations

Sony's stock life and non-life insurance subsidiaries in Japan maintain accounting records as described in Note 2 in accordance with the accounting principles and practices prescribed by the Japanese Ministry of Finance (the "MOF"), 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 MOF 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, 1999 and 2000 were ¥40,626 million and ¥49,791 million ($470 million), respectively.

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, 1998, 1999 and 2000 amounted to ¥21,838 million, ¥20,669 million and ¥22,708 million ($214 million), respectively.

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 2.25% to 5.5%, generally graded down after 10 to 20 years. 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, 1999 and 2000, future insurance policy benefits amounted to ¥865,814 million and ¥1,070,303 million ($10,097 million), respectively.

13. Financial instruments

Sony has certain financial instruments including financial assets and liabilities and off-balance-sheet financial instruments incurred in the normal course of business. In applying a consistent risk management strategy, Sony manages the exposure to market rate movements of its financial assets and liabilities through the use of derivative financial instruments which include foreign exchange forward contracts, foreign currency option contracts, interest rate swap agreements and interest rate and currency swap agreements designated as hedges. 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 interest and currency rate movements, it does not anticipate significant losses due to the nature of its counterparties or the hedging arrangements.

Following are explanatory notes regarding the financial assets and liabilities and off-balance-sheet financial instruments.

Cash and cash equivalents and time deposits

In the normal course of business, substantially all cash and cash equivalents and time deposits are highly liquid and are carried at amounts which approximate fair value.

Short-term borrowings and long-term debt

The fair values of short-term borrowings and total 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 borrowing rates for similar liabilities.

Derivative financial instruments

Sony utilizes foreign exchange forward contracts and foreign currency option contracts primarily to fix the cash flow value resulting from accounts receivable and payable and future transactions denominated in foreign currencies in relation to the core currencies (Japanese yen, U.S. dollars and euros) of Sony's major operating units.

Foreign exchange forward contracts, the majority of which mature within three months, are used to hedge this risk which is substantially associated with accounts receivable and payable and anticipated transactions denominated in foreign currencies. The contracted amounts outstanding at March 31, 1999 and 2000 were ¥718,474 million and ¥822,644 million ($7,761 million), respectively. The fair values of these contracts were estimated based on market quotations.

Sony has entered into purchased foreign currency option contracts in the notional principal amounts of ¥414,896 million and ¥495,949 million ($4,679 million) at March 31, 1999 and 2000, respectively. The majority of these contracts expire within three months of the balance sheet dates. Sony has also entered into written foreign currency option contracts in the notional principal amounts of ¥344,890 million and ¥574,656 million ($5,421 million) at March 31, 1999 and 2000, respectively. The majority of these contracts are part of range forward contract arrangements and expire in the same month with the corresponding purchased foreign currency option contracts described above. The fair values of such foreign currency options were estimated based on market quotations.

Sony has entered into interest rate swap agreements and interest rate and currency swap agreements which mature from 2000 to 2010 to reduce its exposure resulting from adverse fluctuations in interest rates or foreign currency exchange rates on underlying debt instruments. At March 31, 1999 and 2000, the aggregate notional principal amounts of the interest rate swap agreements were ¥210,085 million and ¥225,801 million ($2,130 million), respectively, and those of the interest rate and currency swap agreements were ¥390,734 million and ¥362,437 million ($3,419 million), respectively. The fair values of such agreements were estimated based on the discounted amounts of net future cash flows.

Sony's stock life insurance subsidiary has entered into written government bond futures option contracts as an integral part of short-term investing activities in order to secure the yields of bond investments on hand. All of these contracts expire within two months of the balance sheet date and their notional principal amounts were ¥108,700 million and ¥102,580 million ($968 million) at March 31, 1999 and 2000, respectively. For accounting purposes, those transactions do not qualify for hedge accounting. Accordingly, those written bond futures option contracts were marked to market. The fair values of such written bond futures option contracts were estimated based on market quotations. The average fair value and the net gain/loss from those written bond futures option contracts during the years ended March 31, 1998, 1999 and 2000 were insignificant.

The estimated fair values of Sony's financial instruments, both on and off the balance sheets excluding notes and accounts receivable, trade and notes and accounts payable, trade that are carried at amounts which approximate fair value and excluding debt and equity securities disclosed in Note 10, are summarized as follows:

	Yen in millions				Dollars in millions	
	March 31				**March 31,**	
	1999		**2000**		**2000**	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Cash and cash equivalents	¥ 592,210	¥ 592,210	**¥ 626,064**	**¥ 626,064**	**$ 5,906**	**$ 5,906**
Time deposits	24,304	24,304	**6,138**	**6,138**	**58**	**58**
Short-term borrowings	(40,877)	(40,877)	**(56,426)**	**(56,426)**	**(532)**	**(532)**
Long-term debt including the current portion	(1,125,285)	(1,351,358)	**(972,337)**	**(1,893,521)**	**(9,174)**	**(17,863)**
Forward exchange contracts	(516)	(4,423)	**986**	**2,479**	**9**	**23**
Currency option contracts purchased	3,252	3,252	**7,422**	**7,422**	**70**	**70**
Currency option contracts written	(4,226)	(4,226)	**(2,892)**	**(2,892)**	**(27)**	**(27)**
Interest rate swap agreements	(549)	(1,025)	**(253)**	**(457)**	**(2)**	**(4)**
Interest rate and currency swap agreements	—	(21,470)	**—**	**(32,362)**	**—**	**(305)**
Bond futures option contracts written	(436)	(436)	**(179)**	**(179)**	**(2)**	**(2)**

14. Pension and severance plans

Upon terminating employment, employees of Sony Corporation and 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 stockholders.

Sony Corporation and most 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.

Most 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 current rate of pay and lengths of service.

The components of net pension and severance costs for the years ended March 31, 1998, 1999 and 2000 were as follows:

Japanese plans:

	Yen in millions			Dollars in millions
	Year ended March 31			**Year ended**
	1998	1999	**2000**	**March 31, 2000**
Service cost	¥35,318	¥41,743	**¥ 46,306**	**$ 437**
Interest cost	13,303	14,020	**14,898**	**141**
Expected return on plan assets	(7,978)	(9,618)	**(11,236)**	**(106)**
Amortization of net transition asset	(375)	(375)	**(375)**	**(4)**
Recognized actuarial loss	6,369	8,032	**5,733**	**54**
Amortization of prior service cost	1,178	1,234	**1,335**	**13**
Net periodic benefit cost	¥47,815	¥55,036	**¥ 56,661**	**$ 535**

Foreign plans:

	Yen in millions			Dollars in millions
	Year ended March 31			**Year ended**
	1998	1999	**2000**	**March 31, 2000**
Service cost	¥15,625	¥15,842	**¥ 17,836**	**$ 168**
Interest cost	4,911	5,333	**6,095**	**58**
Expected return on plan assets	(3,900)	(4,475)	**(4,989)**	**(47)**
Amortization of net transition asset	(122)	(122)	**(108)**	**(1)**
Recognized actuarial (gain) loss	308	342	**(46)**	**(1)**
Amortization of prior service cost	(70)	(274)	**(142)**	**(1)**
Net periodic benefit cost	¥16,752	¥16,646	**¥ 18,646**	**$ 176**

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		
	Yen in millions		Dollars in millions	Yen in millions		Dollars in millions
	March 31		**March 31,**	March 31		**March 31,**
	1999	**2000**	**2000**	1999	**2000**	**2000**
Change in benefit obligation:						
Benefit obligation at beginning of year	¥ 476,068	**¥ 562,861**	**$ 5,310**	¥ 85,159	**¥ 92,970**	**$ 877**
Service cost	41,743	**46,306**	**437**	15,842	**17,836**	**168**
Interest cost	14,020	**14,898**	**141**	5,333	**6,095**	**58**
Plan participants' contributions	4,273	**4,806**	**45**	176	**821**	**8**
Amendments	—	**(7,665)**	**(72)**	(1,079)	**161**	**1**
Actuarial loss	45,933	**122,021**	**1,151**	8,060	**11,564**	**109**
Foreign currency exchange rate changes	—	**—**	**—**	(9,322)	**(13,861)**	**(131)**
Benefits paid	(19,176)	**(13,424)**	**(127)**	(11,199)	**(11,594)**	**(109)**
Benefit obligation at end of year	562,861	**729,803**	**6,885**	92,970	**103,992**	**981**
Change in plan assets:						
Fair value of plan assets at beginning of year	236,966	**369,321**	**3,484**	54,597	**60,297**	**569**
Actual return on plan assets	27,845	**109,355**	**1,032**	7,005	**18,748**	**177**
Foreign currency exchange rate changes	—	**—**	**—**	(6,223)	**(8,332)**	**(79)**
Employer contribution	106,738	**30,721**	**290**	8,274	**12,302**	**116**
Plan participants' contributions	4,273	**4,806**	**45**	176	**821**	**8**
Benefits paid	(6,501)	**(6,260)**	**(59)**	(3,532)	**(4,994)**	**(47)**
Fair value of plan assets at end of year	369,321	**507,943**	**4,792**	60,297	**78,842**	**744**
Funded status	193,540	**221,860**	**2,093**	32,673	**25,150**	**237**
Unrecognized actuarial loss	(102,739)	**(121,184)**	**(1,143)**	(8,983)	**(811)**	**(7)**
Unrecognized net transition asset	2,354	**1,979**	**19**	263	**210**	**2**
Unrecognized prior service cost	(12,805)	**(3,805)**	**(36)**	2,847	**2,110**	**20**
Net amount recognized	¥ 80,350	**¥ 98,850**	**$ 933**	¥ 26,800	**¥ 26,659**	**$ 252**
Amounts recognized in the consolidated balance sheet consist of:						
Accrued pension and severance costs, including current portion	¥ 106,343	**¥ 106,022**	**$ 1,001**	¥ 26,800	**¥ 26,659**	**$ 252**
Intangibles	(10,451)	**(820)**	**(8)**	—	**—**	**—**
Accumulated other comprehensive income	(15,542)	**(6,352)**	**(60)**	—	**—**	**—**
Net amount recognized	¥ 80,350	**¥ 98,850**	**$ 933**	¥ 26,800	**¥ 26,659**	**$ 252**

Assumptions used as of March 31, 1998, 1999 and 2000 were as follows:

Japanese plans:

	March 31		
	1998	1999	**2000**
Discount rate	3.0%	2.7%	**2.7%**
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		
	1998	1999	**2000**
Discount rate	6.5-8.0%	4.4-7.3%	**4.5-7.5%**
Expected return on plan assets	6.5-9.8%	6.9-9.8%	**6.5-9.1%**
Rate of compensation increase	2.5-4.9%	2.8-4.8%	**2.0-4.8%**

As required under FAS 87 "Employers' Accounting for Pensions", the assumptions are reviewed in accordance with changes in circumstances. Amounts arising from actuarial loss for the years ended March 31, 1999 and 2000 were primarily due to changes in the discount rate and to the change in the method of calculating the benefit obligation to adjust for the backloading of the benefits as well as to a review of certain assumptions, respectively.

Under FAS 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 which Sony has recognized on substantially all of the Japanese plans at March 31, 1999 and on substantially all of the Japanese subsidiaries' plans at March 31, 2000 represents the excess of 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 unrecognized prior service cost, and the balance was recorded as a component of accumulated other comprehensive income, net of tax. The accumulated benefit obligation of the Japanese plans was ¥461,815 million as of March 31, 1999. As of March 31, 2000, the accumulated benefit obligation and fair value of plan assets of the plans for which Sony has recognized the minimum pension liability were ¥232,624 million ($2,195 million) and ¥140,147 million ($1,322 million), respectively.

As discussed in Note 10, in December 1998, Sony Corporation contributed certain marketable equity securities to an employee retirement benefit trust. The securities held in this trust are qualified as plan assets under U.S. GAAP.

15. Restructuring charges

Sony discontinued its engineering, sales, and marketing operations for the cellular phone business in North America by September 30, 1999 and focused its effort on the research and development of next-generation telecommunications technology. As a result, Sony recorded a one-time expense totaling ¥9,646 million ($91 million) in the year ended March 31, 2000. This charge consisted of facility closing costs of ¥7,420 million ($70 million), machinery and equipment write-downs of ¥1,802 million ($17 million) and personnel related costs of ¥424 million ($4 million).

16. Income taxes

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

	Yen in millions			Dollars in millions
	Year ended March 31			Year ended
	1998	1999	**2000**	**March 31, 2000**
Income before income taxes:				
Sony Corporation and subsidiaries in Japan	¥298,657	¥203,944	**¥ 70,892**	**$ 669**
Foreign subsidiaries	160,606	173,747	**193,418**	**1,824**
	¥459,263	¥377,691	**¥264,310**	**$2,493**
Income taxes—Current:				
Sony Corporation and subsidiaries in Japan	¥145,890	¥ 85,970	**¥ 59,239**	**$ 559**
Foreign subsidiaries	64,223	72,416	**61,564**	**580**
	¥210,113	¥158,386	**¥120,803**	**$1,139**
Income taxes—Deferred:				
Sony Corporation and subsidiaries in Japan	¥ 7,221	¥ 16,433	**¥ (17,977)**	**$ (170)**
Foreign subsidiaries	(2,466)	2,154	**(8,182)**	**(77)**
	¥ 4,755	¥ 18,587	**¥ (26,159)**	**$ (247)**

Sony is subject to a number of different income taxes. Due to changes in Japanese income tax regulations, the statutory rate was reduced from 51% to 48% effective April 1, 1998 and was further reduced from 48% to 42% effective April 1, 1999. The respective newly enacted rates were used in calculating the future expected tax effects of temporary differences as of March 31, 1998 and 1999. The effect of the change in the tax rate on the balance of deferred tax assets and liabilities was insignificant as of March 31, 1998 and reduced the net deferred tax liability and income tax expense by approximately ¥13,400 million as of March 31, 1999.

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

	Year ended March 31		
	1998	1999	**2000**
Statutory tax rate	51.0%	48.0%	**42.0%**
Increase (reduction) in taxes resulting from:			
Income tax credit	(2.4)	(1.3)	**(1.3)**
Valuation allowance recognized on current losses of subsidiaries	1.9	5.4	**2.8**
Decrease in deferred tax liabilities on undistributed earnings of foreign subsidiaries	(2.7)	(2.8)	**(5.6)**
Changes in Japanese income tax rates	(0.8)	(3.5)	**—**
Other	(0.2)	1.1	**(2.1)**
Effective income tax rate	46.8%	46.9%	**35.8%**

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

	Yen in millions		Dollars in millions
	March 31		March 31,
	1999	2000	2000
Deferred tax assets:			
Operating loss carryforwards for tax purposes	¥ 70,120	**¥ 63,761**	**$ 602**
Accrued pension and severance costs	61,123	**63,490**	**599**
Warranty reserve and accrued expenses	57,085	**61,049**	**576**
Inventory—intercompany profits and write-down	39,469	**45,293**	**427**
Future insurance policy benefits	37,393	**40,774**	**385**
Accrued bonus	17,565	**19,912**	**188**
Other	90,309	**95,261**	**898**
Gross deferred tax assets	373,064	**389,540**	**3,675**
Less: Valuation allowance	(122,656)	**(112,191)**	**(1,058)**
Total deferred tax assets	250,408	**277,349**	**2,617**
Deferred tax liabilities:			
Insurance acquisition costs	(72,352)	**(86,873)**	**(820)**
Undistributed earnings of foreign subsidiaries	(55,106)	**(60,518)**	**(571)**
Intangible assets acquired through exchange offerings	—	**(45,872)**	**(433)**
Unrealized gains on securities	(11,243)	**(35,437)**	**(334)**
Gain on securities contribution to employee retirement benefit trust	(24,712)	**(23,097)**	**(218)**
Other	(71,123)	**(55,778)**	**(526)**
Gross deferred tax liabilities	(234,536)	**(307,575)**	**(2,902)**
Net deferred tax assets (liabilities)	¥ 15,872	**¥ (30,226)**	**$ (285)**

The valuation allowance mainly relates to deferred tax assets of consolidated subsidiaries with operating loss carryforwards for tax purposes that are not expected to be realized. The net changes in the total valuation allowance for the year ended March 31, 1998 was an increase of ¥3,650 million, and for the years ended March 31, 1999 and 2000 were decreases of ¥3,252 million and ¥10,465 million ($99 million), respectively. During the year ended March 31, 2000, approximately ¥17,700 million ($167 million) of tax benefits have been realized through utilization of operating loss carryforwards.

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

	Yen in millions		Dollars in millions
	March 31		March 31,
	1999	2000	2000
Current assets—Deferred income taxes	¥ 102,588	**¥ 117,258**	**$ 1,106**
Other assets—Other	39,483	**42,852**	**404**
Current liabilities—Other	(5,377)	**(6,316)**	**(59)**
Long-term liabilities—Deferred income taxes	(120,822)	**(184,020)**	**(1,736)**
Net deferred tax assets (liabilities)	¥ 15,872	**¥ (30,226)**	**$ (285)**

At March 31, 2000, no deferred income taxes have been provided on undistributed earnings of foreign subsidiaries not expected to be remitted in the foreseeable future totaling ¥408,061 million ($3,850 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, 2000 for such temporary differences amounted to ¥92,268 million ($870 million).

Operating loss carryforwards for tax purposes of consolidated subsidiaries at March 31, 2000 amounted to approximately ¥181,200 million ($1,709 million) and are available as an offset against future taxable income of such subsidiaries. These carryforwards, except for approximated ¥37,100 million ($350 million) with no expiration period, expire at various dates primarily up to 12 years. Realization is dependent on such subsidiaries generating sufficient taxable income prior to expiration of the loss 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.

17. Stockholders' equity

Changes in the number of shares issued and outstanding during the years ended March 31, 1998, 1999 and 2000 have resulted from the following:

	Number of shares
Balance at March 31, 1997	384,185,043
Exercise of stock purchase warrants	264,562
Conversion of convertible bonds	22,745,666
Balance at March 31, 1998	407,195,271
Exercise of stock purchase warrants	26,774
Conversion of convertible bonds	3,217,066
Balance at March 31, 1999	410,439,111
Exercise of stock purchase warrants	**192,162**
Conversion of convertible bonds	**10,028,119**
Stock issued under exchange offerings	**32,979,771**
Balance at March 31, 2000	**453,639,163**

At March 31, 2000, 44,502,906 shares of common stock would be issued upon conversion or exercise of all convertible debentures and warrants outstanding.

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. The above share information does not reflect this stock split.

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 amounts of statutory retained earnings of Sony Corporation available for the payments of dividends to stockholders as of March 31, 1999 and 2000 were ¥610,133 million and ¥617,403 million ($5,825 million), respectively. The appropriation of retained earnings for the year ended March 31, 2000, which has been incorporated in the accompanying consolidated financial statements, will be proposed for approval at the Ordinary General Meeting of Shareholders to be held on June 29, 2000 and will be recorded in the statutory books of account, in accordance with the Japanese Commercial Code, after stockholders' approval. The above statutory amounts available for dividends include cash dividends for the six-month periods ended March 31, 1999 and 2000, respectively, which have been incorporated in the accompanying consolidated financial statements.

Retained earnings include Sony's equity in undistributed earnings of affiliated companies accounted for by the equity method in the amount of ¥20,159 million and ¥7,699 million ($73 million) at March 31, 1999 and 2000, respectively.

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, on and after June 28, 1997, whenever deemed necessary by the Board of Directors in view of general economic conditions, Sony's business performance and financial condition and other factors. At March 31, 2000, no common stock had been acquired under this authorization.

The Ordinary General Meeting of Shareholders held on June 26, 1998 approved that (a) in addition to the shares discussed in the preceding paragraph, on and after June 27, 1998, 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 ($3,774 million) and (b) Sony Corporation may grant share subscription rights to directors and/or employees pursuant to the Japanese regulations. At March 31, 2000, no common stock had been acquired nor had any share subscription rights been granted under this approval.

Other comprehensive income for the year ended March 31, 1998, 1999 and 2000, was as follows:

	Yen in millions		
	Pre-tax amount	Tax expense	Net-of-tax amount
For the year ended March 31, 1998:			
Unrealized gains on securities—			
Unrealized holding gains arising during the period	¥ (56,704)	¥ 34,599	¥ (22,105)
Minimum pension liability adjustment	(10,925)	5,211	(5,714)
Foreign currency translation adjustments	35,985	4,511	40,496
Other comprehensive income	¥ (31,644)	¥ 44,321	¥ 12,677
For the year ended March 31, 1999:			
Unrealized gains on securities—			
Unrealized holding gains arising during the period	¥ 7,484	¥ 1,525	¥ 9,009
Less: Reclassification adjustment for gains included in net income	(58,698)	27,999	(30,699)
Minimum pension liability adjustment	(4,617)	1,332	(3,285)
Foreign currency translation adjustments	(151,971)	8,316	(143,655)
Other comprehensive income	¥ (207,802)	¥ 39,172	¥ (168,630)
For the year ended March 31, 2000:			
Unrealized gains on securities—			
Unrealized holding gains arising during the period	**¥ 79,822**	**¥(27,003)**	**¥ 52,819**
Less: Reclassification adjustment for gains included in net income	**(17,196)**	**2,809**	**(14,387)**
Minimum pension liability adjustment	**9,190**	**(3,869)**	**5,321**
Foreign currency translation adjustments	**(202,596)**	**3,423**	**(199,173)**
Other comprehensive income	**¥(130,780)**	**¥(24,640)**	**¥(155,420)**

	Dollars in millions		
	Pre-tax amount	Tax expense	Net-of-tax amount
For the year ended March 31, 2000:			
Unrealized gains on securities—			
Unrealized holding gains arising during the period	**$ 753**	**$(255)**	**$ 498**
Less: Reclassification adjustment for gains included in net income	**(162)**	**27**	**(135)**
Minimum pension liability adjustment	**87**	**(37)**	**50**
Foreign currency translation adjustments	**(1,911)**	**32**	**(1,879)**
Other comprehensive income	**$(1,233)**	**$(233)**	**$(1,466)**

18. Stock-based compensation plans

The number of shares and the exercise prices in the following information are adjusted for all periods to reflect the two-for-one stock split that has become effective on May 19, 2000.

Sony has two types of stock-based compensation plans as incentive plans for directors and selected employees. One plan uses bonds with detachable warrants which are described in Note 11 (“Warrant plan”) and the other plan grants stock appreciation rights (“SARs”) to selected employees (“SAR plan”).

Warrant plan

Upon issuance of unsecured bonds with detachable warrants, Sony Corporation has purchased all of the detachable warrants and distributed them to the directors and selected employees of Sony Corporation. By exercising a warrant, directors and selected employees can purchase the common stock of Sony Corporation, the number of which is calculated as ¥2 million divided by the strike price. The warrants generally vest ratably over a period of three years, and are generally exercisable up to six years from the date of grant.

Presented below is a summary of the warrant plan activity for the years shown:

	Year ended March 31						
	1998		1999		**2000**		
	Number of Shares	Weighted-average exercise price	Number of Shares	Weighted-average exercise price	Number of Shares	Weighted-average exercise price	
		Yen		Yen		Yen	Dollars
Outstanding at beginning of year	708,471	¥3,283	773,078	¥5,306	**1,357,568**	**¥5,846**	**$55.15**
Granted	593,250	5,894	638,000	6,264	**558,000**	**7,167**	**67.61**
Exercised	(528,643)	3,254	(53,510)	3,025	**(383,995)**	**5,333**	**50.31**
Outstanding at end of year	773,078	¥5,306	1,357,568	¥5,846	**1,531,573**	**¥6,456**	**$60.91**
Exercisable at end of year	179,828	¥3,366	719,568	¥5,476	**541,966**	**¥5,877**	**$55.44**

A summary of warrants outstanding and exercisable at March 31, 2000 is as follows:

	Outstanding				Exercisable		
Exercise price range	Number of Shares	Weighted-average exercise price		Weighted-average remaining life	Number of Shares	Weighted-average exercise price	
Yen		Yen	Dollars	Years		Yen	Dollars
¥3,511–5,000	**28,450**	**¥3,511**	**$33.12**	**0.42**	**28,450**	**¥3,511**	**$33.12**
5,001–7,167	**1,503,123**	**6,511**	**61.42**	**4.12**	**513,516**	**6,008**	**56.68**
¥3,511–7,167	**1,531,573**	**¥6,456**	**$60.91**	**4.05**	**541,966**	**¥5,877**	**$55.44**

As the exercise prices were determined based on the prevailing market price shortly before the date of grant, the compensation expense for warrant plan was not significant for the years ended March 31, 1998, 1999 and 2000, respectively.

In accordance with FAS 123 "Accounting for Stock-Based Compensation", Sony has elected to account for stock-based compensation under the provisions of APB 25. Had compensation for Sony's warrant plan been recognized based on the fair value on the grant date under the methodology prescribed by FAS 123, Sony's net income and net income per share ("EPS") for the years ended March 31, 1998, 1999 and 2000 would have been impacted as shown in the following table:

	Year ended March 31			
	1998	1999	**2000**	**2000**
	Yen in millions			Dollars in millions
Net income:				
As reported	¥222,068	¥179,004	**¥121,835**	**$1,149**
Pro forma	221,885	178,505	**121,191**	**1,143**
	Yen			Dollars
Basic EPS:				
As reported	¥278.9	¥218.4	**¥144.6**	**$1.36**
Pro forma	278.6	217.8	**143.8**	**1.36**
Diluted EPS:				
As reported	241.7	195.5	**131.7**	**1.24**
Pro forma	241.5	195.0	**131.0**	**1.24**

The weighted-average fair value per share at the date of grant for warrants granted during the years ended March 31, 1998, 1999 and 2000 was ¥1,009, ¥896 and ¥1,398 ($13), respectively. The fair value of warrants 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		
	1998	1999	**2000**
Risk-free interest rate	1.15%	0.80%	**0.60%**
Expected lives	2.78 years	2.78 years	**2.78 years**
Expected volatility	28.35%	24.42%	**33.12%**
Expected dividend	0.46%	0.46%	**0.40%**

SAR plan

Sony adopted separate SAR plans 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 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 certain SAR plans in the United States of America and Europe.

The status of the SAR plans is summarized as follows:

	Year ended March 31						
	1998		1999		**2000**		
	Number of SARs	Weighted-average exercise price	Number of SARs	Weighted-average exercise price	Number of SARs	Weighted-average exercise price	
		Yen		Yen		Yen	Dollars
Outstanding at beginning of year	—	—	484,400	¥6,106	**2,190,750**	**¥5,426**	**$51.19**
Granted	484,400	¥6,106	1,725,850	5,234	**2,306,610**	**5,896**	**55.62**
Exercised	—	—	—	—	**(439,736)**	**5,308**	**50.08**
Expired or forfeited	—	—	(19,500)	5,275	**(11,134)**	**5,502**	**51.91**
Outstanding at end of year	484,400	¥6,106	2,190,750	¥5,426	**4,046,490**	**¥5,443**	**$51.35**
Exercisable at end of year	—	—	—	—	**745,496**	**¥5,711**	**$53.88**

A summary of SARs outstanding and exercisable at March 31, 2000 is as follows:

	Outstanding				Exercisable		
Exercise price range	Number of SARs	Weighted-average exercise price		Weighted-average remaining life	Number of SARs	Weighted-average exercise price	
Yen		Yen	Dollars	Years		Yen	Dollars
¥3,194 – 5,000	**952,330**	**¥ 4,432**	**$ 41.81**	**4.25**	**80,964**	**¥4,601**	**$43.41**
5,001 – 7,500	**3,086,360**	**5,736**	**54.11**	**4.94**	**664,532**	**5,846**	**55.15**
7,501 –13,250	**7,800**	**12,865**	**121.37**	**5.83**	**—**	**—**	**—**
¥3,194 –13,250	**4,046,490**	**¥ 5,443**	**$ 51.35**	**4.78**	**745,496**	**¥5,711**	**$53.88**

In accordance with APB 25 and its related interpretations, SAR compensation expense is recognized over the vesting period 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 123. For the years ended March 31, 1998, 1999 and 2000, Sony recognized ¥0 million, ¥886 million and ¥19,174 million ($181 million) of SAR compensation expense, respectively.

19. Research and development expenses and advertising costs

Research and development expenses

Research and development expenses charged to cost of sales for the years ended March 31, 1998, 1999 and 2000 were ¥318,044 million, ¥375,314 million and ¥394,479 million ($3,722 million), respectively.

Advertising costs

Advertising costs included in selling, general and administrative expenses for the years ended March 31, 1998, 1999 and 2000 were ¥268,985 million, ¥315,310 million and ¥293,303 million ($2,767 million), respectively.

20. Leased assets

Sony leases certain plant facilities, office space, warehouses, employees' residential facilities and other assets.

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

	Yen in millions		Dollars in millions
	March 31		**March 31,**
Class of property	1999	**2000**	**2000**
Land	¥ 2,277	**¥ 1,799**	**$ 17**
Buildings	19,616	**15,713**	**148**
Machinery and equipment	8,581	**28,059**	**265**
Accumulated amortization	(11,730)	**(19,981)**	**(189)**
	¥ 18,744	**¥ 25,590**	**$ 241**

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, 2000:

Year ending March 31	Yen in millions	Dollars in millions
2001	¥10,222	$ 96
2002	8,857	84
2003	7,490	71
2004	4,721	44
2005	2,947	28
Later years	8,243	78
Total minimum lease payments	42,480	401
Less—Amount representing interest	6,672	63
Present value of net minimum lease payments	35,808	338
Less—Current obligations	9,420	89
Long-term capital lease obligations	¥26,388	$249

Minimum lease payments have not been reduced by minimum sublease income of ¥7,693 million ($73 million) due in the future under noncancelable subleases.

Rental expenses under operating leases for the years ended March 31, 1998, 1999 and 2000 were ¥87,564 million, ¥98,925 million and ¥91,340 million ($862 million), respectively. The minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at March 31, 2000 are as follows:

Year ending March 31	Yen in millions	Dollars in millions
2001	¥ 40,351	$ 381
2002	34,392	324
2003	29,847	282
2004	23,259	219
2005	19,508	184
Later years	107,647	1,016
Total minimum future rentals	¥255,004	$2,406

21. Commitments and contingent liabilities

Commitments outstanding at March 31, 2000 for the purchase of property, plant and equipment and other assets approximated ¥24,600 million ($232 million).

Contingent liabilities for guarantees given in the ordinary course of business and for employee loans amounted to ¥93,310 million ($880 million) at March 31, 2000.

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, 2004. As of March 31, 2000, these subsidiaries were committed to make payments under such long-term contracts of ¥49,110 million ($463 million).

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.

22. Business segment information

Effective for the year ended March 31, 1998, Sony adopted FAS 131, "Disclosures about Segments of an Enterprise and Related Information" which requires disclosure of financial and descriptive information about Sony's reportable operating segments. The operating segments reported below are the segments of Sony for which separate financial information is available and for which operating profit/loss amounts are evaluated regularly by executive management in deciding how to allocate resources and in assessing performance.

The Electronics segment designs, develops, manufactures and distributes audiovisual, informational and communicative equipment, instruments and devices throughout the world. The Game segment designs, develops and sells PlayStation game consoles and related software mainly in Japan, the United States of America and Europe, 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 Insurance segment represents insurance-related underwriting business, primarily individual life insurance and non-life insurance businesses in the Japanese market. The Other segment consists of various operating activities, primarily including leasing and credit card businesses in Japan, a business focused on parts trading services within the Sony group, advertising agents in Japan, satellite distribution services including program supplying businesses in Japan, Internet-related businesses in the United States of America, and development and operation of location-based entertainment complexes in the United States of America. Sony's products and services are generally unique to a single operating segment.

Business segments

Sales and operating revenue:

	Yen in millions			Dollars in millions
	Year ended March 31			**Year ended**
	1998	1999	**2000**	**March 31, 2000**
Sales and operating revenue:				
Electronics —				
Customers	¥4,380,084	¥4,356,254	**¥4,395,906**	**$41,471**
Intersegment	312,764	313,448	**323,719**	**3,054**
Total	4,692,848	4,669,702	**4,719,625**	**44,525**
Game —				
Customers	699,574	760,071	**630,662**	**5,950**
Intersegment	22,977	23,751	**24,074**	**227**
Total	722,551	783,822	**654,736**	**6,177**
Music —				
Customers	658,381	717,297	**665,047**	**6,274**
Intersegment	34,307	41,394	**41,837**	**395**
Total	692,688	758,691	**706,884**	**6,669**
Pictures —				
Customers	644,183	545,693	**492,093**	**4,642**
Intersegment	450	59	**4**	**0**
Total	644,633	545,752	**492,097**	**4,642**
Insurance —				
Customers	291,061	339,368	**380,317**	**3,588**
Intersegment	7	1	**2**	**0**
Total	291,068	339,369	**380,319**	**3,588**
Other —				
Customers	87,721	85,499	**122,636**	**1,157**
Intersegment	163,841	206,137	**241,485**	**2,278**
Total	251,562	291,636	**364,121**	**3,435**
Elimination	(534,346)	(584,790)	**(631,121)**	**(5,954)**
Consolidated total	¥6,761,004	¥6,804,182	**¥6,686,661**	**$63,082**

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

Segment profit or loss:

	Yen in millions			Dollars in millions
	Year ended March 31			**Year ended**
	1998	1999	**2000**	**March 31, 2000**
Operating income (loss):				
Electronics	¥ 317,276	¥ 131,106	**¥ 118,629**	**$ 1,119**
Game	116,936	136,500	**77,352**	**730**
Music	52,058	36,566	**28,357**	**268**
Pictures	37,013	42,954	**38,616**	**364**
Insurance	20,326	18,048	**20,929**	**197**
Other	(6,959)	(4,538)	**(12,945)**	**(122)**
Total	536,650	360,636	**270,938**	**2,556**
Elimination	10,749	10,313	**10,387**	**98**
Unallocated amounts: Corporate expenses	(21,675)	(22,737)	**(40,698)**	**(384)**
Consolidated operating income	525,724	348,212	**240,627**	**2,270**
Other income	83,963	152,905	**148,848**	**1,404**
Other expenses	(150,424)	(123,426)	**(125,165)**	**(1,181)**
Consolidated income before income taxes	¥ 459,263	¥ 377,691	**¥ 264,310**	**$ 2,493**

Operating income is sales and operating revenue less costs and operating expenses. The increase in unallocated corporate expenses in the year ended March 31, 2000 was primarily due to an increase in stock-based compensation expenses.

Assets:

	Yen in millions			Dollars in millions
	March 31			**March 31,**
	1998	1999	**2000**	**2000**
Total assets:				
Electronics	¥3,253,990	¥3,058,355	**¥3,074,917**	**$29,009**
Game	197,605	188,796	**446,085**	**4,208**
Music	835,939	755,765	**742,678**	**7,006**
Pictures	915,545	836,134	**805,762**	**7,602**
Insurance	899,016	1,129,005	**1,383,717**	**13,054**
Other	309,150	388,497	**474,354**	**4,475**
Total	6,411,245	6,356,552	**6,927,513**	**65,354**
Elimination	(221,112)	(215,732)	**(273,514)**	**(2,580)**
Corporate assets	212,910	158,233	**153,198**	**1,445**
Consolidated total	¥6,403,043	¥6,299,053	**¥6,807,197**	**$64,219**

Unallocated corporate assets consist primarily of cash and cash equivalents and marketable securities maintained for general corporate purposes.

Other significant items:

	Yen in millions			Dollars in millions
	Year ended March 31			Year ended
	1998	1999	**2000**	**March 31, 2000**
Depreciation and amortization:				
Electronics	¥197,449	¥218,608	**¥212,275**	**$2,003**
Game	12,536	3,895	**13,414**	**126**
Music	30,933	34,523	**32,807**	**309**
Pictures	16,668	11,329	**10,468**	**99**
Insurance, including deferred insurance acquisition costs	22,410	21,085	**23,699**	**224**
Other	17,539	15,402	**10,797**	**102**
Total	297,535	304,842	**303,460**	**2,863**
Corporate	4,130	2,331	**3,045**	**29**
Consolidated total	¥301,665	¥307,173	**¥306,505**	**$2,892**
Capital expenditures for segment assets:				
Electronics	¥301,197	¥252,363	**¥227,322**	**$2,145**
Game	17,114	3,941	**118,960**	**1,122**
Music	28,361	45,222	**24,644**	**232**
Pictures	13,477	10,747	**11,293**	**107**
Insurance	633	836	**2,979**	**28**
Other	24,102	36,574	**48,455**	**457**
Total	384,884	349,683	**433,653**	**4,091**
Corporate	3,071	4,047	**2,234**	**21**
Consolidated total	¥387,955	¥353,730	**¥435,887**	**$4,112**

The capital expenditures in the above table represent the additions to fixed assets of each segment.

The following table is a breakdown of Electronics sales and operating revenue to external customers by product category. The Electronics business is managed as a single operating segment by Sony's management.

	Yen in millions			Dollars in millions
	Year ended March 31			Year ended
	1998	1999	**2000**	**March 31, 2000**
Audio	¥1,127,788	¥1,072,621	**¥ 934,865**	**$ 8,820**
Video	870,854	969,129	**976,705**	**9,214**
Televisions	709,043	702,620	**714,188**	**6,738**
Information and Communications	894,810	914,140	**1,052,707**	**9,931**
Electronic components and other	777,589	697,744	**717,441**	**6,768**
Total	¥4,380,084	¥4,356,254	**¥4,395,906**	**$41,471**

Geographic information

Sales and operating revenue which are attributed to countries based on location of customers and long-lived assets for the years ended March 31, 1998, 1999 and 2000 are as follows:

	Yen in millions			Dollars in millions
	Year ended March 31			**Year ended March 31, 2000**
	1998	1999	**2000**	
Sales and operating revenue:				
Japan	¥1,848,023	¥1,917,028	**¥2,121,249**	**$20,012**
U.S.A.	2,101,222	2,158,006	**2,027,129**	**19,124**
Europe	1,568,830	1,667,010	**1,470,447**	**13,872**
Other	1,242,929	1,062,138	**1,067,836**	**10,074**
Total	¥6,761,004	¥6,804,182	**¥6,686,661**	**$63,082**

	Yen in millions			Dollars in millions
	March 31			**March 31, 2000**
	1998	1999	**2000**	
Long-lived assets:				
Japan	¥ 843,800	¥ 903,345	**¥1,321,357**	**$12,466**
U.S.A.	845,887	703,208	**614,294**	**5,795**
Europe	192,695	181,621	**162,019**	**1,529**
Other	209,984	143,006	**131,785**	**1,243**
Total	¥2,092,366	¥1,931,180	**¥2,229,455**	**$21,033**

There are not any individually material countries with respect to the sales and operating revenue and long-lived assets included in Europe and Other areas.

Transfers between reportable business or geographic segments are made at arms-length prices.

There are no sales and operating revenue with a single major external customer for the years ended March 31, 1998, 1999 and 2000.

The following information shows sales and operating revenue and operating income by geographic origin for the years ended March 31, 1998, 1999 and 2000. In addition to the disclosure requirements under FAS 131, Sony discloses this supplemental information in accordance with disclosure requirements of the Japanese Securities and Exchange Law, to which Sony, as a Japanese public company, is subject.

	Yen in millions			Dollars in millions
	Year ended March 31			Year ended
	1998	1999	**2000**	**March 31, 2000**
Sales and operating revenue:				
Japan—				
Customers	¥ 2,366,871	¥ 2,345,717	**¥ 2,560,839**	**$ 24,159**
Intersegment	1,697,655	1,822,282	**1,837,048**	**17,330**
Total	4,064,526	4,167,999	**4,397,887**	**41,489**
U.S.A.—				
Customers	2,155,110	2,232,816	**2,082,505**	**19,646**
Intersegment	153,603	140,239	**170,889**	**1,612**
Total	2,308,713	2,373,055	**2,253,394**	**21,258**
Europe—				
Customers	1,340,334	1,480,076	**1,302,917**	**12,292**
Intersegment	62,506	65,466	**48,751**	**460**
Total	1,402,840	1,545,542	**1,351,668**	**12,752**
Other—				
Customers	898,689	745,573	**740,400**	**6,985**
Intersegment	715,156	724,240	**718,321**	**6,777**
Total	1,613,845	1,469,813	**1,458,721**	**13,762**
Elimination	(2,628,920)	(2,752,227)	**(2,775,009)**	**(26,179)**
Consolidated total	¥ 6,761,004	¥ 6,804,182	**¥ 6,686,661**	**$ 63,082**
Operating income:				
Japan	¥ 353,595	¥ 215,416	**¥ 99,943**	**$ 943**
U.S.A.	74,757	78,909	**97,993**	**924**
Europe	76,166	81,080	**51,928**	**490**
Other	68,828	47,771	**73,952**	**698**
Corporate and elimination	(47,622)	(74,964)	**(83,189)**	**(785)**
Consolidated total	¥ 525,724	¥ 348,212	**¥ 240,627**	**$ 2,270**

REPORT OF INDEPENDENT ACCOUNTANTS

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Yebisu Garden Place Tower
20-3, Ebisu 4-chome
Shibuya-ku, Tokyo 150-6013

April 27, 2000, except for the stock split
as described in Note 17
as to which the date is May 19, 2000

To the Stockholders and Board of Directors of
Sony Corporation (Sony Kabushiki Kaisha)

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, cash flows and changes in stockholders' equity present fairly, in all material respects, the financial position of Sony Corporation and its consolidated subsidiaries at March 31, 1999 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers

INVESTOR INFORMATION

Sony Corporation
7-35, Kitashinagawa 6-chome, Shinagawa-ku,
Tokyo 141-0001, Japan
Phone: 03-5448-2111
Facsimile: 03-5448-2244

Investor Relations Offices
If you have any questions or would like a copy of our Form 20-F filed with the U.S. Securities and Exchange Commission or our Annual Report to shareholders, please direct your request to:

Japan
Sony Corporation
Investor Relations
7-35, Kitashinagawa 6-chome, Shinagawa-ku,
Tokyo 141-0001
Phone: 03-5448-2180
Facsimile: 03-5448-2183

U.S.A.
Sony Corporation of America
Investor Relations
550 Madison Avenue, 9th Floor,
New York, NY 10022-3211
Phone: 212-833-6849
Facsimile: 212-833-6938

To receive financial information by facsimile, phone 800-618-4550.

U.K.
Sony Europe Finance Plc
Investor Relations
St. Helens, 1 Undershaft, London EC3A 8NP
Phone: 020-7426-8606
Facsimile: 020-7426-8677

Sony on the Internet
Sony's Home Pages on the World Wide Web offer a wealth of corporate and product information, including the latest annual report and financial results.
'Sony Corporation'
http://www.world.sony.com
'Sony USA'
http://www.sony.com

Ordinary General Meeting of Shareholders
The Ordinary General Meeting of Shareholders will be held at the end of June in Tokyo.

Independent Accountants
PricewaterhouseCoopers
Tokyo, Japan

Depositary, Transfer Agent, and Registrar for American Depositary Receipts
Morgan Guaranty Trust Company of New York
Shareholder Relations
P.O. Box 842006, Boston, MA 02284-2006, U.S.A.
Phone: 800-360-4522

Co-Transfer and Co-Registrar Agent
CIBC Mellon Trust Company
2001 University Street, 16th Floor,
Montreal, Quebec, H3A 2A6, Canada
Phone: 514-285-3600

Transfer Agent of Common Shares Handling Office
The Toyo Trust and Banking Company, Limited
Corporate Agency Department
10-11, Higashisuna 7-chome, Koto-ku,
Tokyo 137-8081, Japan
Phone: 03-5683-5111

Overseas Stock Exchange Listings
New York, Pacific, Chicago, Toronto, London, Paris, Frankfurt, Düsseldorf, Brussels, Vienna, and Swiss stock exchanges

Japanese Stock Exchange Listings
Tokyo, Osaka, Nagoya, Fukuoka, and Sapporo stock exchanges

Number of Shareholders
(As of March 31, 2000)
352,336

Environmental Report
If you would like a copy of the above report, please direct your request to:
Sony Corporation
Corporate Environmental Affairs
Phone: 03-5448-3533
Facsimile: 03-5448-7838
This report is also available on the World Wide Web. Sony's environmental showroom, "Sony Eco Plaza," can also be visited at the same URL.
http://www.world.sony.com/eco

NEW DIRECTORS

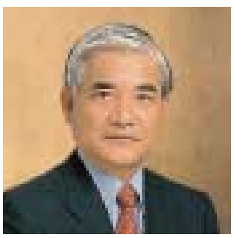
Assuming shareholder approval, the appointments will become official at the meeting of the Board of Directors to be held immediately after the Ordinary General Meeting of Shareholders to be held on June 29, 2000.

Norio Ohga
Chairman of the Board, Director

Nobuyuki Idei
Chairman and Chief Executive Officer, Representative Director

Kunitake Ando
President and Chief Operating Officer, Representative Director

Teruhisa Tokunaka
Executive Deputy President and Chief Financial Officer, Representative Director



Minoru Morio
Vice Chairman, Director

Tamotsu Iba
Vice Chairman, Director

Teruo Masaki
Corporate Senior Executive Vice President, Director

Howard Stringer
Director (Chairman and Chief Executive Officer of Sony Corporation of America)

Ken Kutaragi
Director (President and Chief Executive Officer of Sony Computer Entertainment Inc.)

Peter G. Peterson
Director (Chairman of The Blackstone Group)

Kenichi Suematsu
Director (Counsellor of The Sakura Bank, Limited)

Iwao Nakatani
Director (Director of Research, Sanwa Research Institute and Consulting Corporation)

NEW STATUTORY AUDITORS

Assuming shareholder approval, the appointments will become official at the Ordinary General Meeting of Shareholders to be held on June 29, 2000.

Akihisa Ohnishi
Standing Statutory Auditor

Takafumi Abe
Standing Statutory Auditor

STATUTORY AUDITORS

Auditors Takashi Hayashi and Kazuaki Morita were elected to three-year terms at the June 29, 1999 and the June 26, 1998 Ordinary General Meetings of Shareholders, respectively.

Takashi Hayashi
Standing Statutory Auditor

Kazuaki Morita
Statutory Auditor

Sony Corporation

This annual report was printed entirely on recycled paper.

Printed in Japan