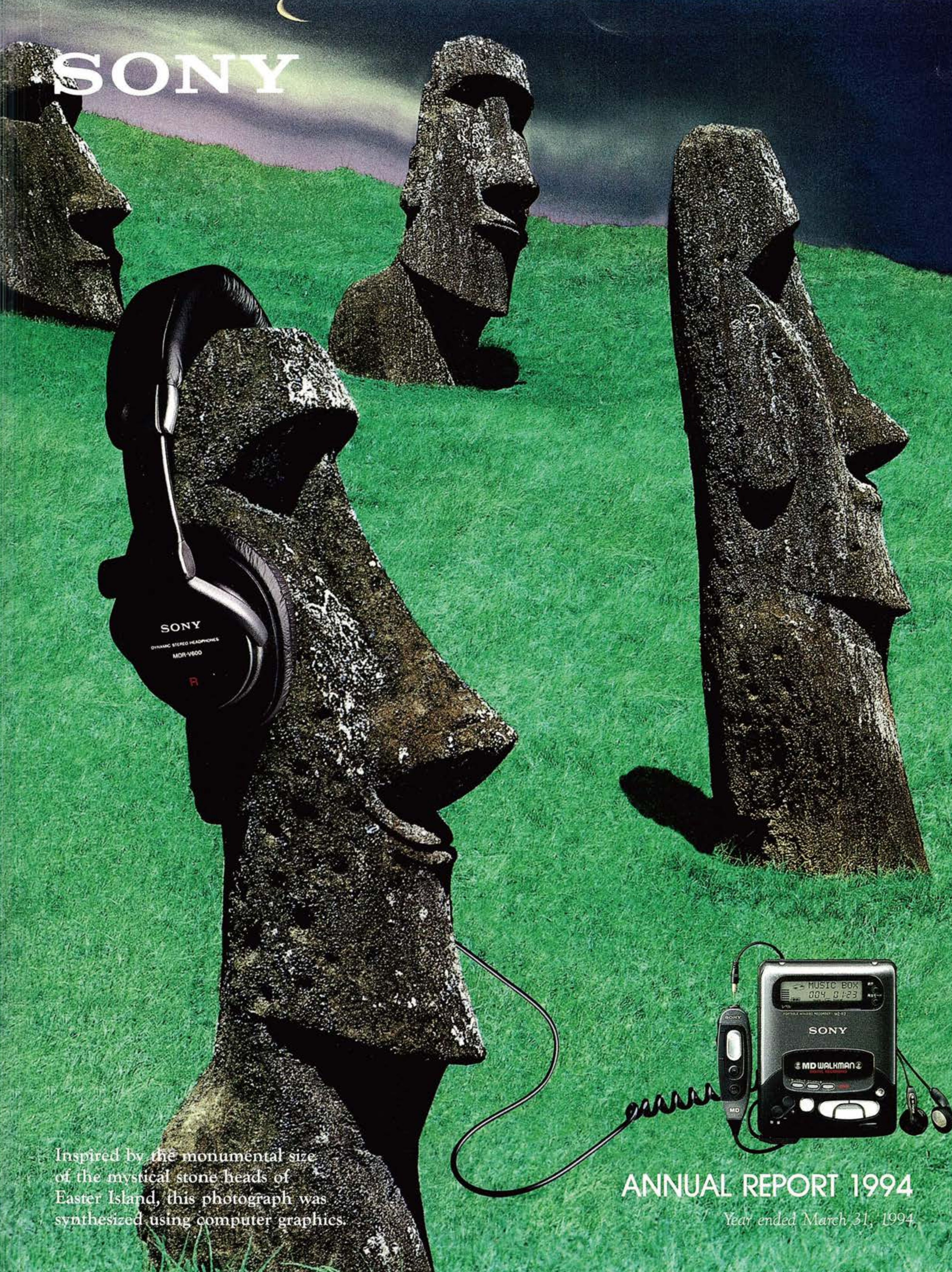
SONY



Inspired by the monumental size of the mystical stone heads of Easter Island, this photograph was synthesized using computer graphics.

ANNUAL REPORT 1994

Year ended March 31, 1994

In May 1946, Sony Corporation was founded as Tokyo Tsushin Kogyo (Tokyo Telecommunications Engineering Corporation). The founding prospectus stated that one of the purposes of incorporation was "the establishment of an ideal factory, free, dynamic, and pleasant, where technical personnel of sincere motivation can exercise their technological skills to the highest level." Since its foundation, Sony has generated many innovative products. Sony's electronics products include video and audio equipment, televisions, displays, semiconductors, computers, and information-related products, such as CD-ROMs and micro floppydisk systems. Through Sony Music Entertainment Inc. and Sony Pictures Entertainment, Sony is also strengthening its business in the worldwide music and image-based software markets. Sony is now one of the world's leaders in the consumer and industrial electronics and entertainment business areas. Sony also maintains a leading position in new technologies, as exemplified by the rapid progress made in the transition from analog to digital technology in electronics and entertainment. Sony is aggressively expanding its operations outside Japan, developing and manufacturing products and providing customer services in the United States, Europe, Asia, and other regions.

Sony works to introduce new products to meet changing market needs and, as a good corporate citizen, actively contributes to each local community in which it conducts business. Sony recognizes that the protection of the global environment is a vital issue, and strives to carry out its worldwide operations in an environmentally sound manner.

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FINANCIAL HIGHLIGHTS

Sony Corporation and Consolidated Subsidiaries
Year ended March 31

OPERATING RESULTS	Yen in millions except per share amounts 1993	1994	Percent change 1994/1993	Dollars in thousands except per share amounts (Note 1) 1994
FOR THE YEAR				
Sales and operating revenue	¥3,992,918	**¥3,733,721**	–6.5%	**$36,249,718**
Operating income	126,460	**99,668**	–21.2	**967,650**
Income before income taxes	92,561	**102,162**	+10.4	**991,864**
Net income	36,260	**15,298**	–57.8	**148,524**
Per Depositary Share:				
Net income	¥ 92.2	**¥ 42.1**	–54.3%	**$ 0.41**
Cash dividends	50.0	**50.0**		**0.49**
AT YEAR-END				
Stockholders' equity	¥1,428,219	**¥1,329,565**	–6.9%	**$12,908,398**
Total assets	4,529,830	**4,269,885**	–5.7	**41,455,194**
Number of employees	126,000	**130,000**		

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥103=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 1994, as described in Note 2 of Notes to Consolidated Financial Statements.

2. As of March 31, 1994, Sony Corporation had 803 consolidated subsidiaries. It has applied the equity accounting method in respect to its 24 affiliated companies.

SALES AND OPERATING REVENUE
(Billion ¥)

NET INCOME
(Billion ¥)

NET INCOME PER DEPOSITARY SHARE
(¥)

During the fiscal year ended March 31, 1994, the economic rebound in the United States gained momentum. However, there was little indication that a broad based economic recovery would take place in Europe. Although the economy of Southeast Asia grew steadily, the Japanese economy remained stagnant, owing to sluggishness of private-sector capital investments and personal consumption, and a depressed stock market. In addition to these economic factors, the rapid appreciation of the yen, the weak Japanese audiovisual equipment market, and intensified price competition both in Japan and overseas markets prolonged the challenging business environment for Sony.

Performance

Sony's consolidated sales and operating revenue (herein referred to as "sales") for the fiscal year decreased 6.5% from the previous year, to ¥3,734 billion ($36,250 million). Consolidated operating income declined 21.2%, to ¥100 billion ($968 million), and net income fell 57.8%, to ¥15 billion ($149 million), due to factors including the appreciation of the yen, intensified price competition, and the disappointing performance of a number of Sony Pictures Entertainment's motion pictures. Net income per Depositary Share (each Depositary Share represents one share of Common Stock) was ¥42.1 ($0.41), down from ¥92.2 ($0.90) in the previous year.

During the fiscal year, the yen appreciated further against the U.S. dollar and European currencies (approximately 16%, 24%, and 31% against the U.S. dollar, the deutsche mark, and the pound sterling, respectively, in terms of average rate). If the value of the yen had remained the same as in the previous fiscal year, consolidated sales would have generated an increase estimated at approximately ¥501 billion ($4,864 million) over the reported figure. On a local currency basis, sales in the United States increased approximately 13% in the Electronics Business, 22% in the Music Group, and 1% in the Pictures Group. In Europe, sales on a local

Norio Ohga,
President and
Chief Executive Officer

currency basis declined approximately 1% in the Electronics Business. In Other Areas, sales on a local currency basis grew approximately 18% in the Electronics Business.

During the fiscal year, economic stagnation persisted in Japan and sales remained almost flat compared with the previous year, mainly because of the weak audio-visual equipment market. Sales in the United States decreased in terms of yen, aggravated by the rapid appreciation of the yen, despite the strong performance in the Music Group as well as strong sales of computer displays and information-related equipment, including CD-ROM drives. Sales in Europe also declined sharply, primarily due to the higher yen and the sluggish European economy. Sales in Other Areas increased as a result of the good sales performance of color TVs and electronic components, especially in Southeast Asia.

Electronics: Overseas sales in each product group were also affected by the strength of the yen. Although unit sales of 1/2-inch VTRs increased and broadcast-use Digital Betacam VTRs, introduced in the middle of 1993, were well received by major broadcast stations worldwide, sales in Video Equipment dropped sharply from the previous year, mainly due to a slump in the camcorder market. Sales in Audio Equipment declined, primarily because of the stagnant audio equipment market, especially in Europe. However, the new lineups of the MiniDisc (MD) system and the car navigation system registered good performances in Japan. Sales in Televisions declined slightly, in spite of strong sales of computer displays and unit sales growth in home-use color TVs. Sales in Others grew on the good performance of semiconductors, telephones, and such information-related equipment as CD-ROM drives.

Entertainment: Sales in the Music Group increased compared with the previous year, thanks to the worldwide popularity of many artists. Mariah Carey's new album sold more than 10 million units, new albums by Pearl Jam and Billy Joel each sold in excess of 6 million units, and sales of Michael Bolton's latest album neared the 5 million mark by the end of the fiscal year. Releases by Michael Jackson, Soul Asylum, Spin Doctors, Gloria Estefan, and Sade as well as the *Sleepless in Seattle* soundtrack, were successful worldwide. In Japan, major hit artists included Dreams Come True and Yutaka Ozaki.

As the overseas exposure of the Pictures Group is much higher than the other business groups, sales in the Pictures Group in terms of yen suffered significantly from the appreciation of the yen. Hit films during the fiscal year included Columbia Pictures' *In the Line of Fire* and TriStar Pictures' *Cliffhanger, Sleepless in Seattle,* and *Philadelphia,* leading to a nearly 19% U.S. box office market share in calendar year 1993.

The EBITDA (earnings before interest, taxes, depreciation and amortization) for the combined Entertainment Business segment for the year ended March 31, 1994, was ¥67 billion ($650 million).

Subject to shareholders' approval at the General Meeting of Shareholders to be held in Tokyo on June 29, 1994, Sony will pay to shareholders of record as of March 31, 1994, a cash dividend of ¥25 (before deduction of withholding taxes) per Depositary Share for the six-month period ended March 31, 1994. This payment, combined with the ¥25 per Depositary Share paid in December 1993, will bring the total annual cash dividend for the fiscal year ended March 31, 1994, to ¥50 ($0.49) per Depositary Share, equivalent to that of the previous year.

Future Managerial Policies

Sony foresees a continued unfavorable operating environment for the year ahead due to uncertainty in foreign currency markets, delayed economic recovery in Japan and Europe, and intensifying price competition in audiovisual equipment markets in Japan and overseas. Faced with this business climate, Sony will aggressively work to develop appealing electronic products and promote its activities in the Entertainment Business. Sony has moved to strengthen its corporate structure by eliminating product groups and establishing eight new companies within its organization in April 1994. Sony will also make every effort to enhance overall business performance by reducing costs, streamlining its company-wide operations, selecting capital investments even more carefully, and conducting effective inventory control.

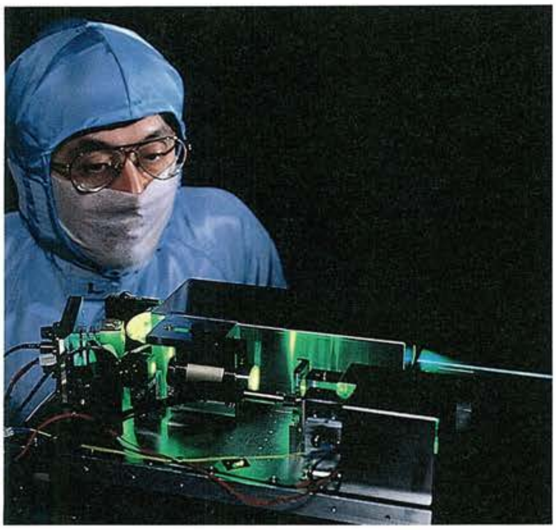
May 19, 1994

Norio Ohga
President and Chief Executive Officer

Since its establishment in 1946, Sony has been continuously creating new markets with innovative products and technologies. This is only possible with a strong commitment to research and development (R&D). In order to effectively respond to rapid changes in the technological world, Sony's corporate research laboratories adopted a new management structure. As of April 1, 1994, a new Research Center was formed by uniting principal corporate labs under one management. This centralization will enhance synergistic collaboration among various R&D units and facilitate technology transfer from R&D to the business sections—better positioning Sony for the age of new technology. The new Research Center is responsible for developing basic technologies and exploring new business opportunities in such fields as material science, storage and display devices, digital signal processing, advanced ultra large-scale integrated circuit (ULSI) design, and telecommunications and information systems. R&D is also being conducted by each of the Sony business sections, both within and outside of Japan. To take advantage of local technological strengths and closer proximity to the end market, Sony plans to expand its international R&D activities.

Blue-Emitting Semiconductor Laser Diode

In December 1993, Sony announced, for the first time in the world, continuous wave (CW) operation of the blue-emitting semiconductor laser (490nm wavelength) diode at room temperature. With a considerably shorter wavelength than conventional infra-red semiconductor laser diodes, blue-emitting lasers are key to the development of next-generation higher-density optical disks. This remarkable achievement resulted from efforts over more than 20 years in compound semiconductor technologies. Sony will continue enhancing reliability and aiming at higher-density optical disk systems and full-color all-solid-state displays.



Experimentation of high-power UV laser

High-Power Ultra-Violet (UV) Laser

In February 1994, Sony announced the world's highest-power UV all-solid-state laser, with an output power of more than four times the previous record. Using a proprietary frequency-quadrupling process, more than one Watt of continuous wave UV light was achieved. Compared with conventional excimer lasers, Sony's laser not only is one hundred times smaller and ten times lighter, it consumes much less power and avoids the use of toxic gases. This technology is expected to stimulate advances in fields as varied as microlithography, microfabrication, material processing, and medical treatment.

Liquid Crystal Displays (LCDs)

In April 1994, Sony announced the development of a 1.35-inch, 16:9 LCD device with 514,000 pixels. This new state-of-the-art LCD device is particularly suitable for projection TV displays. Sony maintains a highly competitive position in small-screen LCDs by utilizing its outstanding charge-coupled device (CCD) and ULSI process technologies.

1/4-Inch CCD

In May 1994, Sony announced the development of 1/4-inch CCDs with 410,000 pixels for the NTSC format and 470,000 pixels for the PAL format. These tiny yet high-quality image pickup devices will not only significantly reduce the size of camcorders but also increase the use of industrial image-sensors. Sony has been one of the world leaders in the development and manufacturing of CCDs since their introduction, and is fully committed to achieving further breakthroughs in CCD technologies.

Contact-less Card System

As part of Sony's efforts to develop emerging technologies for new business areas, Sony developed *FELICA*, a remote card system. Taking advantage of Sony's strength in radio wave technologies, this credit-card-sized device uses microwave and shortwave for high-speed read/write transactions. With *FELICA*, Sony can explore convenient alternatives to commuter passes and various contact-less card systems.

Sony recognizes that the protection of the global environment is one of the most vital issues today. Therefore, Sony has continued to provide a framework for making its worldwide operations more environmentally sound, as reflected in its Global Environmental Policy, which was established in March 1993. As part of these activities, Sony successfully eliminated the use of all ozone-depleting substances (ODSs) in its worldwide manufacturing facilities by the end of April 1993, much earlier than the official goal of the end of 1995 that was adopted by the Vienna Convention and the Montreal Protocol. To enhance research activities for environmental protection, Sony established the Sony Environment Fund, which provides financial support for outstanding environmental research programs proposed by Sony's worldwide facilities. Sony also created the Sony Environmental Award in order to recognize and honor distinguished achievements in environmental preservation within the Sony Group.

In Japan, Sony started environmental auditing, conducted by the Sony Environmental Conservation Committees and the Audit Group, and also designated an internal environmental auditor in each manufacturing facility, who carries out voluntary environmental auditing. In addition, in order to make products more environment-friendly, Sony introduced a product assessment system and devised product-planning guidelines in all product categories. In October 1993, Sony started the Project for Component Package Recycling in conjunction with components suppliers.

Sony developed energy-saving technology, introducing remote controllers that use only one battery but have the same life span and capabilities as conventional ones employing two batteries. Sony is promoting the employment of these remote controllers in its televisions worldwide, contributing to resource preservation and waste reduction.

In the United States, Sony has fostered environmental protection through the establishment of the Environmental Action Plan and the implementation of environmental auditing in both Electronics and Entertainment operations. Both Sony Music Entertainment Inc. (SMEI) and Sony Electronics Inc. (SEL) have achieved significant energy savings in excess of $500,000 through the wide-scale implementation of the Environmental Protection Agency's (EPA's) Green Lights Program. SMEI and SEL are also voluntary participants in the EPA's 33/50 program, which is aimed at reducing the use of 17 toxic and hazardous chemicals from 1988 levels—33% by 1992 and 50% by 1995. SMEI and SEL have already succeeded in meeting these targets, well ahead of EPA's schedule. SEL marked an industry first by recycling 100% of the scrap picture tube glass produced in manufacturing televisions. Sony Pictures Entertainment (SPE) has also reduced waste, recycling over 50% of the studio's solid waste, and a portion of set construction is donated to community schools.

In Europe, Sony Europa Stuttgart Technology Center is now leading a EUREKA project entitled EUROENVIRON CARE VISION 2000, as the Project Manager, International Coordination Secretariat. In television manufacturing and design, Sony has adopted procedures for production that allow more efficient recycling of materials. Sony has reduced the amount of assembly screws and the number of production materials, for example, changing the speaker grille material from metal to the same plastic materials used in cabinets.

Sony periodically holds a joint meeting of each Environmental Conservation Committee in Japan, the United States, Europe, and Asia, seeking consistent worldwide environmental activities pursuant to its Global Environmental Policy and its Environmental Action Plan.

Sony contributes to communities in each country and area in which it operates to meet their specific demands.

In Japan, Sony supported the UNHCR (United Nations High Commissioner for Refugees) by duplicating 5,000 cassettes of its educational video program and by designing and printing the jackets of the cassettes. The videocassettes have been delivered to various organizations, from schools to mass media, to enlist their support in dealing with refugee problems. Sony supports various grass-roots social welfare activities, including the donation of portable respirators to the Japan Amyotrophic Lateral Sclerosis Association. Employees of each Sony Group company in Japan raised relief funds to help victims of the violent earthquake in July 1993 in the Hokkaido district. These were donated through the Japanese Red Cross Society, and Sony provided matching donations. Sony Foundation of Science Education encourages pioneer works in the field of children's education. Through 1993, the foundation and Sony Corporation have jointly donated funds and audiovisual equipment to a total of 3,367 primary and junior high schools over 35 years. Sony Music Foundation has been fostering the talents of young musicians and promoting amateur music through competitions, festivals, and concerts.

In the United States, Sony Corporation of America was presented with the third annual Whitney Museum American Art Award, created by artist Nam June Paik, for its continued support of American film and video and for its generous patronage of museums. SEL rewarded students who excel at mathematics or science with an all-expenses-paid educational visit to Japan. SMEI continued its ongoing support of the T.J. Martell Foundation, which underwrites cancer, AIDS, and leukemia research. SPE continued its leadership in environmental and educational issues with its continued support of the Sony Pictures Urban Green Fund, which it established in 1992, and the nonprofit, multiethnic Living Literature Colors United, a Los Angeles-headquartered, education-based performing and visual arts organization for inner city youth.

In order to promote mutual understanding between the United States and Japan and the study of science and technology among American youth, Sony annually invites 50 U.S. high school students selected from all over the United States on an educational trip to Japan.

Sony Europe made a donation to "Eur'able—European Conference of Disabled People." This unique international conference gathered disabled people from all over the world in order to exchange views, create structures, and set up a pan-European network for people with disabilities. Also, Sony's concern for third world peoples was demonstrated in the activities of Sony Italia S.p.A., which made a donation to the "Together for Peace Association." This project aims at helping people in Somalia by building facilities and providing them with equipment.

Through Sony's Programme for Industrial Attachment, three of Sony's subsidiaries in Singapore, together with Sony Corporation, provide local engineering students both learning opportunities and exposure to Sony's manufacturing techniques. The students undergo training not only in Singapore but also in Japan. Sony Electronics (M) Sdn. Bhd., in Malaysia, has become the first multinational corporation from the northern region to participate in a program, coordinated by the Ministry of International Trade and Industry of Malaysia, which aims to develop small and medium-sized manufacturing companies. In Central and South America, Sony Corporation of Panama, S.A., supports local public primary schools by giving school bags with notebooks, pencils, and pens, and Sony Comercio e Industria Ltda. in Brazil donates to a research foundation and a regional orchestra.

In addition, many Sony Group companies donate to community chests and the Red Cross and support educational institutions in their respective regions.

Electronics

Video Equipment

Video Equipment sales for the fiscal year ended March 31, 1994, dropped 19.3%, to ¥669 billion ($6,491 million), accounting for 17.9% of consolidated sales. This sales decline was mainly caused by a slump in the camcorder market, although unit sales of 1/2-inch VTRs increased and newly introduced broadcast-use Digital Betacam VTRs were well received by major broadcast stations worldwide.

Comprises home-use VTRs, laserdisc players, video equipment for broadcast and professional use, HDTV-related equipment, still-image video cameras, and videotapes.

SALES IN VIDEO EQUIPMENT
(Billion ¥)

Audio Equipment

Audio Equipment sales for the year under review declined 9.4%, to ¥841 billion ($8,162 million), comprising 22.5% of consolidated sales. The stagnant audio equipment market, especially in Europe, was a major cause of the sales decrease, despite the good performance of the new lineups of the MiniDisc (MD) system and the car navigation system in Japan.

Encompasses CD players, the MD system, DAT recorders/players, hi-fi components, mini-component stereos, headphone stereos, radio-cassette tape recorders, tape recorders, radios, car stereos, the car navigation system, transmission receivers, professional-use audio equipment, and audiotapes.

SALES IN AUDIO EQUIPMENT
(Billion ¥)

Televisions

Sales in Televisions for the year decreased 2.5%, to ¥618 billion ($5,999 million), representing 16.6% of consolidated sales. Nevertheless, sales of computer displays were strong, reflecting the brisk worldwide demand for personal computers, and unit sales in home-use color TVs increased. The wide-screen TVs, which were newly introduced in Japan, also enjoyed good sales.

Includes color televisions and monitors, HDTV-related equipment, satellite broadcast reception systems, projector systems, computer displays, and large-screen display systems.

SALES IN TELEVISIONS
(Billion ¥)

Others

Sales in Others increased 5.9% during the year, to ¥817 billion ($7,933 million), accounting for 21.9% of consolidated sales. This growth was mainly achieved by the good sales performances of semiconductors, telephones, and such information-related equipment as CD-ROM drives.

Consists of semiconductors, electronic components, information-related equipment, including floppydisk systems and CD-ROM drives, telecommunications equipment, computers and peripherals, and FA systems.

SALES IN OTHERS (Billion ¥)

Entertainment

Music Group

During the year under review, Music Group sales increased 3.4%, to ¥462 billion ($4,483 million), representing 12.3% of consolidated sales. New best-selling releases by Mariah Carey, Pearl Jam, Billy Joel, and Michael Bolton as well as albums by Michael Jackson, Soul Asylum, Spin Doctors, and Sade achieved remarkable sales throughout the world. In Japan, major hit artists included Dreams Come True and Yutaka Ozaki.

Represented by Sony Music Entertainment Inc. (SMEI), which comprises Columbia Records Group (Columbia, Chaos Recordings); Epic Records Group (Epic, Epic Associated, Epic Soundtrax, Sony 550 Music, Crescent Moon, Okeh); TriStar Music Group (TriStar Music, Relativity Records); Sony Classical; Soho Square; Sony Wonder (SMEI's family entertainment music and video lines); and associated labels as well as Sony Music Entertainment (Japan) Inc.

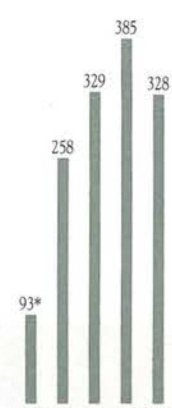
MUSIC GROUP SALES (Billion ¥)

Sales of The Columbia House Company are excluded from January 8, 1991.

Pictures Group

Pictures Group sales for the year under review were ¥328 billion ($3,182 million), declining 14.8% and accounting for 8.8% of consolidated sales. The appreciation of the yen was a major cause of the decline in sales in terms of yen. On a local currency basis, sales fared better, increasing by approximately 1% in the United States, the group's largest market. Sony Pictures Entertainment (SPE) achieved a nearly 19% market share at the U.S. box office in calendar year 1993, propelled by such hit films as *In the Line of Fire*, *Sleepless in Seattle*, *Cliffhanger*, and *Philadelphia*.

SPE comprises: four motion picture companies–Columbia Pictures, TriStar Pictures, Sony Pictures Classics, and Triumph Releasing Corp.–and its international theatrical business, Columbia TriStar Film Distributors International; three television companies–Columbia TriStar Television, Columbia TriStar Television Distribution, and Columbia TriStar International Television; Columbia TriStar Home Video; Sony Theatres; its state-of-the-art Sony Pictures Studios and Culver Studios; and several major in-house technology groups.



PICTURES GROUP SALES (Billion ¥)

Sales after the dates of acquisition of Columbia Pictures Entertainment, Inc., and The Guber-Peters Entertainment Company.

This reasonably priced video deck offers high picture quality and easy operation.

REVIEW OF OPERATIONS

VIDEO EQUIPMENT

This camcorder, based on the Digital Betacam format, will be introduced in the summer of 1994. Through its introduction, a total digital system covering shooting, editing, and broadcasting will be made possible.

8mm Video Products: In November 1993, Sony's accumulated number of 8mm video products manufactured reached 20 million units since their introduction in 1985. As the camcorder market has expanded, personal video shooting has become an increasingly popular way to save and share the precious memories. During the year under review, Sony introduced a new lightweight, compact, and easy-to-use 8mm camcorder. This camcorder features a built-in 3-inch color liquid crystal display (LCD) that serves as the viewfinder and eliminates the need to hold the unit to the eye, as with traditional camcorders. The LCD is also used for instant playback.

Home-Use 1/2-inch VTRs and Laserdisc Players: During the year under review, Sony introduced new easy-to-operate VHS decks with improved picture quality, which were well accepted around the world. Sony promoted its lineup of laserdisc players with a high-speed reversing and quick access mechanism. In May 1994, Sony launched in Japan a new model in the series, featuring a built-in closed-caption decoder that can display English captions on the screen.

Broadcast- and Professional-Use VTRs: An extremely high level of quality and reliability is necessary in the field of broadcast- and professional-use VTRs to meet the

In May 1994, Sony launched in Japan a new laserdisc player with a built-in closed-caption decoder.

requirements of professionals. Sony has established an excellent reputation for the performance of its systems among broadcast stations and production houses around the world. Sony maintained its leading position during the year under review by introducing new models in both analog and digital formats. One distinguished step was the introduction of Digital Betacam VTR systems in the middle of 1993. Users of Digital Betacam VTRs, whose numbers

This new compact, lightweight, and easy-to-use 8mm camcorder features a 3-inch color LCD monitor. This monitor functions as a viewfinder, and users can also enjoy immediate playback.

The excitement of the 1994 Winter Olympic Games, held in Lillehammer, Norway, was carried to viewers around the world via Digital Betacam systems, the official video format for the Games.

are expanding worldwide, can smoothly shift toward digital recording while using the existing video archives of both Betacam and Betacam SP, a de facto world standard throughout the broadcast industry, as these tapes can be played on Digital Betacam VTRs. During the period under review, Digital Betacam VTRs for recording, editing, and broadcast were used extensively by NRK, Norway's national broadcaster, which was the host broadcast station at the 1994 Winter Olympic Games in Lillehammer, Norway. In addition, Digital Betacam VTRs have been widely employed by major broadcast stations worldwide. In March 1994, the Digital Betacam camcorder was unveiled at the National Association of Broadcasters (NAB) Show in Las Vegas and received critical acclaim. Sony plans to introduce the camcorder in the summer of 1994. Digital Betacam VTR systems, including camcorders, will enable production houses and TV broadcasters to produce and broadcast programs through all-digital operations, from shooting to editing and transmitting, thereby realizing virtually no loss of image quality.

In conventional-type analog VTR systems, Sony steadily expanded its market share during the year under review, and also strengthened its lineup by introducing new models of Betacam SP, featuring high picture quality and lower price, which was realized by focusing on basic functions.

In January 1994, Sony developed the Digital HD (high-definition) telecine system, which allows real-time conversion of film images, including movie software, into high-quality HD video images.

Videotapes:
Sony expanded its videotape lineup by launching new series of 8mm and 1/2-inch videotapes. Sony introduced in Japan and Europe a new top-of-the-line Hi8 8mm metal evaporated tape that applies a newly developed magnetic material packed at high density, achieving higher picture quality and enhancing durability.

Sony's 8mm videotape lineups in Japan and Europe were strengthened with the introduction of the Hi8 metal evaporated tape, which set new standards of quality.

Through the use of speakers that can accurately reproduce delicate high-frequency sound, this mini-component stereo is meeting the growing demand for superior sound quality.

REVIEW OF OPERATIONS

AUDIO EQUIPMENT

CD Players:

Since their initial introduction in 1982, CDs have been widely recognized as a medium providing superior sound quality. In 1992, Sony employed a high-fidelity CD production system utilizing the Super Bit Mapping (SBM) process. SBM allows the production of higher-quality CD software that reproduces the original sound even more closely, thus reinforcing the position of CDs as the highest-grade home hi-fi medium. In December 1993, Sony introduced in Japan a top-of-the-line CD player system that comprises a CD player unit and a digital to analog (D/A) converter. The CD player unit employs a new mechanism that reduces vibrations of the optical pickup during playback and improves the sound quality. In October 1993, Sony also introduced a new CD changer that holds up to 100 discs and therefore enables a quick selection of a favorite piece of music.

MiniDisc (MD) System:

The MD system is a new audio system, introduced by Sony in November 1992, which uses a magneto-optical (MO) disc, only 2.5 inches in diameter, allowing up to 74 minutes of digital recording and playback. It features both the random access capability of CDs and the portability and the recording function of cassette tapes.

Since November 1993, Sony has been expanding its MD system lineup by introducing new products for portable, hi-fi audio, and automobile uses. The two new portable models, recording/playback and playback-only, were made much smaller and lighter than their predecessors by reducing the number of components, through higher-density mounting of chips, and by employing smaller and lighter lithium ion rechargeable batteries that also realize longer playback time. With the support of these new models, the market for the MD system has expanded at a speed approximately twice as fast as that for CD players at their initial introduction. On the software side, the MD system has been supported by many record companies around the world, who have released many titles of prerecorded MD software.

Digital Audio Tape (DAT) Recorders/Players:

Sony introduced a new DAT deck, which employs SBM technology for the first time. The new model provides higher-quality recording and allows users to produce personal DAT libraries with superb sound quality.

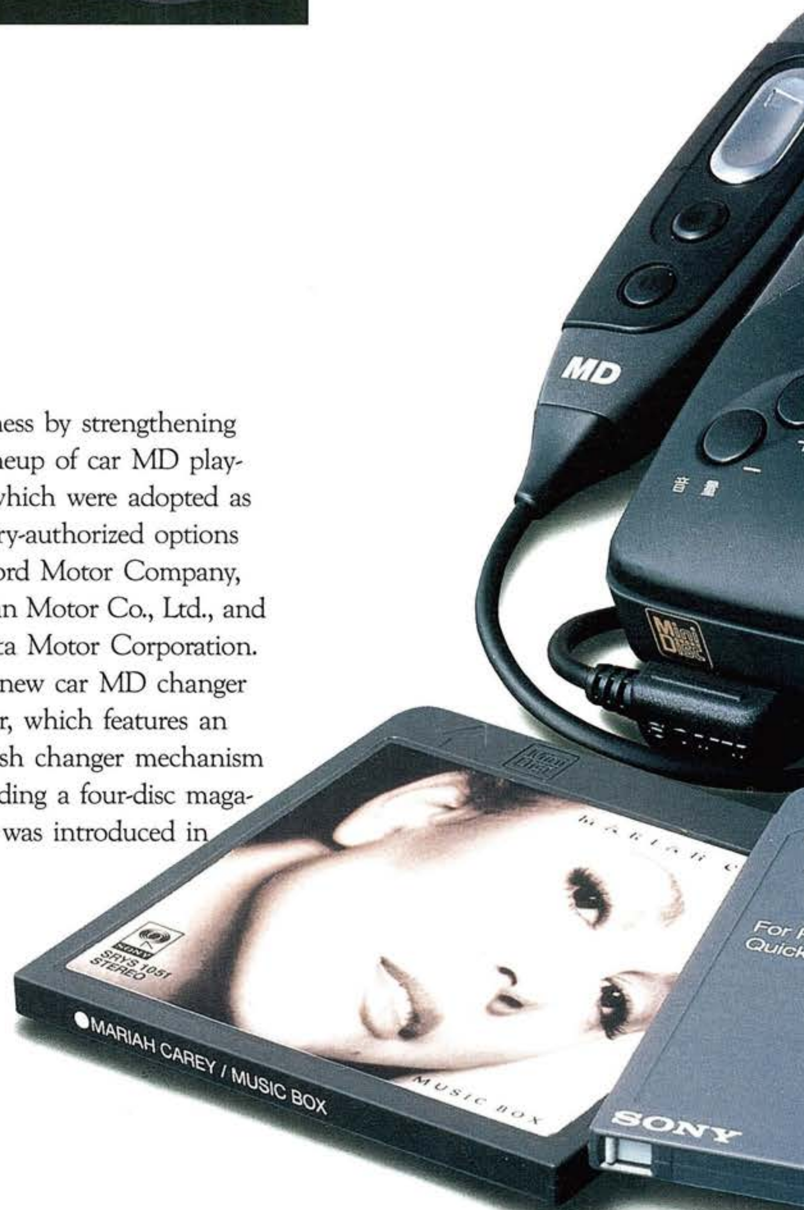
This CD player system employs a new mechanism that minimizes the vibrations of the optical pickup, providing superior sound quality. (left: D/A converter; right: CD player unit)

This new series of Walkman uses rechargeable and alkaline batteries to enable 25-hour continuous play-back. Also, the body is stronger than previous models.

Mini-Component Stereos:
Sony marketed various types of mini-component stereos. The high-end products included a new model bringing greater clarity to sound reproduction by employing built-in electrostatic tweeters that clearly reproduce the sound details at high frequencies.

Headphone Stereo Cassette Players:
Sony introduced a varied range of new Walkmans, including models providing extended continuous playback time and ones equipped with an improved shock resistance mechanism.
In November 1993, Sony introduced in Japan a new model that allows 25 hours of continuous playback time.

Car Stereos:
Sony maintained its leading position in car CD players and improved its car stereo business by strengthening its lineup of car MD players, which were adopted as factory-authorized options by Ford Motor Company, Nissan Motor Co., Ltd., and Toyota Motor Corporation. The new car MD changer player, which features an in-dash changer mechanism including a four-disc magazine, was introduced in



November 1993 and was well received.

Car Navigation Systems: In Japan, the car navigation system is becoming a popular driver's tool for following an appropriate route to a particular destination. The system is driven by CD-ROM and receives signals from Global Positioning System (GPS) satellites, showing on its display the vehicle's location and the direction of its movement on a detailed road map. The market has been rapidly expanding in Japan. Sony took the lead in the market with the introduction of a low-priced model with a 4-inch LCD in June 1993 and continued to strengthen its lineup of car navigation systems by fully utilizing its CD-ROM technology.

Sony's top-of-the-line metal audio compact cassette features a five-layer magnetic coating and an optimally calibrated shell to minimize vibrations, both of which contribute to rich, balanced sound reproduction.

The new MD Walkman is significantly reduced in size, to less than half that of the previous model. Moreover, the lithium ion battery used is not only smaller than previously employed nickel-cadmium rechargeable batteries, it also provides a much larger capacity, allowing extended recording and playback time.

This car navigation system uses information stored on a CD-ROM and signals from GPS satellites to locate and display on a screen a vehicle's current position and routes to a desired destination.

Sony's color televisions employing the Super-Trinitron CRT, which allows a flatter screen and excellent picture quality, have been well received in markets around the world.

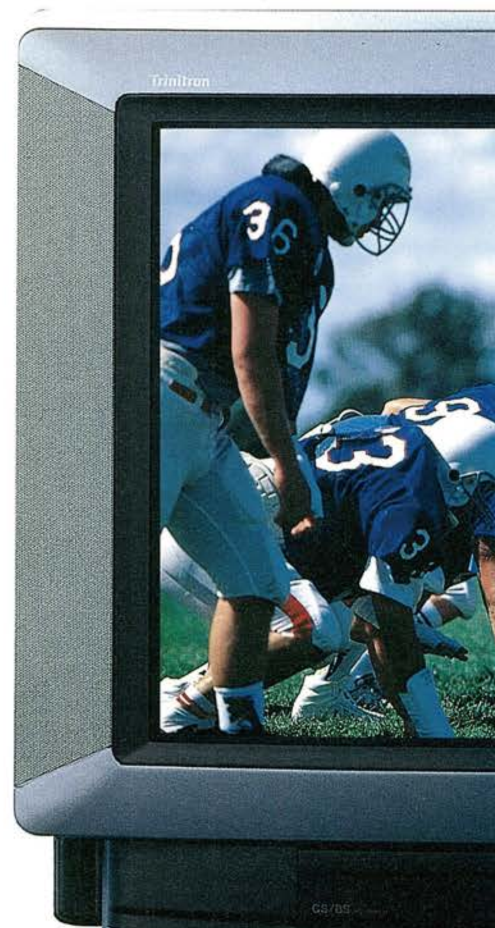
TELEVISIONS

Home-Use Color TVs: Sony has been promoting integrated local TV manufacturing operations in design, parts procurement, cathode ray tubes (CRTs) production, and assembly of finished TVs in Japanese, U.S., European, and Asian markets, in order to better meet specific local demand. This system also contributes to reducing the negative impact of foreign exchange fluctuations. Currently, more than 90% of Trinitron color TVs sold in the world markets are manufactured in each local market. In April 1994, Sony began manufacturing CRTs for projection TVs in its Pittsburgh plant in the United States, which had been assembling projection TVs.

Sony introduced in Japan new models of color TVs featuring built-in VHS VTRs and easier operation. Sony also endeavored to expand the market by introducing these products in Southeast Asia in November 1993 and in Europe in April 1994.

In Japan, consumer demand for wide-screen TVs with a 16:9 aspect ratio has become stronger as the available wide-screen movie software increases. In October 1993, Sony introduced in Japan a series of wide-screen TVs that employ a high-resolution HD (high-definition) Trinitron CRT, originally developed for its HDTVs. These new wide-screen TVs enjoyed a strong sales performance.

HDTV (High-Definition TV): HDTVs provide for high resolution and brightness by employing a wider screen with a 16:9 aspect ratio, which comprises 1,125 horizontal scanning lines, approximately twice the number of conventional TVs. During the year under



Sony launched a series of wide-screen televisions in Japan incorporating the high-resolution HD Trinitron CRT. The high-quality picture allows viewers to enjoy films, sporting events, and other images of vividness similar to that of a theater screen.

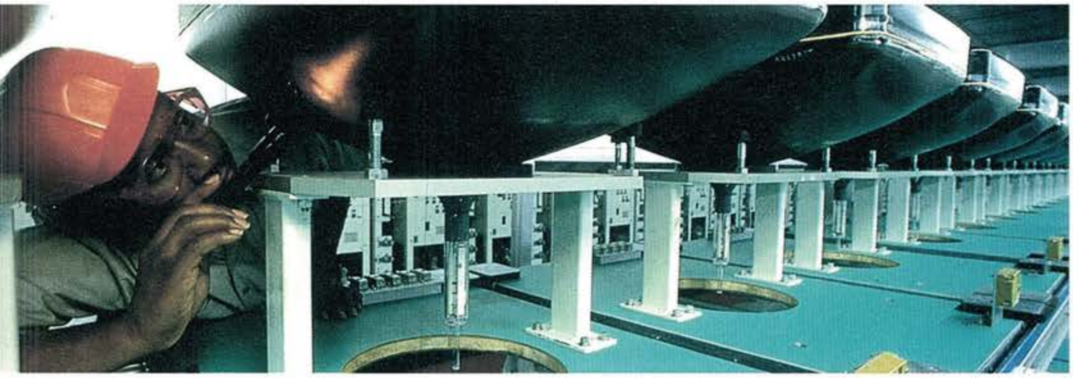
review, Sony introduced in Japan a 28-inch model equipped with a newly developed full-specification MUSE (multiple subnyquist sampling encoding) decoder, at a price lower than that of any of Sony's existing models.

Computer Displays and Professional-Use Monitors: Sony's Trinitron color display has been well received and widely adopted by many computer manufacturers, thanks to its superior picture quality and resolution. During the year under review, Sony's computer displays continued to enjoy strong sales in the United States and Japan, supported by continued brisk personal computer markets.

Sony's professional-use monitors are used for a variety of applications by broadcast stations, production houses, educational organizations, research facilities, and medical institutions.

Sony's super high-resolution Trinitron Data Display Monitors, originally developed for use in air traffic control systems, are also finding such other applications as in CAD/CAM and medical fields.

Sony launched in Japan a reasonably priced 28-inch HDTV model that comes with a built-in full-specification MUSE decoder. Moreover, the ways of enjoying HDTV quality were expanded with the release of a high-definition laserdisc player. The simulated picture shows a scene from Columbia Pictures/Castle Rock's 1993 hit *In the Line of Fire*, starring Clint Eastwood.

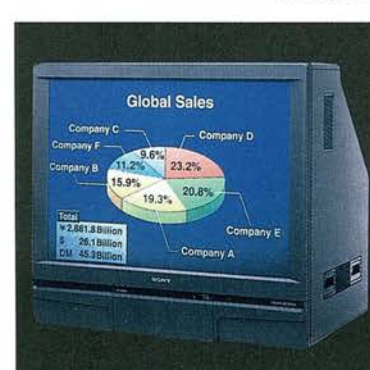


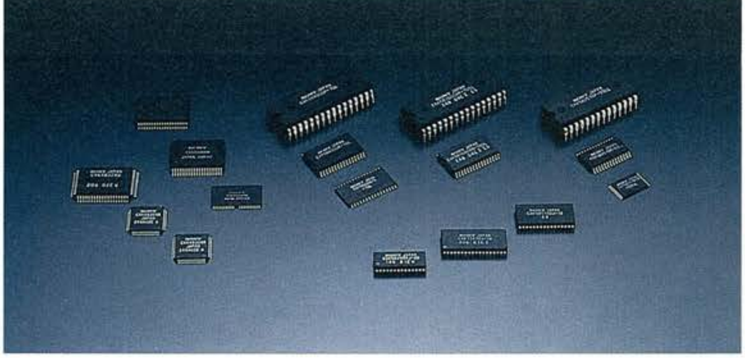
At the San Diego plant in California, CRTs are produced under strict quality control standards. The facility has manufactured more than 20 million CRTs since it began CRT production in 1974.

Professional-Use Projectors:
Sony is one of the leading suppliers of professional-use projectors with a varied lineup of products providing high resolution and brightness. Sony continued to strengthen its lineup of multiscan projectors that can display various signal sources, from VTRs to computers. In the year under review, Sony introduced a new model providing higher picture resolution and superior reproduction of such delicate images as computer-aided design (CAD) and HDTV compared with its predecessors. In May 1994, Sony introduced a 40-inch multiscan rear projector that can offer a brighter and clearer picture even in a well-lit room. Sony also introduced in February 1994 an LCD projector that is more portable and can receive signals from computers as well as VTRs.

Large-Screen Display Systems:
Sony's large-screen display system Jumbotron can display vivid and dynamic images on its giant screen even in bright sunshine. Currently, approximately 180 units are in use around the world at such sites as outdoor stadiums, indoor sports arenas, and commercial buildings. In April 1994, a new system with improved luminance and resolution was installed in Cleveland Stadium in the United States.

This 40-inch multi-scan rear projector accepts signals from various sources, from VTRs and computers to HDTV-related equipment. Its compact size and portability make it well suited to a number of settings, from the conference room to the classroom.





Sony's leading-edge technology used in these memory devices, primarily for personal computers, is also applied in the development of semiconductors for audiovisual products.

REVIEW OF OPERATIONS

OTHERS

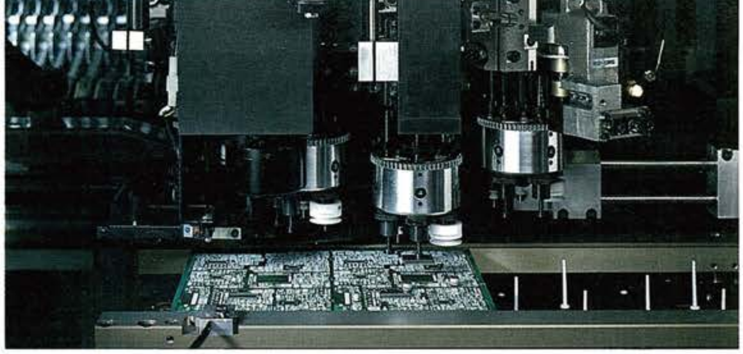
Semiconductors and Components:
Since the early 1980s, Sony has been aggressively promoting marketing efforts for semiconductors and components, including optical pickups and magnetic heads for VTRs and floppydisk drives. Sony's semiconductors include bipolar ICs, metal-oxide semiconductor ICs (MOS ICs), including SRAMs, and charge-coupled devices (CCDs). For the year under review, Sony's total semiconductor production came to approximately ¥200 billion ($1,942 million), more than 50% of which was sold to other manufacturers.

Sony has been placing increasing emphasis on R&D activity in the semiconductor field in order to enhance its competitive position in developing products. Sony has also endeavored to introduce new products to better meet various market needs. For example, Sony developed a 2-megabit static random access memory (SRAM) that requires low power consumption in the same size as its 1-megabit SRAM, and started sample shipments in April 1994.

Information-Related and Telecommunications Equipment:
Sony, an original codeveloper of the CD system itself, is one of the leaders in the world market for CD-ROM systems. CD-ROM systems are inexpensive data media with a large memory capacity for computer use. To cope with rapidly expanding demand, Sony started manufacturing CD-ROM drives in Malaysia.

Sony developed the MD DATA format, a rewritable storage device based on its MiniDisc audio technology, in order to meet the growing demand for portable storage devices that are capable of handling large

Noted for their compact size, light weight, and high sensitivity, these CCDs are used mainly for video cameras.



This high-speed chip placer handles microchips and a variety of other electronic components. Sony provides FA systems that address diverse customer needs by applying the technological knowhow gained through its production processes.

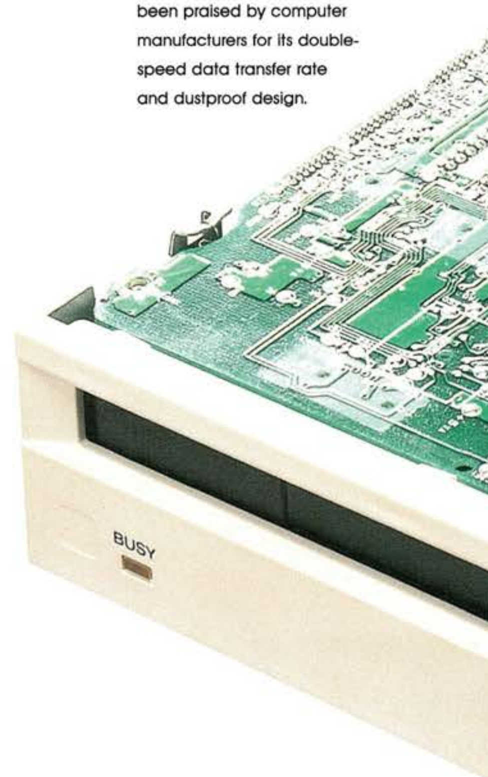
amounts of data for computers. MD DATA has a 140-megabyte (MB) capacity, equivalent to almost 100 standard 3.5-inch floppydisks. In April 1994, Sony started sample shipments of MD DATA drives and discs for computer manufacturers. Sony also announced the development of the MD DATA File System in February 1994 with the support of Microsoft Corporation. The MD DATA File System is a software system that allows people to use MD DATA media with popular operating systems, including Microsoft® Windows.

Sony has been involved in the cellular telephone business both in Japan and in overseas markets. Sony has substantially expanded the business in Europe, especially in the United Kingdom, since its initial entry in November 1992. In Japan, since sell-through business of cellular telephones was deregulated in April 1994 and the market is growing rapidly, Sony is offering cellular telephones in both analog and digital formats.

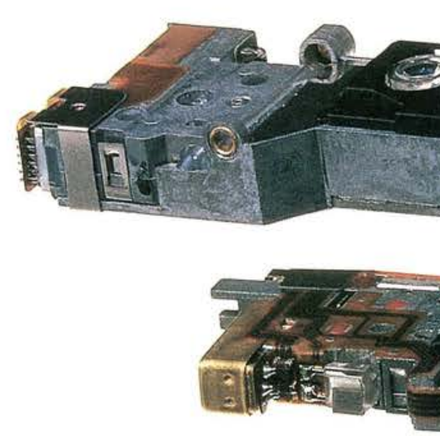
In the United States, Sony is developing CDMA (Code Division Multiple Access) format digital cellular telephones through the formation in February 1994 of a joint venture partnership with QUALCOM Inc., which has expertise in CDMA technology regarding wireless communication. Sony also plans to participate in the expanding digital cellular phone market including the TDMA (Time Division Multiple Access) format in the United States and the GSM (Global System for Mobile Communications) format in Europe.

Sony has invested in General Magic, Inc., shares of which are also held by the world's leading electronics and telecommunications companies. General Magic, Inc., is developing software for telecommunications infrastructures in personal intelligent communicators (PICs), personal terminals that are able to undertake complex forwarding and messaging procedures. Sony has been developing a PIC based on the Magic Cap™ software

This CD-ROM drive (shown with its cover removed) has been praised by computer manufacturers for its double-speed data transfer rate and dustproof design.

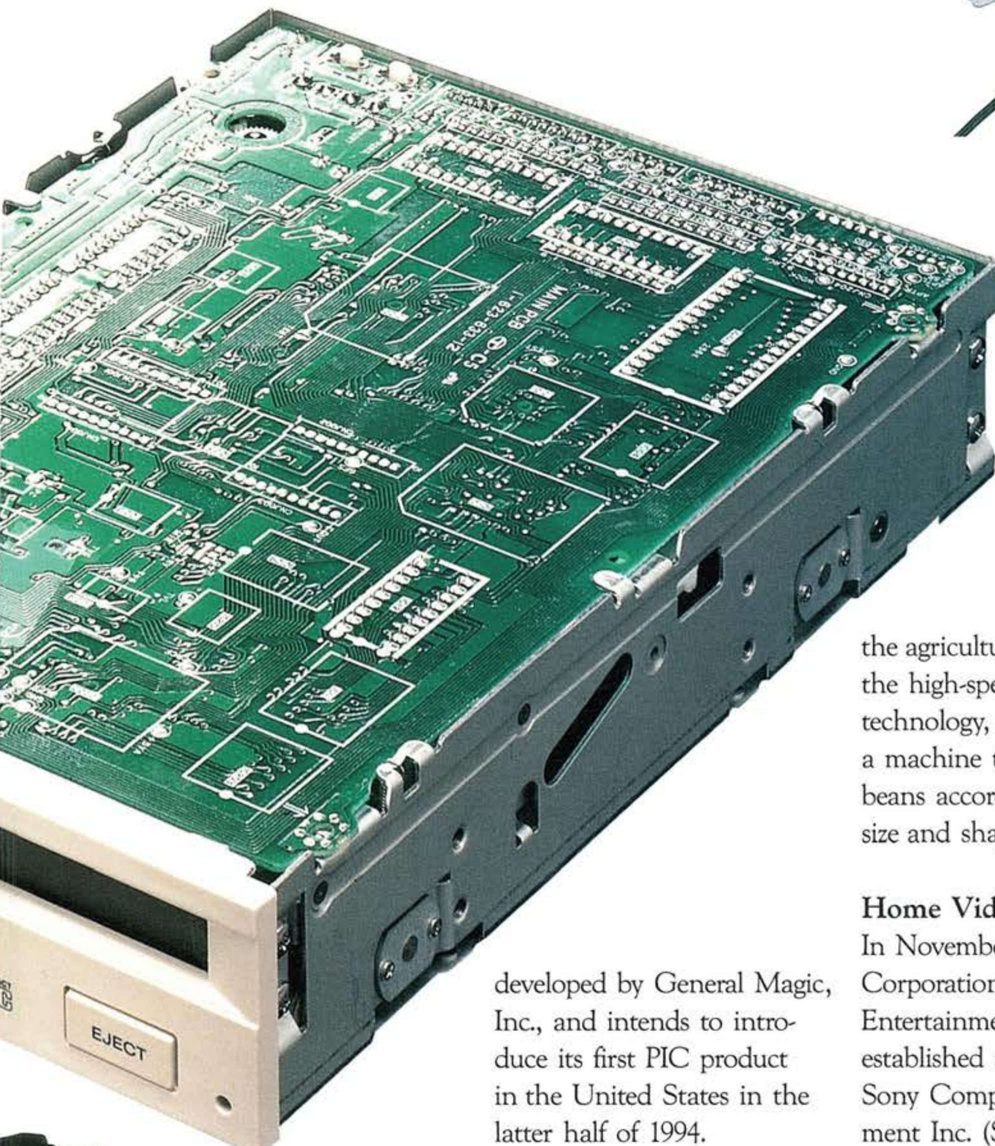


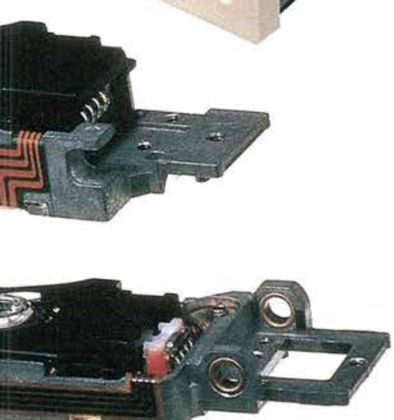
The rewritable MD DATA system is not only compact but it can also store 140MB of data. Therefore, it is expected to find applications in computers and various other fields. (photo: MD DATA drive (top) and MD DATA disc)



The new optical pickup (bottom), developed for use in the portable MiniDisc recorder launched in December 1993, is much smaller and lighter than its predecessor (top).

The new 32-bit game system will provide realistic video games by incorporating highly precise 3-D images. In action games, for example, characters or objects can move freely in the 3-D space. In role-playing games, the background will change spontaneously according to the player's angle in real time. (photo: game system prototype)





developed by General Magic, Inc., and intends to introduce its first PIC product in the United States in the latter half of 1994.

Factory Automation (FA) Systems:
Sony's FA systems for automated assembly, evaluation, and measuring are delivered to other manufacturers as well as dedicated to internal use. The technology has been utilized not only for electronic products manufacturing but also for other industrial fields. As one example in the agricultural field, applying the high-speed image sensing technology, Sony developed a machine to sort kidney beans according to their size and shape.

Home Video Game:
In November 1993, Sony Corporation and Sony Music Entertainment (Japan) Inc. established a joint venture, Sony Computer Entertainment Inc. (SCE), which will develop and market a new CD-ROM based home-use game machine and software. The 32-bit game machine will incorporate lifelike 3-D images and will offer graphics comparable to those of a high-end workstation. SCE is working toward marketing this new home-use game system in Japan by the end of 1994 and in the United States and Europe in 1995.

In the United Kingdom, Sony's ultracompact cellular telephones have their numbers preregistered with the network operated by Cellnet, a subsidiary of British Telecommunications plc, and therefore they can be used immediately upon purchase.

As a solo male artist, Billy Joel has nine career multi-platinum albums, second only to Elvis Presley.

REVIEW OF OPERATIONS

MUSIC GROUP

Celine Dion's *The Colour of My Love* album yielded her first number one single, "The Power of Love."

Gloria Estefan received her first Grammy Award for *Mi Tierra*, a Spanish-language album that sold more than 2.7 million units worldwide.

Sony Music Entertainment Inc. (SMEI) opened Sony Music Studios, a unique recording and visual arts complex in New York City, and announced construction of a U.S. compact disc/CD-ROM manufacturing plant in Springfield, Oregon, to accommodate increased demand for CD-ROM titles. Production is due to begin in late 1995.

Exclusive agreements to manufacture, distribute, and market home video and audio titles were finalized with the children's television network Nickelodeon and children's television series, including *The Puzzleworks* and *Xuxa*. SMEI, Blockbuster Entertainment Corporation, and PACE Entertainment Corporation formed a partnership, Pavilion Partners, to develop and operate amphitheaters in North America, Europe, and other international markets.

Sony Music Entertainment Inc.: SMEI achieved best-ever revenues and profits in the year under review, capping four consecutive years of record-breaking sales. Sony Music (U.S.) had six successive record months and acquired the balance of Relativity Entertainment Distribution (RED), the leading U.S. independent distributor, and Relativity Records. Epic Records Group launched a new label, Sony 550 Music, and revived the Okeh label. Columbia and Epic Records, respectively, were *Billboard* magazine's number two and number three Top Pop and Top 200 Album labels of 1993.

Worldwide sales of Mariah Carey's *Music Box* album eclipsed 10 million units, Pearl Jam's *Vs.* and Billy Joel's *River of Dreams* each surpassed 6 million units sold, and sales of Michael Bolton's *The One Thing* neared 5 million units. Other multimillion-selling albums included the *Sleepless in Seattle* soundtrack, Cypress Hill's *Black Sunday*, Grammy-winner Gloria Estefan's *Mi Tierra*, Celine Dion's *The Colour of My Love*, and *Back to Broadway* by Barbra Streisand, who gave her first public performances in over two decades.

SMEI's success in discovering and developing new artists was confirmed with million-plus selling debut albums by Rage Against the Machine, Onyx, Culture Beat, Xscape, and Jamiroquai in addition to strong continuing sales of Spin Doctors, Soul Asylum, Deep Forest, and Pearl Jam debut albums.

New releases by Pink Floyd, Luther Vandross, Alice in Chains, Babyface, Kris Kross, Cyndi Lauper, and James Taylor, as well as the *Philadelphia* and *Last Action*

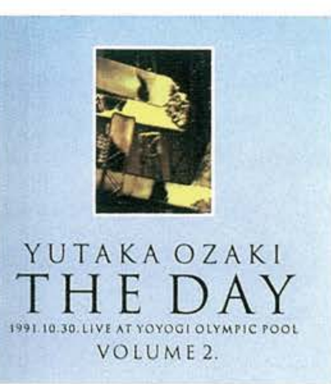
Pearl Jam's *Vs.* sold nearly a million units in the United States in the first week after its launch and debuted at number one in Australia, Israel, New Zealand, Norway, Sweden, and the United States.

Soul Asylum reached a worldwide audience with their Columbia debut, *Grave Dancers Union*. The song "Runaway Train" won the Grammy Award for Best Rock Song.

Mariah Carey had *Billboard*'s number one single and album of 1993.

Placido Domingo joined Jose Carreras and Diana Ross for *Christmas in Vienna*, Sony Classical's best-selling album of 1993.

The *Philadelphia* soundtrack was a number one album in Austria and Spain, and a Top 5 album in Belgium, Canada, Portugal, France, Germany, and the United Kingdom.



Yutaka Ozaki's album recorded strong sales in Japan.

Hero soundtracks, each surpassed a million units sold. Releases by country artists Mary Chapin Carpenter, Collin Raye, Honky Tonk Angels (Dolly Parton, Tammy Wynette, and Loretta Lynn), Patty Loveless, Doug Stone, and Joe Diffie contributed to the growth of Sony Music Nashville.

Sony Music International (SMI) achieved its best-ever revenues and profits, led by U.S. bestsellers and releases from Patricia Kaas, Jordy, and Jean-Jacques Goldman (France); Culture Beat and the compilation *Kushelrock 7* (Germany); Zeze di Camargo & Luciano, Daniela Mercury, and Roberto Carlos (Brazil); Sony Discos' Jerry Rivera; and various compilation albums. SMI operations were expanded with new subsidiaries in Taiwan and Turkey and the development of new CD manufacturing facilities in Mexico, Canada, and Australia.

Sony Classical's *Christmas in Vienna* album sold nearly a million units worldwide. Placido Domingo and Riccardo Muti were signed to new long-term contracts. A super-budget label, Infinity Digital (U.S.) and Digital Focus (Europe), was launched, selling a million units in its first eight weeks.

Sony Classical Film & Video, a division producing music performance programs for home video and broadcast use, was established with *Vladimir Horowitz: A Reminiscence*; *Dvorak in Prague: A Celebration*; and *Accent on the Offbeat*, featuring Vladimir Horowitz, Seiji Ozawa and the Boston Symphony, and Wynton Marsalis, respectively.

Epic Soundtrax' *Sleepless in Seattle* was the biggest selling soundtrack released in 1993. Other bestsellers included *Last Action Hero*, *Free Willy*, *Judgment Night*, and *Poetic Justice*. Four titles from Sony Music soundtracks were nominated for Academy Awards, with Columbia artist Bruce Springsteen winning for his "Streets of Philadelphia" on the Epic Soundtrax album from the TriStar Pictures film *Philadelphia*.

Sony Music Entertainment (Japan) Inc. (SMEJ): During the year under review, major hit albums in Japan included *MAGIC* by Dreams Come True and new releases from Yutaka Ozaki, TUBE, Toshinobu Kubota, and Shogo Hamada.

Culture Beat's "Mr. Vain" single, from their *Serenity* album, reached number one in nine countries and was number one for nine weeks in Germany.

Dreams Come True's new album *MAGIC* registered commercial success and was certified as a two-million-selling album by the Recording Industry Association of Japan.

Sony Pictures Classics' *Belle Epoque* earned SPE its second consecutive Best Foreign Language Film Academy Award.

REVIEW OF OPERATIONS

PICTURES GROUP

Sony Pictures Entertainment (SPE) continued to position itself for long-term success across its core businesses, building asset value and pioneering innovative new technologies designed to revolutionize the filmed entertainment experience.

Motion Picture Group: Propelled by such blockbuster hits as TriStar Pictures' *Sleepless in Seattle, Cliffhanger,* and *Philadelphia* and Columbia Pictures' *In the Line of Fire,* SPE achieved a nearly 19% market share at the U.S. box office in calendar year 1993. SPE's Motion Picture Group generated $1.7 billion at the box office worldwide in the year under review.

SPE achieved four of the industry's top 10 domestic box office hits in 1993, including Columbia Pictures' *Groundhog Day.*

SPE's motion picture companies again led the industry with 31 Oscar nominations in 1993. Sony Pictures Classics placed the crowning touch on SPE's critical success, winning the Best Foreign Language Film Oscar for the second straight year with its highly acclaimed film *Belle Epoque.*

SPE's motion picture companies have formed enduring relationships with a combination of proven masters and cutting-edge young talent. Such leading stars, directors, and producers as Julia Roberts, Anthony Hopkins, Denzel Washington, Damon Wayans, Jack Nicholson, Michelle Pfeiffer, Winona Ryder, Billy Crystal, Nora Ephron, and Rob Reiner are already making their third, fourth, or fifth films for SPE, establishing a strong foundation for continued success.

Television Group: SPE's Television Group is moving aggressively into first-run syndication, barter advertising, the talk show arena, international

The fast rise of *Ricki Lake* positioned SPE's Television Group as a major force in first-run syndication.

production, and cable networking while maintaining leadership in its prime-time network, off-network syndication, daytime programming, and game show core businesses.

Both production arms of the newly reorganized Columbia TriStar Television continue to demonstrate strength with such prime-time hits as Columbia's *Married...With Children*, entering its ninth year, TriStar's hit comedy *Mad About You*, renewed for its third full season, and *The Nanny*, one of CBS' strongest debut series of '93-'94. SPE continues to reign supreme in daytime programming with *The Young And The Restless*, the highest-rated soap opera on all networks, and *Days of Our Lives*.

Columbia TriStar Television Distribution's (CTTD's) *Ricki Lake* was the most successful new first-run syndication talk show in 1993, steadily building its ratings and earning three Emmy nominations. CTTD also enhanced its distribution pipeline with the hit comedy *Seinfeld*, the latest in SPE's string of domestic syndication successes.

TriStar Pictures' *Philadelphia*, the first industry blockbuster of 1994, also achieved critical success, with Tom Hanks winning the Best Actor Academy Award.

Sony Theatres is revolutionizing the moviegoing experience with its new flagship theater at Lincoln Square.

Columbia TriStar Television continued to generate success from *Wheel of Fortune*, one of the most popular game shows in the world, and the critically acclaimed quiz show *Jeopardy!*, which have ranked one-two in first-run syndication for eight straight years.

SPE's Television Group strategically positioned itself for growth in the electronic distribution arena through a series of initiatives highlighted by its investment in the HBO Ole partnership, a premium subscription pay television service spanning Latin America.

Columbia TriStar Home Video (CTHV) had the highest video rental market share in the United States for the second straight year. Its international performance was highlighted by the distribution of the French blockbuster *Les Visiteurs*, which achieved all-time home video sales and rental records in France.

Exhibition Group:
In a move to more clearly identify the Sony standard of excellence with one of SPE's key businesses, Loews Theatres has changed its name to Sony Theatres, combining Loews' historic reputation for quality with SPE's commitment to revolutionize the moviegoing experience. Sony Theatres has emerged as the premier theatrical exhibition circuit in North America and, spurred by an unprecedented nationwide customer service program, achieved its highest revenues ever in 1993.

Sony Pictures Entertainment has also moved to the forefront of technological growth in the exhibition business. Its new Lincoln Square complex in New York City will serve as the model for flagship theaters across the country. At the same time, Sony Theatres is reaching out to an expanding range of moviegoers through an innovative partnership with sports legend and business entrepreneur Earvin "Magic" Johnson. The Magic Johnson Theatres venture, announced in April 1994, will invest in the development of a chain of first-class, first-run multiplex theaters in U.S. inner cities, beginning with a major theater complex in Los Angeles.

Studio Facilities:
In May 1993, Culver City approved SPE's long-term Comprehensive Plan for the company's state-of-the-art global headquarters. The development of SPE's studio facilities has been matched by significant progress in several major technologies, including Sony Pictures Imageworks, the Sony Pictures High Definition Center, and Sony Dynamic Digital Sound™.

SPE's state-of-the-art studio facilities combine advanced technology with a creatively stimulating campus environment.

The prime-time hit *Seinfeld* has emerged as one of the most successful syndication launches in recent television series history.

HONORARY CHAIRMAN

Founder—Honorary Chairman
Masaru Ibuka

BOARD OF DIRECTORS AND OFFICERS

Chairman of the Board and Representative Director
Akio Morita

President and Representative Director, Chief Executive Officer
Norio Ohga

Executive Deputy President and Representative Directors
Nobuo Kanoi
Ken Iwaki
Tsunao Hashimoto

Executive Deputy President and Director
Minoru Morio

Senior Managing Directors
Kozo Ohsone
Fumio Kohno
Kiyoshi Yamakawa
Junichi Kodera
Yoshiyuki Kaneda
Jiro Aiko
Tamotsu Iba
Kenji Tamiya

Managing Directors
Akira Nagano
Masahiro Takahashi
Senri Miyaoka
Shiro Koriyama

Directors
Toshitada Doi
Nobuyuki Idei
Jakob J. Schmuckli
Teruaki Aoki
Michael P. Schulhof
Hisanaga Shimazu
Sumio Sano
Masayuki Takano
Seiichi Watanabe
Seiichi Kato
Hideo Nakamura
Kenji Hori
Suehiro Nakamura
Toshiyuki Yamada
Katsuaki Tsurushima
Katsuhito Hayashi
Yasumasa Mizushima
Kenichi Oyama

Kenichi Kamiya
(Advisor of The Sakura Bank, Limited)
Peter G. Peterson
(Chairman of The Blackstone Group)

Standing Statutory Auditors
Tsunehiko Ishizuka
Eijiro Oki
Akihisa Ohnishi

(As of March 31, 1994)

The titles of the directors listed below changed on April 1, 1994, as follows:

Executive Deputy President and Directors
Kozo Ohsone
Yoshiyuki Kaneda
Tamotsu Iba

Senior Managing Director
Masahiro Takahashi

Directors
Nobuo Kanoi
Ken Iwaki

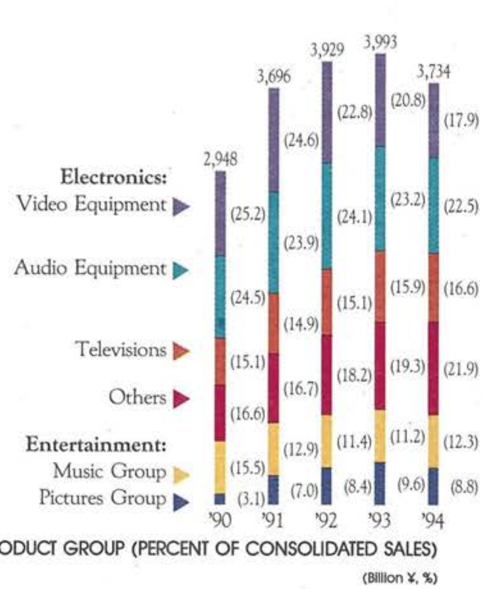
Analysis of Operations

Sony's ***sales and operating revenue*** (herein referred to as "sales") during the fiscal year ended March 31, 1994, amounted to ¥3,733.7 billion ($36,250 million), a 6.5% decline from the previous fiscal year. The Japanese economy continued to be sluggish with no signs of immediate recovery, reflecting stagnant corporate capital expenditures, weak consumer spending, and a lackluster stock market. Recovery in the audiovisual market was also delayed. Sony's sales in Japan fell a marginal 0.4% from the previous year.

Overseas, the U.S. and Southeast Asian economies were generally healthy, but the European economy has yet to engender optimism for a broad based recovery. Overseas sales fell sharply due to the impact of the yen's rapid appreciation against the U.S. dollar and European currencies. In terms of average rate, the yen rose 16% against the U.S. dollar, 24% against the deutsche mark, and 31% against the pound sterling. By geographic area, sales in the United States fell 5.1%, to ¥1,154.5 billion ($11,208 million), and declined 19.9%, to ¥832.8 billion ($8,085 million), in Europe, but gained 2.0% in Other Areas, to ¥722.8 billion ($7,018 million). On a local currency basis, sales in the U.S. Electronics Business rose approximately 13%, advanced approximately 22% in the Music Group, and increased approximately 1% in the Pictures Group. In Europe, sales in the Electronics Business declined roughly 1%, while those in Other Areas increased approximately 18%.

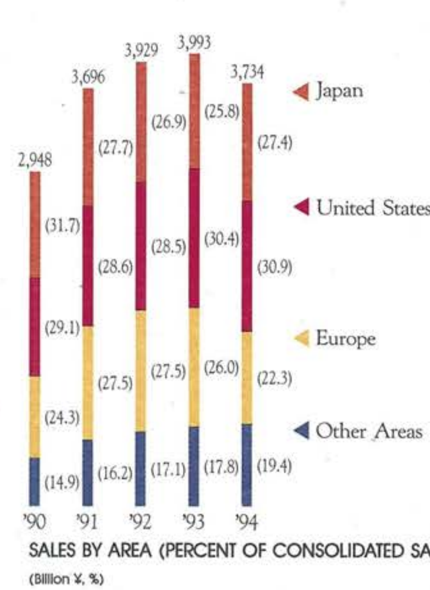
Cost of sales decreased 5.9%, to ¥2,755.8 billion ($26,756 million), reflecting efforts throughout the Sony Group to cut costs and a 12.9% reduction in depreciation and amortization expenses associated with the sharp drops in capital investment during both the year under review and the previous term. However, the decline in consolidated sales due to the appreciation of the yen, which had the effect of a ¥501 billion ($4,864 million) decrease, was greater than the decrease in cost of sales and caused the ratio of cost of sales to consolidated sales to edge up 0.4 percentage points, to 73.8%.

Research and development expenditures fell 1.0% from the previous year, to ¥229.9 billion ($2,232 million), but, as a percentage of consolidated sales, R&D expenditures rose 0.4 percentage points, to 6.2%. Sony believes R&D activities are critical to the long-term growth of its electronics business and expects R&D expenditures will be sustained at approximately the same level as in the year under review.



SALES BY PRODUCT GROUP (PERCENT OF CONSOLIDATED SALES)

(Billion ¥, %)



SALES BY AREA (PERCENT OF CONSOLIDATED SALES)

(Billion ¥, %)

Selling, general and administrative expenses decreased 6.3%, to ¥878.2 billion ($8,526 million), reflecting measures to reduce operating expenses. These expenses as a percentage of consolidated sales were 23.5%, virtually unchanged from the previous year.

Operating income slid 21.2% from the previous year, to ¥99.7 billion ($968 million). As a result, the ratio of operating income to consolidated sales fell from 3.2% to 2.7%.

Other income increased 7.1%, to ¥120.1 billion ($1,166 million), chiefly because the decline in interest income resulting from lower interest rates was more than offset by an increase in foreign exchange gain, net.

Other expenses were down 19.5%, to ¥117.7 billion ($1,142 million), reflecting a reduction in interest expenses arising from decreases in borrowings and debt and lower interest rates.

Among other income and expenses, the balance of interest and dividend income less interest expenses resulted in net interest payments of ¥30.8 billion ($299 million), an improvement of ¥14.5 billion ($140 million) from the previous year.

Income before income taxes rose 10.4%, to ¥102.2 billion ($992 million). Income taxes as a percentage of income before income taxes climbed from 53.8% to 76.9%, mainly due to current operating losses of certain consolidated subsidiaries that reduced income before income taxes on consolidation.

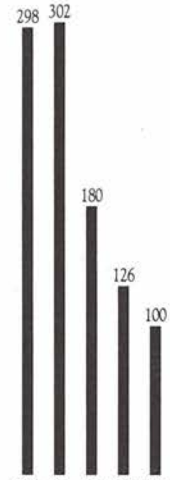
Net income declined 57.8%, to ¥15.3 billion ($149 million), and the ratio of net income to consolidated sales fell from 0.9% to 0.4%.

Net income per Depositary Share (each Depositary Share represents one share of Common Stock) amounted to ¥42.1 ($0.41), down from ¥92.2 ($0.90) the previous year.

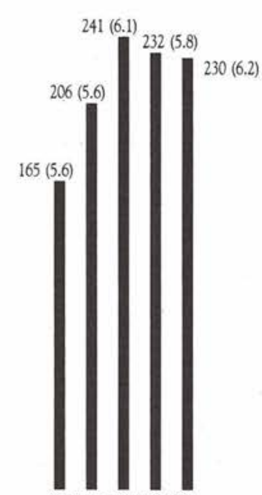
Segment Information

The following discussion is based on segment information (refer to Note 18 of Notes to Consolidated Financial Statements) and differs from the breakdown of sales described previously (refer to Note 2 of Composition of Sales and Operating Revenue by Area and Product Group).

By industry segment, sales in the Electronics and Entertainment businesses declined 7.0% and 4.9%,



OPERATING INCOME
(Billion ¥)



R&D EXPENDITURES (PERCENT OF CONSOLIDATED SALES)
(Billion ¥, %)

respectively. Despite the decline in sales, operating income gained 13.2% in Electronics, reflecting Groupwide efforts to reduce costs by streamlining operations and improving efficiency as well as a decline in depreciation and amortization expenses. However, operating income decreased 58.2% in the Entertainment Business due primarily to the disappointing performance of a number of Sony Pictures Entertainment's (SPE's) motion pictures.

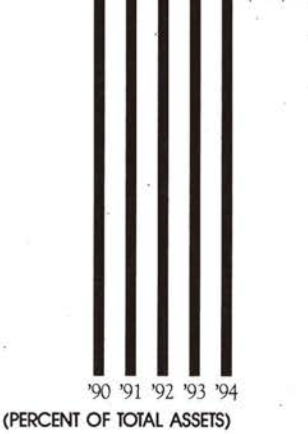
By geographic area, in Japan sales declined 5.3%, but operating income fell only 0.5%, resulting in a modest gain in operating income as a percentage of consolidated sales, to 2.4%. In the United States, although sales posted a 15.0% gain, an operating loss was recorded due to the appreciation of the yen and the sluggishness in the Pictures Group mentioned previously. Weak economic conditions and the impact of a stronger yen also affected Europe, where sales and operating income declined 28.7% and 34.0%, respectively. As a result, operating income as a percentage of consolidated sales fell to 5.5%. In Other Areas, healthy market growth and Sony's expansion of production in Asia led to a 5.5% gain in sales, a 39.3% upturn in operating income, and an improvement in operating income as a percentage of consolidated sales to 4.5%.

Financial Position and Liquidity

At March 31, 1994, ***total assets*** of Sony and its consolidated subsidiaries amounted to ¥4,269.9 billion ($41,455 million), a 5.7% decrease from the ¥4,529.8 billion ($43,979 million) recorded at the previous fiscal year-end. This decline is attributable primarily to inventory reductions, a decrease in fixed assets arising from restrained capital investment, and the effects of foreign exchange market fluctuations.

Regarding liabilities, although long-term debt increased, short-term borrowings fell sharply, resulting in a reduction of total borrowings and debt.

Stockholders' equity was ¥1,329.6 billion ($12,908 million), and the equity ratio (stockholders' equity/total assets) fell 0.4 percentage points, from 31.5% to 31.1%. Based on the number of shares outstanding at March 31, 1994, ***stockholders' equity per Depositary Share*** decreased to ¥3,557.57 ($34.54), compared with ¥3,827.39 ($37.16) at the previous year-end.



STOCKHOLDERS' EQUITY (PERCENT OF TOTAL ASSETS)
(Billion ¥, %)

STOCKHOLDERS' EQUITY PER DEPOSITARY SHARE
(¥)

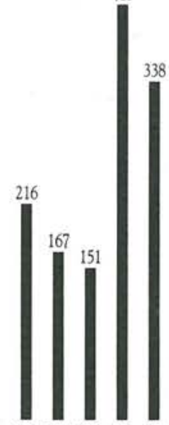
Among ***cash flows from operating activities,*** depreciation and amortization fell 12.9%, to ¥239.1 billion ($2,322 million). This amount includes the amortization of goodwill and intangibles arising primarily from the acquisitions of the Sony Music Entertainment group and SPE. Falling ¥77.7 billion ($754 million) from ¥415.5 billion ($4,034 million) in the previous year due mainly to reductions in net income and depreciation and amortization, net cash provided by operating activities amounted to ¥337.8 billion ($3,280 million) after additions to and subtractions from net income of those items that are charged or credited to income not requiring funds, such as depreciation and amortization, and those items that arise as a result of operations, such as changes in notes and accounts receivable and inventories.

Under ***cash flows from investing activities,*** net cash used in investing activities amounted to ¥216.3 billion ($2,100 million), down from ¥244.2 billion ($2,371 million), reflecting reductions in capital investment that led to a decline in payments for purchases of fixed assets.

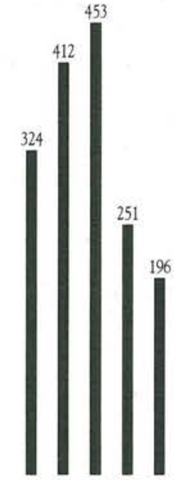
In ***cash flows from financing activities,*** proceeds of ¥287.4 billion ($2,790 million) were raised from the issuance of long-term debt, including primarily ¥80.0 billion ($777 million) in unsecured bonds in Japan, slated for redemption of ¥100.0 billion ($971 million) in bonds with warrants. Sony also issued medium-term notes in the United States and Europe. During the year under review, Sony substantially reduced its short-term borrowings by shifting them to long-term debt, cutting inventories, and restraining capital investment.

As a consequence of the activities mentioned previously, the ***net decrease in cash and cash equivalents,*** including the effect of exchange rate changes on cash and cash equivalents, amounted to ¥5.0 billion ($49 million), and cash and cash equivalents at the end of the year totaled ¥484.2 billion ($4,701 million).

Capital investments for both the Electronics and Entertainment businesses declined, the combined total falling 22.0%, to ¥195.9 billion ($1,902 million). Consistent with the previous year, the largest single item included was ¥40.0 billion ($388 million) for expanding semiconductor facilities. For the past two fiscal years, Sony has reduced its capital investments, but in the fiscal year ending March 31, 1995, it intends to boost its level of investment, primarily in manufacturing facilities for audio equipment in Asia and computer displays in the United States.



NET CASH PROVIDED BY OPERATING ACTIVITIES
(Billion ¥)



CAPITAL INVESTMENTS
(Billion ¥)

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

	Yen in billions except per share amounts								Dollars in millions except per share amounts
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		4th Quarter
	1993	**1994**	1993	**1994**	1993	**1994**	1993	**1994**	**1994**
Sales and operating revenue	¥924.4	**¥828.7**	¥1,028.1	**¥938.4**	¥1,107.6	**¥1,067.0**	¥932.9	**¥ 899.6**	**$ 8,733.9**
Cost of sales	663.5	**598.4**	763.1	**705.5**	804.0	**766.8**	698.4	**685.1**	**6,651.6**
Selling, general and administrative expenses	221.5	**205.0**	236.2	**220.7**	244.3	**230.0**	235.5	**222.5**	**2,160.2**
Operating income (loss)	39.4	**25.3**	28.8	**12.2**	59.3	**70.2**	(1.1)	**(8.0)**	**(77.8)**
Interest income (expense), net	(11.9)	**(7.8)**	(13.0)	**(7.7)**	(11.6)	**(8.4)**	(8.9)	**(6.9)**	**(66.7)**
Foreign exchange gain (loss), net	2.1	**20.4**	0.4	**12.0**	8.3	**(0.1)**	11.6	**3.2**	**31.3**
Income (loss) before income taxes	29.5	**38.6**	12.8	**18.0**	52.8	**56.5**	(2.5)	**(10.9)**	**(106.2)**
Income taxes	12.9	**29.2**	7.8	**13.6**	22.8	**36.3**	6.2	**(0.4)**	**(4.0)**
Net income (loss)	14.9	**7.7**	3.0	**2.3**	27.1	**16.8**	(8.8)	**(11.5)**	**(111.4)**
Net income (loss) per Depositary Share	¥ 37.1	**¥ 19.8**	¥ 8.5	**¥ 6.8**	¥ 66.3	**¥ 41.6**	¥(19.7)	**¥ (26.2)**	**$ (0.25)**
Depreciation and amortization	¥ 68.3	**¥ 56.8**	¥ 64.6	**¥ 57.6**	¥ 72.5	**¥ 59.1**	¥ 69.1	**¥ 65.7**	**$ 637.7**
Capital investments (additions to fixed assets)	74.8	**51.6**	62.8	**44.8**	47.8	**34.4**	65.7	**65.2**	**632.8**
R&D expenditures	56.3	**52.1**	61.5	**65.3**	54.3	**63.0**	60.0	**49.5**	**480.6**
Tokyo Stock Exchange price per share of Common Stock:									
High	¥4,530	**¥5,100**	¥ 4,350	**¥4,720**	¥ 4,310	**¥ 5,570**	¥4,620	**¥ 6,460**	**$ 62.72**
Low	3,950	**4,240**	3,350	**4,250**	3,690	**4,420**	3,850	**5,490**	**53.30**
New York Stock Exchange price per American Depositary Share:									
High	$34 1/2	**$ 45**	$ 34 7/8	**$ 44 3/4**	$ 34 7/8	**$ 50 5/8**	$38 7/8	**$ 61 3/4**	
Low	29 7/8	**38 1/4**	28 1/4	**39 3/8**	30 1/4	**41 7/8**	32	**49 3/8**	

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥103=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 1994, as described in Note 2 of Notes to Consolidated Financial Statements.

2. Net income (loss) per Depositary Share is computed based on the average number of common shares outstanding during each period after consideration of the dilutive effect of common stock equivalents which include warrants and certain convertible bonds.

3. Effective April 1, 1993, the Company adopted Statements of Financial Accounting Standards No. 106 (FAS 106), Employers' Accounting for Post-retirement Benefits Other Than Pensions, and No. 109 (FAS 109), Accounting for Income Taxes. The Company elected to immediately recognize the cumulative effect of adoption of FAS 106 and FAS 109 as at April 1, 1993 as a one-time adjustment. The cumulative effect of the accounting changes to FAS 106 and FAS 109 was immaterial.

4. During the first quarter ended June 30, 1992, it became apparent that certain undistributed earnings from the Company's foreign subsidiaries on which income taxes had been accrued would not be remitted. As a result, the Company reversed accrued taxes of ¥9,696 million ($94,136 thousand), corresponding to a portion of undistributed earnings which is considered permanently reinvested, as a credit to income taxes for the first quarter ended June 30, 1992.

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 thousands except per share amounts
	1990	1991	1992	1993	**1994**	**1994**
FOR THE YEAR						
Sales and operating revenue	¥2,947,597	¥3,695,508	¥3,928,667	¥3,992,918	**¥3,733,721**	**$36,249,718**
Operating income	297,546	302,181	179,549	126,460	**99,668**	**967,650**
Income before income taxes	232,945	270,697	216,139	92,561	**102,162**	**991,864**
Income taxes	126,976	152,398	90,327	49,794	**78,612**	**763,223**
Net income	102,808	116,925	120,121	36,260	**15,298**	**148,524**
Net income per Depositary Share	¥ 279.0	¥ 285.9	¥ 293.1	¥ 92.2	**¥ 42.1**	**$ 0.41**
Depreciation and amortization	¥ 164,751	¥ 214,116	¥ 265,208	¥ 274,477	**¥ 239,126**	**$ 2,321,612**
Capital investments (additions to fixed assets)	323,750	411,652	453,115	251,117	**195,937**	**1,902,301**
R&D expenditures	165,227	205,787	240,591	232,150	**229,877**	**2,231,816**
AT YEAR-END						
Net working capital	¥ 205,642	¥ 129,904	¥ 306,553	¥ 367,009	**¥ 616,089**	**$ 5,981,447**
Stockholders' equity	1,430,058	1,476,414	1,536,795	1,428,219	**1,329,565**	**12,908,398**
Stockholders' equity per Depositary Share	¥ 3,916.66	¥ 3,964.04	¥ 4,119.23	¥ 3,827.39	**¥ 3,557.57**	**$ 34.54**
Total assets	¥4,370,085	¥4,602,495	¥4,911,129	¥4,529,830	**¥4,269,885**	**$41,455,194**
Average number of shares outstanding during the year (thousands of shares)	371,450	417,202	417,599	417,687	**417,454**	
Number of shares issued at year-end (thousands of shares)	331,929	338,593	373,078	373,158	**373,728**	

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥103=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 1994, as described in Note 2 of Notes to Consolidated Financial Statements.

2. Net income per Depositary Share is computed based on the average number of common shares outstanding during each period after consideration of the dilutive effect of common stock equivalents which include warrants and certain convertible bonds.

3. Effective April 1, 1993, the Company adopted Statements of Financial Accounting Standards No. 106 (FAS 106), Employers' Accounting for Post-retirement Benefits Other Than Pensions, and No. 109 (FAS 109), Accounting for Income Taxes. The Company elected to immediately recognize the cumulative effect of adoption of FAS 106 and FAS 109 as at April 1, 1993 as a one-time adjustment. The cumulative effect of the accounting changes to FAS 106 and FAS 109 was immaterial.

4. During the fiscal year ended March 31, 1993, it became apparent that certain undistributed earnings from the Company's foreign subsidiaries on which income taxes had been accrued would not be remitted. As a result, the Company reversed accrued taxes of ¥9,696 million ($94,136 thousand), corresponding to a portion of undistributed earnings which is considered permanently reinvested, as a credit to income taxes for the fiscal year ended March 31, 1993.

5. In Japan, no accounting entry is required for a free distribution of common stock of 33,908,621 shares made on November 20, 1991. Had the distribution been accounted for in the manner adopted by companies in the United States, ¥201,078 million ($1,952,214 thousand) would have been transferred from retained earnings to the appropriate capital accounts.

6. In November 1991, Sony Music Entertainment (Japan) Inc., a consolidated subsidiary, issued shares of common stock in a public offering to third parties at a price which was in excess of the Company's average per share carrying value. The issuance was regarded as a sale of a part of the Company's interest in the subsidiary and resulted in a ¥61,544 million gain on subsidiary sale of stock. No taxes were provided for on the gain as the Company does not anticipate any significant tax consequences on possible future disposition of its remaining investment based on its tax planning strategies.

7. On November 1, and November 7, 1989, Sony acquired Sony Pictures Entertainment (formerly Columbia Pictures Entertainment, Inc.) and The Guber-Peters Entertainment Company, which are operating primarily in the pictures businesses. Sony's consolidated financial statements include the operating results of acquired companies for the period from the dates of acquisition.

COMPOSITION OF SALES AND OPERATING REVENUE BY AREA AND PRODUCT GROUP

Sony Corporation and Consolidated Subsidiaries
Year ended March 31

	Yen in millions					Dollars in thousands
	1990	1991	1992	1993	**1994**	**1994**
SALES AND OPERATING REVENUE BY AREA						
Japan	¥ 934,189	¥1,024,484	¥1,057,648	¥1,028,207	**¥1,023,692**	**$ 9,938,757**
	31.7%	27.7%	26.9%	25.8%	**27.4%**	
United States	857,812	1,055,448	1,119,174	1,215,954	**1,154,454**	**11,208,291**
	29.1	28.6	28.5	30.4	**30.9**	
Europe	715,652	1,017,804	1,080,005	1,039,802	**832,751**	**8,084,961**
	24.3	27.5	27.5	26.0	**22.3**	
Other Areas	439,944	597,772	671,840	708,955	**722,824**	**7,017,709**
	14.9	16.2	17.1	17.8	**19.4**	
Sales and operating revenue	¥2,947,597	¥3,695,508	¥3,928,667	¥3,992,918	**¥3,733,721**	**$36,249,718**
SALES AND OPERATING REVENUE BY PRODUCT GROUP						
Video Equipment	¥ 743,709	¥ 908,399	¥ 896,379	¥ 828,366	**¥ 668,537**	**$ 6,490,651**
	25.2%	24.6%	22.8%	20.8%	**17.9%**	
Audio Equipment	722,211	881,777	947,770	928,010	**840,723**	**8,162,359**
	24.5	23.9	24.1	23.2	**22.5**	
Televisions	446,436	552,464	592,616	633,723	**617,901**	**5,999,039**
	15.1	14.9	15.1	15.9	**16.6**	
Others	487,529	619,269	713,082	771,779	**817,060**	**7,932,621**
	16.6	16.7	18.2	19.3	**21.9**	
Total Electronics Business	2,399,885	2,961,909	3,149,847	3,161,878	**2,944,221**	**28,584,670**
	81.4	80.1	80.2	79.2	**78.9**	
Music Group	455,203	476,057	449,601	446,506	**461,752**	**4,483,029**
	15.5	12.9	11.4	11.2	**12.3**	
Pictures Group	92,509	257,542	329,219	384,534	**327,748**	**3,182,019**
	3.1	7.0	8.4	9.6	**8.8**	
Total Entertainment Business	547,712	733,599	778,820	831,040	**789,500**	**7,665,048**
	18.6	19.9	19.8	20.8	**21.1**	
Sales and operating revenue	¥2,947,597	¥3,695,508	¥3,928,667	¥3,992,918	**¥3,733,721**	**$36,249,718**

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥103=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 1994, as described in Note 2 of Notes to Consolidated Financial Statements.

2. The above sales classification shows sales and operating revenue recognized by geographic location of the buyer and product group and does not include intersegment transactions. Therefore, it is different from business segment information on pages 51 and 52.

CONSOLIDATED BALANCE SHEETS

Sony Corporation and Consolidated Subsidiaries
March 31

ASSETS	Yen in millions 1993	Yen in millions 1994	Dollars in thousands (Note 2) 1994
Current assets:			
Cash and cash equivalents (Note 4)	¥ 489,237	¥ 484,231	$ 4,701,272
Time deposits	65,929	45,095	437,816
Marketable securities (Note 7)	21,427	35,756	347,146
Notes and accounts receivable, trade (Note 6)	620,391	592,774	5,755,087
Allowance for doubtful accounts and sales returns	(42,306)	(45,485)	(441,602)
Inventories (Note 5)	704,681	671,992	6,524,194
Deferred income taxes (Note 11)	79,592	70,968	689,010
Prepaid expenses and other current assets	170,939	168,397	1,634,922
Total current assets	2,109,890	2,023,728	19,647,845
Noncurrent inventories—film (Note 5)	224,413	168,133	1,632,359
Investments and advances:			
Affiliated companies	34,119	23,189	225,136
Securities investments and other (Note 7)	222,811	275,288	2,672,699
	256,930	298,477	2,897,835
Property, plant and equipment (Notes 9 and 14):			
Land	158,255	155,897	1,513,563
Buildings	605,268	617,752	5,997,592
Machinery and equipment	1,422,430	1,449,980	14,077,476
Construction in progress	64,085	55,681	540,592
	2,250,038	2,279,310	22,129,223
Less—Accumulated depreciation	1,111,688	1,229,888	11,940,660
	1,138,350	1,049,422	10,188,563
Other assets:			
Intangibles (Notes 3 and 8)	119,320	100,994	980,524
Goodwill (Notes 3 and 8)	488,229	424,482	4,121,185
Other (Note 11)	192,698	204,649	1,986,883
	800,247	730,125	7,088,592
	¥4,529,830	¥4,269,885	$41,455,194

The accompanying notes are an integral part of these statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	Yen in millions 1993	Yen in millions 1994	Dollars in thousands (Note 2) 1994
Current liabilities:			
Short-term borrowings (Note 9)	¥ 473,799	¥ 256,284	$ 2,488,194
Current portion of long-term debt (Notes 9 and 14)	186,628	109,960	1,067,573
Notes and accounts payable, trade (Note 6)	541,581	552,593	5,364,980
Notes payable, construction	10,299	7,303	70,903
Dividends payable	9,496	9,528	92,505
Accrued income and other taxes	93,705	67,808	658,330
Other accounts payable and accrued liabilities (Notes 10 and 11)	427,373	404,163	3,923,913
Total current liabilities	1,742,881	1,407,639	13,666,398
Long-term liabilities:			
Long-term debt (Notes 9 and 14)	880,395	983,712	9,550,602
Accrued pension and severance costs (Note 10)	87,495	97,412	945,748
Deferred income taxes (Note 11)	51,671	65,418	635,126
Other long-term liabilities	253,383	290,019	2,815,718
	1,272,944	1,436,561	13,947,194
Minority interest in consolidated subsidiaries	85,786	96,120	933,204
Stockholders' equity (Note 12):			
Common stock, ¥50 par value—			
Authorized —1,350,000,000 shares			
Issued: 1993— 373,157,856 shares	297,985		
1994— 373,728,323 shares		299,194	2,904,796
Additional paid-in capital	439,619	440,845	4,280,048
Legal reserve	21,161	23,382	227,010
Retained earnings appropriated for special allowances	19,666	18,071	175,447
Retained earnings	887,788	883,776	8,580,350
Cumulative translation adjustment	(238,000)	(335,703)	(3,259,253)
	1,428,219	1,329,565	12,908,398
Commitments and contingent liabilities (Note 17)			
	¥4,529,830	¥4,269,885	$41,455,194

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Sony Corporation and Consolidated Subsidiaries
Year ended March 31

	Yen in millions			Dollars in thousands (Note 2)
	1992	1993	1994	1994
Sales and operating revenue:				
Net sales (Note 6)	¥3,821,582	¥3,879,427	**¥3,609,873**	**$35,047,311**
Operating revenue	107,085	113,491	**123,848**	**1,202,407**
	3,928,667	3,992,918	**3,733,721**	**36,249,718**
Costs and expenses:				
Cost of sales (Note 13)	2,838,344	2,928,912	**2,755,840**	**26,755,728**
Selling, general and administrative	910,774	937,546	**878,213**	**8,526,340**
	3,749,118	3,866,458	**3,634,053**	**35,282,068**
Operating income	179,549	126,460	**99,668**	**967,650**
Other income:				
Interest and dividends	62,646	46,086	**38,395**	**372,767**
Foreign exchange gain, net	36,474	22,432	**35,435**	**344,029**
Other	44,887	43,660	**46,318**	**449,689**
	144,007	112,178	**120,148**	**1,166,485**
Other expenses:				
Interest	104,504	91,361	**69,217**	**672,009**
Other	64,457	54,716	**48,437**	**470,262**
	168,961	146,077	**117,654**	**1,142,271**
Income before gain on subsidiary sale of stock and income taxes	154,595	92,561	**102,162**	**991,864**
Gain on subsidiary sale of stock (Note 15)	61,544	—	**—**	**—**
Income before income taxes	216,139	92,561	**102,162**	**991,864**
Income taxes (Note 11):				
Current	73,201	83,322	**59,869**	**581,252**
Deferred	17,126	(33,528)	**18,743**	**181,971**
	90,327	49,794	**78,612**	**763,223**
Income before minority interest	125,812	42,767	**23,550**	**228,641**
Minority interest in consolidated subsidiaries	5,691	6,507	**8,252**	**80,117**
Net income	120,121	36,260	**15,298**	**148,524**
Retained earnings:				
Balance, beginning of year	766,390	861,227	**887,788**	**8,619,301**
Common stock issue costs, net of tax	(125)	(17)	**(11)**	**(107)**
Cash dividends	(17,804)	(18,656)	**(18,673)**	**(181,291)**
Transfer to legal reserve	(2,823)	(2,043)	**(2,221)**	**(21,563)**
Appropriation for special allowances, net of taxes	(4,532)	11,017	**1,595**	**15,486**
Balance, end of year	¥ 861,227	¥ 887,788	**¥ 883,776**	**$ 8,580,350**

	Yen			U.S. dollars (Note 2)
Per common share:				
Net income	¥ 293.1	¥ 92.2	**¥ 42.1**	**$ 0.41**
Cash dividends	50.0	50.0	**50.0**	**0.49**

The accompanying notes are an integral part of these statements.

Sony Corporation and Consolidated Subsidiaries
Year ended March 31

	Yen in millions			Dollars in thousands (Note 2)
	1992	1993	1994	1994
Cash flows from operating activities:				
Net income	¥120,121	¥ 36,260	**¥ 15,298**	**$ 148,524**
Adjustments to reconcile net income to net cash provided by operating activities—				
Depreciation and amortization	265,208	274,477	**239,126**	**2,321,612**
Accrual for pension and severance costs, less payments	6,465	9,205	**11,566**	**112,291**
Loss on disposal of fixed assets	7,209	1,870	**3,758**	**36,485**
Gain on subsidiary sale of stock (Note 15)	(61,544)	—	**—**	**—**
Deferred income taxes	17,126	(33,528)	**18,743**	**181,971**
Changes in assets and liabilities net of effects from acquisitions:				
(Increase) decrease in notes and accounts receivable	16,471	43,197	**(2,849)**	**(27,660)**
(Increase) decrease in inventories	(158,202)	68,722	**13,019**	**126,398**
(Increase) decrease in other current assets	(11,946)	8,016	**(11,151)**	**(108,262)**
Increase (decrease) in notes and accounts payable	(49,830)	(48,702)	**37,149**	**360,670**
Increase (decrease) in accrued income and other taxes	(29,098)	8,441	**(18,051)**	**(175,252)**
Decrease in other current liabilities	(7,970)	(19,267)	**(2,303)**	**(22,359)**
Other	36,847	66,784	**33,506**	**325,300**
Net cash provided by operating activities	150,857	415,475	**337,811**	**3,279,718**
Cash flows from investing activities:				
Payments for purchases of fixed assets	(444,828)	(267,855)	**(198,132)**	**(1,923,612)**
Proceeds from sales of fixed assets	23,526	6,308	**8,931**	**86,709**
Proceeds from subsidiary sale of stock, net of related expenses (Note 15)	120,426	—	**—**	**—**
Payments for investments and advances	(161,771)	(317,657)	**(387,876)**	**(3,765,786)**
Proceeds from sales of investment securities and collections of advances	102,122	268,093	**346,835**	**3,367,330**
Payments for purchases of marketable securities	(95,578)	(166,881)	**(64,316)**	**(624,427)**
Proceeds from sales of marketable securities	106,430	170,606	**55,990**	**543,592**
(Increase) decrease in time deposits	(26,261)	64,174	**20,840**	**202,330**
Payment for acquisition in 1992, net of cash acquired of ¥6,978 million (Note 3)	(38,146)	—	**—**	**—**
Other	(2,823)	(985)	**1,398**	**13,573**
Net cash used in investing activities	(416,903)	(244,197)	**(216,330)**	**(2,100,291)**
Cash flows from financing activities:				
Proceeds from issuance of long-term debt	272,012	228,695	**287,389**	**2,790,184**
Payments of long-term debt	(38,034)	(37,176)	**(193,867)**	**(1,882,204)**
Increase (decrease) in short-term borrowings	32,928	(257,409)	**(193,970)**	**(1,883,204)**
Dividends paid	(17,141)	(18,611)	**(18,641)**	**(180,980)**
Other	(4,875)	(14,010)	**105**	**1,020**
Net cash provided by (used in) financing activities	244,890	(98,511)	**(118,984)**	**(1,155,184)**
Effect of exchange rate changes on cash and cash equivalents	(3,453)	(1,893)	**(7,503)**	**(72,845)**
Net increase (decrease) in cash and cash equivalents	(24,609)	70,874	**(5,006)**	**(48,602)**
Cash and cash equivalents at beginning of year	442,972	418,363	**489,237**	**4,749,874**
Cash and cash equivalents at end of year	¥418,363	¥489,237	**¥484,231**	**$4,701,272**

The accompanying notes are an integral part of these statements.

1. Summary of significant accounting policies

The parent company and subsidiaries in Japan maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its foreign subsidiaries in conformity with those of the countries of their domicile. Certain adjustments and reclassifications, including those relating to the tax effects of temporary differences, capitalization of stock purchase warrants, the appropriation for or reversal of special allowances, the accrual of certain expenses and the accounting for foreign currency translation, have been incorporated in the accompanying consolidated financial statements to conform with accounting principles generally accepted in the United States of America. These adjustments were not recorded in the statutory books of account.

Significant accounting policies, after reflecting adjustments for the above, are as follows:

Basis of consolidation and accounting for investments in affiliated companies

The consolidated financial statements include the accounts of the parent company and those of its majority-owned subsidiary companies. All significant intercompany transactions and accounts are eliminated. Investments in 20% to 50% owned companies are stated at cost plus equity in undistributed earnings; consolidated net income includes the company's equity in current earnings of such companies, after elimination of unrealized intercompany profits.

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 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.

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 the company's average per share carrying value. With respect to such transactions, the resulting gains or losses arising from change in interest are recorded in income for the year the change in interest transaction occurs.

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 prevailing at the time of the transactions. The resulting translation adjustments are accumulated as a component of stockholders' equity.

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 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.

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 and securities investments

Marketable equity securities included in marketable securities (current) and those included in securities investments and other (noncurrent) are each stated at the lower of aggregate cost or market. Other current and noncurrent marketable securities are stated at the lower of cost or market. Other securities investments (noncurrent) are stated at cost or less.

The cost of marketable equity securities sold is based on the average cost of all the shares of each security held at the time of sale.

In May 1993, the FASB issued Statement of Financial Accounting Standards No. 115 (FAS 115), Accounting for Certain Investments in Debt and Equity Securities, which will require the use of fair value accounting for certain investments in debt and equity securities but also addresses the use of the amortized cost method for investments in debt securities which are intended to be held to maturity. In the case of the company, FAS 115 must be adopted no later than the fiscal year beginning April 1, 1994. Based on the company's estimates, if FAS 115 had been implemented, stockholders' equity as of March 31, 1994 would have increased by approximately ¥73,000 million ($708,738 thousand).

Inventories

Inventories in electronics and music entertainment are valued at cost, not in excess of market, cost being determined on the "average" 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 writedowns 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 is stated at cost. Depreciation of property, plant and equipment is computed on the declining-balance method for the parent company and Japanese subsidiaries and on the straight-line method for foreign subsidiary companies at rates based on estimated useful lives of the assets according to general class, type of construction and use. 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 and music catalogs, are being amortized on a straight-line basis principally over 16 years and 21 years, respectively.

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

Postretirement benefits other than pensions

The company's U.S. subsidiaries provide certain health care and life insurance benefits to eligible retired employees. These benefits are currently unfunded and provided through various insurance companies and health care providers.

Effective April 1, 1993, the company adopted Statement of Financial Accounting Standards No. 106 (FAS 106), Employers' Accounting for Postretirement Benefits Other Than Pensions, which requires the accrual of the expected costs relating to postretirement benefits other than pensions. The company elected to immediately recognize the cumulative effect of adoption of FAS 106 as of April 1, 1993 as a one-time adjustment. The cumulative effect of this accounting change was immaterial.

Postemployment benefits

In November 1992, the FASB issued Statement of Financial Accounting Standards No. 112 (FAS 112), Employers' Accounting for Postemployment Benefits, which shall be effective for the fiscal year beginning April 1, 1994 in the case of the company. However, the effect of adoption is not expected to be material.

Income taxes and retained earnings appropriated for special allowances

The parent company, subsidiaries in Japan and some of the foreign subsidiaries are permitted to deduct for income tax purposes, if recorded on the books as appropriations of retained earnings or as charges to income, certain special allowances which are not required for financial accounting purposes. Since the effect of the special allowances is a deferral of income taxes, an amount equivalent to the current tax reduction resulting from recording of the special allowances is provided as "Deferred income taxes," and the remaining portion of such allowances is set forth in the accompanying consolidated financial statements as "Retained earnings appropriated for special allowances."

Effective April 1, 1993, the company adopted Statement of Financial Accounting Standards No. 109 (FAS 109), Accounting for Income Taxes, which requires an asset and liability approach for financial accounting and reporting for income taxes. The company elected to immediately recognize the cumulative effect of the accounting change to FAS 109 as of April 1, 1993 as a one-time adjustment. The cumulative effect of this accounting change was immaterial.

Net income per common share

Net income per common share is computed based on the average number of common stock outstanding during each period after consideration of the dilutive effect of common stock equivalents which include warrants and certain convertible bonds.

Net income per common share is appropriately adjusted for the free distribution of common stock.

Distribution of common stock

On occasion, the company may make a free distribution of common stock which is accounted for either by a transfer of the applicable par value from the 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 the Commercial Code of Japan, a stock dividend is effected by an appropriation of retained earnings to the common stock account by resolution of the general stockholders' meeting and the free share distribution with respect to the amount as appropriated by resolution of the Board of Directors' Meeting.

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.

2. U.S. dollar amounts

U.S. dollar amounts are included solely for convenience. 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 ¥103=U.S.$1, the approximate current rate at March 31, 1994, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

3. Acquisitions

On August 23, 1991, the company, through Sony Pictures Entertainment, acquired the remaining 50% interest in the RCA/Columbia Home Video Joint Venture (RCA/Columbia) for approximately U.S.$325 million. Columbia TriStar Home Video (formerly RCA/Columbia) and its affiliates operate in the home video distribution business in certain countries.

The acquisition of RCA/Columbia was accounted for as a purchase and the accompanying consolidated financial statements include the operating results of the acquired company for the periods from the date of acquisition. The excess of the purchase price over the net assets acquired was allocated to identifiable assets based upon the estimated fair value of the assets. The unassigned residual value of the excess of the purchase price over the net assets acquired is recognized as goodwill.

Pro forma consolidated financial information for the year ended March 31, 1992 is not considered significant and has been omitted.

4. Cash flow information

Cash payments for income taxes were ¥104,674 million, ¥76,216 million and ¥77,535 million ($752,767 thousand) for the years ended March 31, 1992, 1993 and 1994, respectively; in these respective years, interest payments were ¥105,179 million, ¥92,972 million and ¥67,828 million ($658,524 thousand).

Capital lease obligations of ¥6,244 million, ¥549 million and ¥1,971 million ($19,136 thousand) were incurred during the years ended March 31, 1992, 1993 and 1994, respectively.

Conversions of convertible debt into common stock and additional paid-in capital were ¥2,975 million, ¥225 million and ¥2,435 million ($23,641 thousand) for the years ended March 31, 1992, 1993 and 1994, respectively.

In connection with the acquisition consummated in the year ended March 31, 1992, the company assumed liabilities of ¥16,198 million.

5. Inventories

Inventories comprise the following:

	Yen in millions		Dollars in thousands
	March 31		March 31,
	1993	**1994**	**1994**
Current:			
Finished products	¥438,542	**¥407,570**	**$3,956,990**
Work in process	108,022	**99,086**	**962,000**
Raw materials, purchased components and supplies	102,271	**98,857**	**959,777**
Film—released	55,846	**66,479**	**645,427**
	¥704,681	**¥671,992**	**$6,524,194**
Noncurrent:			
Film—released	¥119,279	**¥106,856**	**$1,037,437**
—in process	105,134	**61,277**	**594,922**
	¥224,413	**¥168,133**	**$1,632,359**

6. Account balances and transactions with affiliated companies

Account balances and transactions with affiliated companies are presented below:

	Yen in millions		Dollars in thousands
	March 31		March 31, 1994
	1993	1994	
Accounts receivable, trade	¥36,255	¥34,362	$333,612
Accounts payable, trade	455	353	3,427

	Yen in millions			Dollars in thousands
	Year ended March 31			Year ended March 31, 1994
	1992	1993	1994	
Sales	¥286,396	¥274,942	¥209,525	$2,034,223
Purchases	4,622	2,631	1,853	17,990

7. Marketable securities and securities investments

The cost and market value of marketable equity securities included in marketable securities (current) and securities investments and other (noncurrent) comprise the following:

	Yen in millions		Dollars in thousands
	March 31		March 31, 1994
	1993	1994	
Current:			
Cost	¥421	¥220	$2,136
Market (carrying value in 1994)	423	198	1,922
Noncurrent:			
Cost	¥ 36,283	¥ 33,339	$ 323,680
Market	113,845	182,919	1,775,913

At March 31, 1994, gross unrealized gains and losses pertaining to marketable equity securities in the portfolio are as follows:

	Yen in millions		Dollars in thousands	
	Gains	Losses	Gains	Losses
Current	¥ 5	¥ 27	$ 48	$ 262
Noncurrent	151,208	1,628	1,468,039	15,806

Net realized losses of ¥350 million and ¥244 million and net realized gains of ¥6,129 million ($59,505 thousand) on the disposal of marketable equity securities were reflected in income for the years ended March 31, 1992, 1993 and 1994, respectively.

The carrying value of marketable securities other than equity securities at March 31, 1993 and 1994 approximated market value. In the ordinary course of business, the company maintains long-term investment securities, included in securities investments and other, issued by a number of non-public companies. The aggregate carrying amounts of the investments in non-public companies were ¥8,801 million and ¥12,653 million ($122,845 thousand) at March 31, 1993 and 1994, respectively. The corresponding fair values at those dates were not computed as such estimation was not practicable.

8. Accumulated amortization of intangibles and goodwill

Accumulated amortization of intangibles and goodwill amounted to ¥106,840 million and ¥119,189 million ($1,157,175 thousand) at March 31, 1993 and 1994, respectively.

9. Short-term borrowings and long-term debt

Short-term borrowings at March 31, 1994 comprise the following:

	Yen in millions	Dollars in thousands
Loans, principally from banks, with interest ranging from 1.4% to 10.56% per annum	¥164,353	$1,595,660
Commercial paper with interest ranging from 2.20% to 3.75% per annum	91,931	892,534
	¥256,284	$2,488,194

Long-term debt at March 31, 1994 comprises the following:

	Yen in millions	Dollars in thousands
Unsecured loans, representing obligations principally to banks, due 1994 to 2010 with interest ranging from 2.0% to 14.0% per annum	¥ 210,439	$ 2,043,097
Secured loans, representing obligations principally to insurance companies and banks, due 1999 to 2002 with interest ranging from 7.5% to 10.13%	3,245	31,505
Medium-term notes of consolidated subsidiaries due 1994 to 2000 with interest ranging from 3.275% to 8.35% per annum	296,419	2,877,854
Unsecured 6.0% convertible debentures due 1997, convertible currently at ¥3,200.2 ($12.49 calculated at ¥256.30=$1) for one common share, redeemable before due date	39	379
Unsecured 2.0% convertible bonds due 2000, convertible currently at ¥4,159.9 ($40.39) for one common share, redeemable before due date	706	6,854
Unsecured 1.5% convertible bonds due 2002, convertible currently at ¥4,387.9 ($42.60) for one common share, redeemable before due date	2,689	26,107
Unsecured 1.4% convertible bonds due 2003, convertible currently at ¥5,415.5 ($52.58) for one common share, redeemable before due date	31,742	308,175
Unsecured 1.4% convertible bonds due 2005, convertible currently at ¥7,990.9 ($77.58) for one common share, redeemable before due date	298,559	2,898,631
Unsecured 0.125% convertible bonds of a consolidated subsidiary, due 1998, convertible currently at ¥1,815 ($17.62) for one common share	2,668	25,903
Unsecured 6.875% bonds due 2000	50,481	490,107
Unsecured 4.4% bonds due 2001	80,000	776,699
Unsecured 9 7/8% senior subordinated notes of a consolidated subsidiary, due 1998	34,203	332,068
Unsecured fixed coupon notes linked to the Yen/U.S. dollar rate of a consolidated subsidiary, due 2001	670	6,505
Unsecured Nikkei-linked coupon notes of a consolidated subsidiary, due 1997	5,508	53,476
Unsecured 7.0% notes linked to the Yen/Deutsche Mark currency rate of a consolidated subsidiary, due 1995, redeemable before due date	2,399	23,291
Unsecured 5.7% notes of a consolidated subsidiary, due 1997, redeemable before due date	4,118	39,981
Unsecured 7 1/2% bonds of a consolidated subsidiary, due 1996	1,640	15,922
Unsecured 6.0% notes of a consolidated subsidiary, due 1997	10,444	101,398
Unsecured floating rate notes of a consolidated subsidiary, due 1997	12,326	119,670
Unsecured floating rate notes of a consolidated subsidiary, due 1996	16,155	156,845
Secured 5.0% bonds of a consolidated subsidiary, due 1996, redeemable before due date	2,000	19,417
Secured 5.3% bonds of a consolidated subsidiary, due 1996, redeemable before due date	2,000	19,417
Secured 3.8% bonds of a consolidated subsidiary, due 2001, redeemable before due date	3,000	29,126
Long-term capital lease obligations, 2.5% to 24.0%, due 1994 to 2008	17,483	169,738
Guarantee deposits received	4,739	46,010
	1,093,672	10,618,175
Less—Portion due within one year	109,960	1,067,573
	¥ 983,712	$ 9,550,602

The estimated fair values of total long-term debt including the current portion at March 31, 1993 and 1994 were ¥983,278 million and ¥1,027,598 million ($9,976,680 thousand), respectively. The fair value was estimated based on the discounted amounts of future cash flows using the company's current incremental borrowing rates for similar liabilities.

At March 31, 1994, property, plant and equipment with a book value of ¥6,186 million ($60,058 thousand) is mortgaged as security for loans and bonds issued by consolidated subsidiaries.

The 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 thousands
1995	¥109,960	$1,067,573
1996	81,102	787,398
1997	126,198	1,225,223
1998	176,273	1,711,388
1999	52,344	508,194

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.

10. Pension and severance plans

On terminating employment, employees of the parent company and subsidiaries in Japan are entitled, under most circumstances, to lump-sum indemnities or pension payments as described below, based on current rate of pay and length of service. Under normal circumstances, the minimum payment prior to retirement age is an amount based on voluntary retirement. Employees receive additional benefits on involuntary retirement including retirement at age limit. With respect to directors' resignations, lump-sum severance indemnities calculated by using a similar formula are normally paid subject to approval of the stockholders.

Effective November 1, 1991, the parent company and certain major subsidiaries in Japan established contributory funded defined benefit pension plans, which are pursuant to the Japanese Welfare Pension Insurance Law. Furthermore, effective April 1, 1993, most other subsidiaries in Japan entered into such contributory pension plans to substitute for their previous non-contributory funded pension plans. 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 non-contributory pension plans. The defined benefits under the non-contributory portion of the plans, in general, cover 60% of the indemnities under the existing regulations to employees. The remaining portion of the indemnities is covered by severance payments by the companies. The pension benefits are determined based on years of service and the compensation amount as stipulated in the aforementioned regulations, and are payable, at the option of the retiring employee, as a monthly pension or in a lump-sum amount. The contributions to the plans are funded with several financial institutions in accordance with the applicable laws and regulations.

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

Net pension and severance costs and the related pension plans' funded status including the employees' contributory portion and rate assumptions are shown below:

Japanese plans:

	Yen in millions			Dollars in thousands
	Year ended March 31			Year ended March 31, 1994
	1992	1993	1994	
Net pension and severance cost (credit):				
Service cost—benefits earned during the year	¥16,120	¥19,533	**¥24,212**	**$235,068**
Interest cost on projected benefit obligation	8,096	9,450	**10,670**	**103,592**
Actual return on plan assets	(2,865)	(3,273)	**(5,326)**	**(51,709)**
Net amortization and deferral	(2,037)	99	**1,183**	**11,486**
Actuarial net pension and severance cost for the year	19,314	25,809	**30,739**	**298,437**
Employee contributions	(770)	(1,919)	**(3,333)**	**(32,359)**
Net pension and severance cost for the year	¥18,544	¥23,890	**¥27,406**	**$266,078**

Foreign plans:

	Yen in millions			Dollars in thousands
	Year ended March 31			Year ended March 31, 1994
	1992	1993	1994	
Net pension and severance cost (credit):				
Service cost—benefits earned during the year	¥9,132	¥ 9,983	**¥ 9,882**	**$ 95,942**
Interest cost on projected benefit obligation	2,682	2,694	**2,653**	**25,757**
Actual return on plan assets	(2,740)	(1,393)	**(2,449)**	**(23,777)**
Net amortization and deferral	309	(829)	**890**	**8,641**
Net pension and severance cost for the year	¥9,383	¥10,455	**¥10,976**	**$106,563**

Pension plans' funded status:

	Japanese plans			Foreign plans		
	Yen in millions		Dollars in thousands	Yen in millions		Dollars in thousands
	March 31		March 31, 1994	March 31		March 31, 1994
	1993	1994		1993	1994	
Actuarial present value of obligations—						
Vested benefit	¥112,489	**¥128,429**	**$1,246,883**	¥23,694	**¥27,520**	**$267,184**
Nonvested benefit	33,691	**30,221**	**293,408**	1,620	**3,074**	**29,845**
Accumulated benefit obligation	146,180	**158,650**	**1,540,291**	25,314	**30,594**	**297,029**
Additional benefits related to projected salary increase	54,262	**54,775**	**531,796**	13,709	**14,511**	**140,883**
Projected benefit obligation	200,442	**213,425**	**2,072,087**	39,023	**45,105**	**437,912**
Plan assets at fair value	99,603	**120,845**	**1,173,252**	22,763	**22,039**	**213,971**
Excess of projected benefit obligation over plan assets	100,839	**92,580**	**898,835**	16,260	**23,066**	**223,941**
Unrecognized net loss	(20,873)	**(205)**	**(1,990)**	(97)	**(4,926)**	**(47,825)**
Unrecognized net transition asset	4,747	**4,372**	**42,446**	520	**(122)**	**(1,184)**
Unrecognized prior service cost	(10,148)	**(12,703)**	**(123,330)**	—	**—**	**—**
Net pension liability recognized in the balance sheet	¥ 74,565	**¥ 84,044**	**$ 815,961**	¥16,683	**¥18,018**	**$174,932**
Assumptions in determination of net periodic pension costs:						
Discount rate	5.5%	5.5%		7.0— 9.0%	6.0—8.5%	
Long-term rate of salary increase	5.0%	4.5%		3.0— 8.5%	3.0—8.5%	
Long-term rate of return on funded assets	6.0%	5.0%		7.0—10.5%	6.0—9.5%	

The plan assets are invested primarily in interest bearing securities and listed equity securities.

11. Income taxes

The company is subject to a number of different income taxes which, in the aggregate, indicate a statutory rate in Japan of approximately 52%. Due to a change in Japanese income tax regulations, effective April 1, 1994 the statutory rate was reduced to approximately 51% and such amount has been used in calculating the future expected tax effects of significant temporary differences.

Reconciliations of the differences between the statutory tax rate and the effective income tax rate are as follows:

	Year ended March 31		
	1992	1993	**1994**
Statutory tax rate	52.0%	52.0%	**52.0%**
Increase (reduction) in taxes resulting from:			
Income tax credit	(1.3)	(2.1)	**(2.3)**
Current operating losses of subsidiaries	5.5	12.6	**25.2**
Gain on subsidiary sale of stock	(14.8)	—	**—**
Reversal of tax on undistributed earnings	—	(10.5)	**—**
Other	0.4	1.8	**2.0**
Effective income tax rate	41.8%	53.8%	**76.9%**

The significant components of deferred tax assets and liabilities at March 31, 1994 are as follows:

	Yen in millions	Dollars in thousands
Deferred tax assets:		
Operating loss carryforwards for tax purpose	¥ 39,141	$ 380,010
Inventory—intercompany profits and write down	38,782	376,525
Accrued pension and severance costs	27,218	264,252
Warranty reserve and accrued expenses	24,229	235,233
Other accrued employees' compensation	10,743	104,301
Bad debts reserve	5,081	49,330
Depreciation	4,893	47,505
Other	45,666	443,359
Gross deferred tax assets	195,753	1,900,515
Less: Valuation allowance	(80,918)	(785,612)
Total deferred tax assets	114,835	1,114,903
Deferred tax liabilities:		
Insurance acquisition costs	(26,569)	(257,951)
Depreciation	(22,254)	(216,058)
Undistributed earnings of foreign subsidiaries	(20,512)	(199,146)
Deferred expenses	(5,088)	(49,398)
Other	(26,364)	(255,962)
Gross deferred tax liabilities	(100,787)	(978,515)
Net deferred tax assets	¥ 14,048	$ 136,388

The valuation allowance mainly relates to deferred tax assets of the consolidated subsidiaries with operating loss carryforwards for tax purpose that are not expected to be realized. The net change in the total valuation allowance for the year ended March 31, 1994 was an increase of ¥26,516 million ($257,437 thousand).

Net deferred tax assets at March 31, 1994 are included in the consolidated balance sheet as follows:

	Yen in millions	Dollars in thousands
Deferred income taxes (Current assets)	¥70,968	$689,010
Other assets—other	10,102	98,077
Other accounts payable and accrued liabilities	(1,604)	(15,573)
Deferred income taxes (Long-term liabilities)	(65,418)	(635,126)
Net deferred tax assets	¥14,048	$136,388

In the year ended March 31, 1993, it became apparent that certain undistributed earnings of the company's foreign subsidiaries on which income taxes had been accrued would not be remitted. As a result, the company reversed accrued taxes of ¥9,696 million, corresponding to a portion of undistributed earnings which is considered permanently reinvested, as a credit to income taxes for the year ended March 31, 1993.

At March 31, 1994, no deferred income taxes have been provided on undistributed earnings of foreign subsidiaries not expected to be remitted in the foreseeable future totalling ¥203,842 million ($1,979,049 thousand), and on the gain on subsidiary sale of stock described in Note 15 as the company does not anticipate any significant tax consequences on possible future disposition of its remaining investment based on its tax planning strategies. The unrecognized deferred tax liabilities as of March 31, 1994 for such temporary differences amounted to ¥77,544 million ($752,854 thousand).

Operating loss carryforwards for tax purpose of consolidated subsidiaries at March 31, 1994 amounted to approximately ¥101,657 million ($986,961 thousand) and are available as an offset against future taxable income of such subsidiaries. These carryforwards expire at various dates up to 15 years.

12. Stockholders' equity

Changes in common stock and additional paid-in capital have resulted from the following:

		Yen in millions	
	Number of shares	Common stock	Additional paid-in capital
Balance at March 31, 1991	338,592,899	¥296,483	¥437,921
Conversion of convertible debt	576,375	1,466	1,509
Free share distribution	33,908,621	—	—
Balance at March 31, 1992	373,077,895	297,949	439,430
Conversion of convertible debt	79,961	36	189
Balance at March 31, 1993	373,157,856	297,985	439,619
Conversion of convertible debt	570,467	1,209	1,226
Balance at March 31, 1994	373,728,323	¥299,194	¥440,845

	Dollars in thousands	
	Common stock	Additional paid-in capital
Balance at March 31, 1993	$2,893,058	$4,268,145
Conversion of convertible debt	11,738	11,903
Balance at March 31, 1994	$2,904,796	$4,280,048

Based on a declaration on May 22, 1991, a free share distribution of 33,908,621 shares was made on November 20, 1991. In Japan, no accounting entry is required for such a free share distribution. Had the distribution been accounted for in the manner adopted by companies in the United States of America, ¥201,078 million ($1,952,214 thousand) would have been transferred from retained earnings to the appropriate capital accounts.

Conversions of convertible debt 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 Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and other distributions from retained earnings paid by the company and its Japanese subsidiaries be appropriated as a legal reserve. No further appropriation is required when the legal reserve equals 25% of stated capital.

The appropriations of retained earnings for the year ended March 31, 1994, which have been incorporated in the accompanying consolidated financial statements, will be proposed for approval at the general stockholders' meeting to be held on June 29, 1994 and will be recorded in the statutory books of account, in accordance with the Commercial Code, after stockholders' approval.

An analysis of the changes in the cumulative translation adjustment is presented below:

	Yen in millions			Dollars in thousands
	Year ended March 31			Year ended March 31, 1994
	1992	1993	**1994**	
Balance, beginning of year	(¥ 66,826)	(¥111,612)	**(¥238,000)**	**($2,310,680)**
Aggregate translation adjustment for the year	(46,226)	(126,716)	**(96,725)**	**(939,078)**
Income taxes for the year allocated to translation adjustment	1,440	328	**(978)**	**(9,495)**
Balance, end of year	(¥111,612)	(¥238,000)	**(¥335,703)**	**($3,259,253)**

13. Research and development expenses

Research and development expenses charged to cost of sales for the years ended March 31, 1992, 1993 and 1994 were ¥240,591 million, ¥232,150 million and ¥229,877 million ($2,231,816 thousand), respectively.

14. Leased assets

The company 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 thousands
	March 31		March 31, 1994
Class of property	1993	**1994**	
Land	¥ 561	**¥ 482**	**$ 4,680**
Buildings	19,872	**18,597**	**180,553**
Machinery and equipment	5,005	**4,552**	**44,194**
Accumulated amortization	(5,640)	**(6,063)**	**(58,864)**
	¥19,798	**¥17,568**	**$170,563**

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, 1994:

Year ending March 31	Yen in millions	Dollars in thousands
1995	¥ 3,834	$ 37,223
1996	2,900	28,155
1997	2,292	22,252
1998	2,343	22,748
1999	2,383	23,136
Later years	10,703	103,913
Total minimum lease payments	24,455	237,427
Less—Amount representing interest	6,972	67,689
Present value of net minimum lease payments	17,483	169,738
Less—Current obligations	3,154	30,621
Long-term capital lease obligations	¥14,329	$139,117

Rental expenses under operating leases for the years ended March 31, 1992, 1993 and 1994 were ¥74,070 million, ¥83,829 million and ¥83,536 million ($811,029 thousand), 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, 1994 are as follows:

Year ending March 31	Yen in millions	Dollars in thousands
1995	¥ 29,060	$ 282,136
1996	24,977	242,495
1997	20,934	203,243
1998	15,478	150,272
1999	11,611	112,728
Later years	90,965	883,155
Total minimum future rentals	¥193,025	$1,874,029

15. Gain on subsidiary sale of stock

On November 22, 1991, Sony Music Entertainment (Japan) Inc., a consolidated subsidiary, issued 18,000,000 shares of common stock in a public offering to third parties at a price of ¥6,800 per share, which was in excess of the company's average per share carrying value. As a result of this issuance, the company's shareholdings in the subsidiary declined from 96.2% to 71.0%. The issuance of these shares for ¥122,400 million is regarded as a sale of a part of the company's interest in the subsidiary and resulted in a gain to the consolidated group of ¥61,544 million.

16. Currency exchange contracts and interest rate swap agreements

The company enters into various foreign exchange forward contracts, interest rate swap agreements, currency swap agreements and foreign currency options as a normal part of its risk management efforts. Such "off-balance sheet" activities comprise the following:

Foreign exchange forward contracts, the majority of which will mature within one year, are used to hedge the risk of changes in foreign currency exchange rates associated with certain assets and liabilities denominated in foreign currency. The contracted amounts outstanding at March 31, 1993 and 1994 were ¥627,816 million and ¥836,584 million ($8,122,175 thousand), respectively. The net unrealized market value gains arising from these contracts at March 31, 1993 and 1994 were ¥15,504 million and ¥132 million ($1,282 thousand), respectively. As foreign exchange forward contracts are utilized for hedge purposes, such resulting gains or losses are offset against foreign exchange gains or losses on the underlying hedged assets and liabilities.

Interest rate swap agreements and currency swap agreements mature mainly during 1994 to 2003 and the related differentials to be paid or received are recognized over the terms of the agreements. These agreements were arranged to limit the company's exposure to loss in relation to underlying debt instruments resulting from adverse fluctuation in foreign currency exchange and interest rates. The estimated fair values of such agreements, based on the discounted future cash flows of the differentials, were insignificant at March 31, 1993 and 1994, respectively. At March 31, 1993 and 1994, the aggregate notional principal amounts of the swap agreements were ¥197,185 million and ¥468,478 million ($4,548,330 thousand), respectively. This includes the currency swap agreements noted above which amount to ¥186,200 million and ¥277,100 million ($2,690,291 thousand), respectively.

The company entered into option contracts in the notional amounts of ¥19,598 million and ¥54,382 million ($527,981 thousand) at March 31, 1993 and 1994, respectively. These contracts, the majority of which expire within 3 months of the balance sheet dates, mainly consist of foreign currency options written to cover some of the premiums paid on foreign currency options purchased to hedge foreign currency exposure. The net estimated fair values of such foreign currency options approximated the carrying values at March 31, 1993 and 1994.

Although the company 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 financial arrangements described above.

17. Commitments and contingent liabilities

Commitments outstanding at March 31, 1994 for the purchase of property, plant and equipment and other assets approximated ¥34,184 million ($331,883 thousand).

Contingent liabilities for notes discounted and guarantees given in the ordinary course of business and for employee loans amounted to approximately ¥111,993 million ($1,087,311 thousand) at March 31, 1994.

During the years ended March 31, 1993 and 1994, certain consolidated subsidiaries entered into agreements with financial institutions whereby the subsidiaries can sell accounts receivables and future receivables with limited recourse. All potential credit losses have been fully reserved for. For the years ended March 31, 1992, 1993 and 1994, the subsidiaries sold accounts receivables of ¥49,182 million, and accounts receivables and future receivables of ¥121,859 million and ¥27,954 million ($271,398 thousand), respectively. As of March 31, 1994, the outstanding balance of receivables sold amounted to ¥113,780 million ($1,104,660 thousand).

Certain subsidiaries in the music entertainment industry 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, 1999. As of March 31, 1994, these subsidiaries were committed to make payments under such long-term contracts of ¥29,254 million ($284,019 thousand).

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

18. Business segment information

The company operates on a worldwide basis principally within two industry segments; Electronics and Entertainment. Electronics segment designs, develops, manufactures and distributes video equipment, audio equipment, television and other products. Entertainment segment manufactures, markets and distributes music and pictures entertainment products.

The following tables present certain information regarding the company's industry segments and operations by geographic areas at March 31, 1992, 1993 and 1994 and for the years then ended:

Industry segments:

	Yen in millions			Dollars in thousands
	Year ended March 31			Year ended March 31, 1994
	1992	1993	1994	
Sales and operating revenue:				
Electronics:				
Customers	¥3,149,847	¥3,161,878	¥2,942,728	$28,570,175
Intersegment	9,491	11,537	9,559	92,806
Total	3,159,338	3,173,415	2,952,287	28,662,981
Entertainment:				
Customers	778,820	831,040	790,993	7,679,543
Intersegment	4,552	3,990	3,400	33,010
Total	783,372	835,030	794,393	7,712,553
Elimination	(14,043)	(15,527)	(12,959)	(125,816)
Consolidated	¥3,928,667	¥3,992,918	¥3,733,721	$36,249,718
Operating income:				
Electronics	¥127,328	¥ 80,140	¥90,755	$881,116
Entertainment	65,632	60,027	25,075	243,447
Corporate and elimination	(13,411)	(13,707)	(16,162)	(156,913)
Consolidated	¥179,549	¥126,460	¥99,668	$967,650
Identifiable assets:				
Electronics	¥2,940,331	¥2,673,625	¥2,638,906	$25,620,447
Entertainment	1,635,271	1,539,974	1,379,697	13,395,116
Corporate assets and elimination	335,527	316,231	251,282	2,439,631
Consolidated	¥4,911,129	¥4,529,830	¥4,269,885	$41,455,194
Depreciation and amortization:				
Electronics	¥219,403	¥227,683	¥193,419	$1,877,854
Entertainment	44,567	44,857	43,224	419,651
Corporate	1,238	1,937	2,483	24,107
Consolidated	¥265,208	¥274,477	¥239,126	$2,321,612
Capital expenditure:				
Electronics	¥398,296	¥194,920	¥154,533	$1,500,320
Entertainment	44,757	51,922	34,601	335,932
Corporate	10,062	4,275	6,803	66,049
Consolidated	¥453,115	¥251,117	¥195,937	$1,902,301

Geographic areas:

	Yen in millions			Dollars in thousands
	Year ended March 31			Year ended March 31, 1994
	1992	1993	1994	
Sales and operating revenue:				
Japan:				
Customers	¥1,505,747	¥1,453,215	¥1,369,868	$13,299,689
Intersegment	1,002,447	984,496	938,640	9,113,010
Total	2,508,194	2,437,711	2,308,508	22,412,699
U.S.A.:				
Customers	997,081	1,058,788	1,206,585	11,714,418
Intersegment	32,035	33,743	49,470	480,291
Total	1,029,116	1,092,531	1,256,055	12,194,709
Europe:				
Customers	1,028,294	1,006,859	712,246	6,915,010
Intersegment	5,324	6,196	9,665	93,834
Total	1,033,618	1,013,055	721,911	7,008,844
Other:				
Customers	397,545	474,056	472,005	4,582,573
Intersegment	248,014	291,858	336,008	3,262,213
Total	645,559	765,914	808,013	7,844,786
Elimination	(1,287,820)	(1,316,293)	(1,360,766)	(13,211,320)
Consolidated	¥3,928,667	¥3,992,918	¥3,733,721	$36,249,718
Operating income (loss):				
Japan	¥ 47,974	¥ 55,243	¥54,946	$533,456
U.S.A.	43,905	35,098	(4,361)	(42,340)
Europe	86,738	60,129	39,696	385,398
Other	38,874	26,185	36,483	354,204
Corporate and elimination	(37,942)	(50,195)	(27,096)	(263,068)
Consolidated	¥179,549	¥126,460	¥99,668	$967,650
Identifiable assets:				
Japan	¥2,188,326	¥2,114,956	¥2,050,302	$19,905,845
U.S.A.	1,659,205	1,481,193	1,303,763	12,657,893
Europe	600,155	464,852	428,228	4,157,553
Other	290,392	301,694	341,876	3,319,185
Corporate assets and elimination	173,051	167,135	145,716	1,414,718
Consolidated	¥4,911,129	¥4,529,830	¥4,269,885	$41,455,194
Export sales and operating revenue:				
To U.S.A.	¥ 96,775	¥113,336	¥ 99,380	$ 964,854
To Europe	74,984	73,085	72,179	700,767
To Other	281,566	243,423	191,800	1,862,136
Total	¥453,325	¥429,844	¥363,359	$3,527,757

Transfers between industry or geographic segments are made at arms-length prices. Operating income is sales and operating revenue less costs and operating expenses. Corporate expenses of the geographic segments include certain research and development expenses unallocable to the segments. Identifiable assets are those assets used in the operations of each industry or geographic segment. Unallocated corporate assets consist primarily of cash and cash equivalents and marketable securities maintained for general corporate purposes.

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Price Waterhouse

May 19, 1994

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 and retained earnings and of cash flows present fairly, in all material respects, the financial position of Sony Corporation and its consolidated subsidiaries at March 31, 1993 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1994, 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 generally accepted auditing standards 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.

Price Waterhouse

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Information
If you have any questions or would like a copy of our Form 20-F, annual report to the Securities and Exchange Commission, or quarterly report to shareholders, please direct your request to:

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

Independent Accountants
Price Waterhouse
Tokyo, Japan

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Overseas Stock Exchange Listings
New York, Pacific, Chicago, Toronto, London, Paris, Frankfurt, Düsseldorf, Brussels, Antwerp, Vienna, Zurich, Basle, and Geneva stock exchanges

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

Number of Shareholders
(As of March 31, 1994)
245,773

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Sony Corporation

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