SONY

Annual Report 1990

Year ended March 31, 1990

Sony Corporation is one of the world's leading manufacturers of audio and video equipment, televisions, displays, semiconductors, computers, and such information-related products as micro floppydisk systems. Keenly aware of the interrelated nature of software and hardware, Sony is also bolstering its presence in the audio and image-based software markets through the CBS Records group and the newly acquired Columbia Pictures Entertainment, Inc. A strong commitment to research and development has helped the Company build a worldwide reputation as a pacesetter in the electronic equipment industry. Having also garnered recognition as one of Japan's most international corporations by manufacturing in the markets where its products are sold, Sony is currently strengthening global systems for other corporate functions, from management to R&D.

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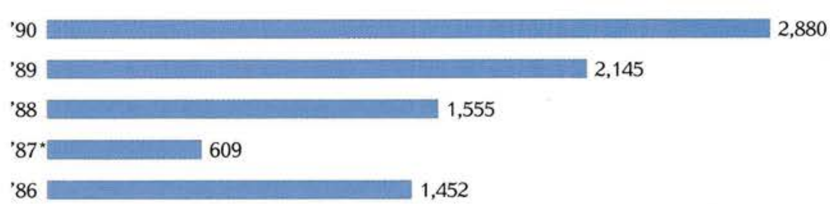
FINANCIAL HIGHLIGHTS

Year ended March 31

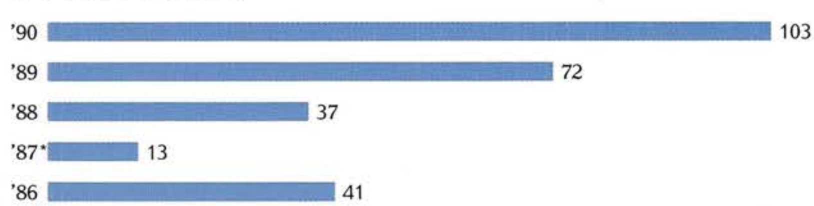
OPERATING RESULTS	Millions of yen except per share amounts		Percent change	Thousands of U.S. dollars except per share amounts
	1989	**1990**	1990/1989	**1990**
FOR THE YEAR				
Net sales	¥2,145,329	**¥2,879,856**	+34.2%	**$18,343,032**
Operating income	160,499	**295,191**	+83.9	**1,880,197**
Net income	72,469	**102,808**	+41.9	**654,828**
Per Depositary Share:				
Net income	¥ 241.7	**¥ 306.9**	+27.0	**$ 1.95**
Cash dividends	44.6	**50.0**		**0.32**
AT YEAR-END				
Stockholders' equity	¥ 911,816	**¥1,430,058**	+56.8	**$ 9,108,650**
Total assets	2,364,775	**4,370,085**	+84.8	**27,834,936**
Number of employees	78,900	**95,600**		

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥157=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 30, 1990, as described in Note 2 of Notes to Consolidated Financial Statements.

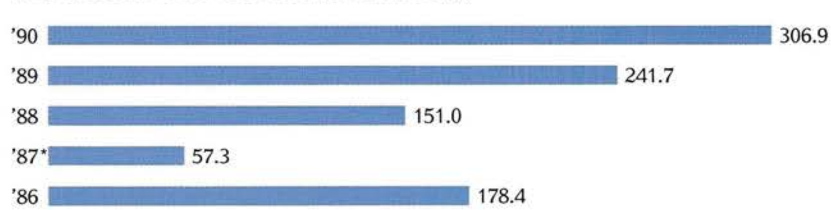
NET SALES (Billion ¥)



NET INCOME (Billion ¥)



NET INCOME PER DEPOSITARY SHARE (¥)



**Five-month fiscal period ended March 31, 1987*

TO OUR SHAREHOLDERS

For Sony, the fiscal year ended March 31, 1990, was one that demands retrospection in this annual report.

In electronics, our products achieved significant sales growth across all divisions and geographic regions. During the year in review, we made major advances in our 8mm video products business as part of our wholehearted commitment to developing the genre of "personal video."

In entertainment, in November 1989, we purchased Columbia Pictures Entertainment, Inc. (CPE), adding image-based software to our software business. We have emphasized strengthening these operations, primarily through our record business.

As a consequence, during the term under review, we were able to lay the foundation for future growth in both electronics and entertainment while attaining unprecedented performances in both sales and profits.

■ Performance Highlights

Sony's consolidated net sales for the fiscal year ended March 31, 1990, reached ¥2,880 billion ($18,343 million), an increase of 34.2% over the previous year. Operating income rose 83.9%, to ¥295 billion ($1,880 million), and net income advanced 41.9%, to ¥103 billion ($655 million). Primary net income per Depositary Share (each Depositary Share represents one share of Common Stock) rose 27.0%, to ¥306.9 ($1.95). Stockholders' equity per Depositary Share was ¥4,308 ($27.44), compared with ¥3,226 the previous year.

Subject to shareholders' approval at the General Meeting of Shareholders to be held in Tokyo on June 28, 1990, Sony will pay to shareholders of record as of March 31, 1990, a cash dividend of ¥25 (before deduction of withholding taxes) per Depositary Share for the six-month period ended March 31, 1990. This payment will bring the total annual cash dividend for the fiscal year ended March 31, 1990, to ¥50 ($0.32) per Depositary Share, an increase of ¥5.4 over the previous year.

In July 1989, we made a public offering of 30 million shares of Common Stock in Japan to be used chiefly for capital expenditures. Additionally, in February 1990 in Japan, Sony issued ¥100 billion in unsecured yen-denominated bonds with warrants and ¥300 billion in unsecured convertible bonds primarily to refinance the acquisition of CPE.

■ Electronics

In electronics products, such factors as the introduction of a highly competitive Handycam 8mm video camcorder and healthy sales of broadcast-use video equipment, supported by digital VTRs, contributed to brisk sales of video equipment during the year. Audio equipment sales—underpinned by such products as CD players, mini-component stereos, and the headphone stereo Walkman—continued to be favorable. Television sales expanded across all regions centering on large-screen sets, and computer displays also registered substantial gains. In the Other products category, although the fast-paced growth in semiconductors slowed somewhat, sales of such products as 3.5-inch micro floppydisk systems, workstations, and telephones exhibited healthy growth similar to that witnessed in other divisional categories.

Research and development expenditures during the fiscal year ended March 31, 1990, reached ¥165 billion ($1,052 million), an increase of approximately 16% over the corresponding period a year ago and represented 5.7% of consolidated net sales. Sony believes R&D activities are essential to reinforcing its operational base in consumer- and industrial-use electronics and is committed to continue fueling its R&D efforts aggressively. Furthermore, capital expenditures during the period soared approximately 50% over the previous year, to ¥324 billion ($2,062 million), reflecting vigorous funding to expand and fortify our production capabilities of semiconductors; image-based devices, such as color picture tubes; magnetic products; and audio and visual equipment.

■ Entertainment

In our Record business, both CBS Records Inc. and the CBS/Sony Group Inc. in Japan turned in exceptionally strong performances. Contributing to growth in revenues were established superstars and new artists who developed into solid successes. This favorable performance is attributable to the expansion of the CD market which has been supported by the widespread adoption of CD players, and we expect demand for CDs will become even brisker in the future. In addition,

Akio Morita, Chairman of the Board (right),
and Norio Ohga, President and Chief Executive Officer

sales of such image-based software as music videos and laserdiscs are on a steep uptrend. Consequently, Record division sales surged 33.8% compared with the previous year.

In November 1989, Sony purchased CPE, one of the leading motion picture companies in the United States, for approximately $3.4 billion. Sony also acquired The Guber-Peters Entertainment Company for approximately $200 million and welcomed Peter Guber and Jon Peters as top management of CPE. These measures stemmed from a decision that to develop our hardware business in the future, it is necessary to augment our music software with image-based software.

■ Future Operating Environment and Managerial Policies

Sony's operating environment has become increasingly difficult to forecast due to the nature of Japan's and overseas financial and capital markets, future global economic trends, worsening economic and trade friction, and heightening price competition. Amid this setting, Sony, while continuing to provide services and products that give lasting pleasure to customers, creating a corporate structure that can respond flexibly to any change in the business climate, and making every effort to improve performance—all to meet your expectations, will pursue the following policies:

First, in consumer products, we seek to actively develop and introduce attractive new products, strengthen our marketing and service structure, and keep a closer watch over product quality control.

Second, in industrial products, we intend to add further strength to such operations as video equipment and displays and, by incorporating cutting-edge technologies, develop our business to meet a wider range of market needs. We will also continue to actively develop new technologies and expand the scope of operations through products that support a vast spectrum of business areas, such as semiconductors, electronic devices, and equipment related to computers, information processing, and telecommunications.

Third, by adding image-based software primarily from CPE to its music software business, which has been led chiefly by the CBS Records group, Sony will strive to further expand and develop its software business while gaining synergies with its hardware business.

Fourth, while promoting local procurement of components and production, Sony will upgrade all facets of its operations, from R&D to marketing to bring its overseas operations in even closer contact with local communities.

Finally, Sony will continue to improve its profitability and financial soundness by reducing costs and streamlining operations in all fields—from design and manufacturing through sales and distribution—conducting stricter inventory control, and executing carefully appropriated capital expenditures.

May 24, 1990

Akio Morita
Chairman of the Board

Norio Ohga
President and Chief Executive Officer

REVIEW OF OPERATIONS

ELECTRONICS

Video Equipment

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

Audio Equipment

Includes CD players, mini-component stereos, hi-fi components, radio-cassette tape recorders, headphone stereos, radios, car stereos, audiotapes, and professional-use audio equipment.

Televisions

Spans color televisions/monitors, satellite broadcast reception systems, projectors, displays, and JumboTron.

Other Products

Comprises semiconductors, electronic components, computers, information-related equipment, telephones, telecommunications equipment, and FA systems.

ENTERTAINMENT

Record Business

Composed of music and image-based software produced by CBS Records Inc. and CBS/Sony Group Inc.

Movie Business

A newly added division created through the acquisitions of Columbia Pictures Entertainment, Inc., and The Guber-Peters Entertainment Company.

■ 8mm Video Products

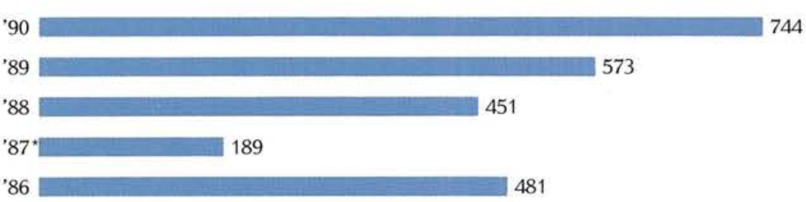
Sony's new ultracompact and lightweight Handycam camcorder with a body weighing 790 grams (1.7 pounds) became a runaway success for Sony and a sensation in the camcorder market following its introduction in Japan in June 1989 and subsequent release in the U.S. and Europe. In addition to making a tremendous contribution to 8mm video product sales, the Handycam's convenient size is perfect for people on the go and thus has broadened the horizons of the camcorder market. In May 1990, Sony announced the development of subsequent models, one weighing even less—690 grams (1.5 pounds)—and another with such features as higher picture quality, an eight-times power zoom lens, and hi-fi stereo. We will launch these models in Japan in summer 1990 and plan to introduce them overseas the following fall.

In April 1990, we marketed a new model in our "video Hi8" series of high quality 8mm video products in Japan. The unit is smaller and lighter than previous models and equipped with hi-fi stereo, a wireless remote control, and other advanced functions. We expect to launch this product overseas beginning in summer 1990.

Sony has been opening new avenues in "personal video," in which people can enjoy video entertainment anywhere and anytime. As one facet of these efforts, Sony has been commercializing models of the Video Walkman that combine a liquid crystal display (LCD) color TV and an 8mm VTR. During the year under review, we launched new models incorporating an ultra-small videotape drive mechanism "FL Mecha" that allowed for further reductions in size and weight. We also released several low-priced 8mm movie software titles. Additionally, Video Walkman units lent to passengers aboard several airline companies' flights since summer 1989 have been well received.

Video equipment sales for the year ended March 31, 1990, rose 29.7% over the previous year, to ¥744 billion ($4,737 million), representing 25.8% of consolidated net sales. Sales for the term ended March 31, 1990, expanded across all major product sectors with 8mm video products registering exceptionally strong growth.

SALES OF VIDEO EQUIPMENT (Billion ¥)



Five-month fiscal period ended March 31, 1987

■ Home-Use 1/2-inch VTRs and Laserdisc Players

Sales of 1/2-inch VTRs saw favorable growth, buoyed by the contribution of VHS decks. In the field of high quality VTRs utilizing metal tape, we introduced a new model in the ED Beta line and in December 1989 began marketing a Super-VHS (S-VHS) model that offers higher picture quality in a VHS format in Japan—further consolidating our position as the only manufacturer offering all three existing formats of home video technology. On the production side, we are expected to commence production of 1/2-inch VTRs in Malaysia in fall 1990. The Malaysian plant will play an important role in keeping apace with overseas demand for our VTRs.

As for laserdisc players, Sony's MultiDisc Player—which enables users to enjoy the entire spectrum of home-use optical discs, including laserdiscs and CDs—made a solid gain in sales.

We have made this new model in our "video Hi8" line of high quality Hi-Band 8mm camcorders smaller and lighter than its predecessors. Its electronic variable speed shutter captures every detail of the fastest-paced action—such as a golf swing—with razor-sharp clarity.

This ultrasmall and lightweight Handycam camcorder has been a worldwide success. Its compact size makes it easy to use on the road and accounts for its popularity particularly among travelers.

■ Broadcast- and Professional-Use VTRs

Since Sony introduced the world's first D-2 format composite digital VTR system in summer 1988, its efforts to promote digitalization of broadcast- and professional-use VTRs have progressed at a rapid pace. In May 1989, Sony received many orders from CBS Inc. for its Digital Cart System incorporating the D-2 format digital VTRs for automating the broadcasting of commercial spots and other program material. Sony displayed several of its new VTR systems that utilize digital technology at the National Association of Broadcasters (NAB) Show held in March 1990 in Atlanta, in the United States, promoting the arrival of digitalization of broadcast equipment.

Sony's Betacam SP systems for electronic news gathering, studio editing, and broadcasting have amassed a loyal following among TV stations and production studios, and sales during the period under review continued on a firm note.

In broadcast- and professional-use video cameras, Sony, a pioneer in charge-coupled device (CCD) cameras, has continued to develop new products in its line of three-chip CCD color video cameras, which registered solid sales growth. During the year under review, we launched new models, such as one for high resolution filming outdoors and one with advanced functions for full-fledged studio use.

A large number of our D-2 format digital VTRs, Betacam SP systems, and broadcast-use video cameras were used by the Italian National Broadcasting Corporation, the host broadcast company at the World Cup soccer matches held in Italy in early summer 1990.

In the field of HDTV (high-definition television), in March 1990 Sony announced the development of a professional-use 1/2-inch cassette VTR to which it expects to begin marketing within the year in Japan. Sony has already introduced into the market a variety of HDTV-related equipment, including a digital VTR and a videodisc player and will continue to develop promising new products for the HDTV market.

The Betacam SP system makes video news gathering, editing, and broadcasting possible in a unified system using 1/2-inch videocassettes. The system is widely used at broadcast stations and production houses around the world.

Sony's MultiDisc Players are compatible with the wide range of home-use optical discs, such as laserdiscs and CDs, and this new model is equipped with various digital picture functions that allow for special effects to further expand the realm of audiovisual entertainment.

ELECTRONICS

Audio Equipment

■ CD Players

Sony continued its efforts to promote demand for its CD players by offering a wide spectrum of separate component types—from low-priced models to top-of-the-line products—and by marketing unique portable models incorporating technology to make them even smaller and lighter. In addition, we marketed new CD players to be built into radio-cassette tape recorders, stressing enhanced sound quality and improving functionality and ease of operation. Further, models incorporated into mini-component stereos and car stereo units were also actively introduced into the market and achieved sales growth.

To meet the needs of the burgeoning market for CD players, Sony has boosted the production capabilities of its CD player plant in Alsace, France. In addition, we have expanded our audio equipment production facilities in Malaysia and have begun manufacturing CD players, mini-component stereos, and other equipment there.

Audio equipment sales grew 28.8%, to ¥722 billion ($4,600 million), accounting for 25.1% of consolidated net sales. Sales during the year under review were robust across the board in this category, led by exceptional growth in CD players.

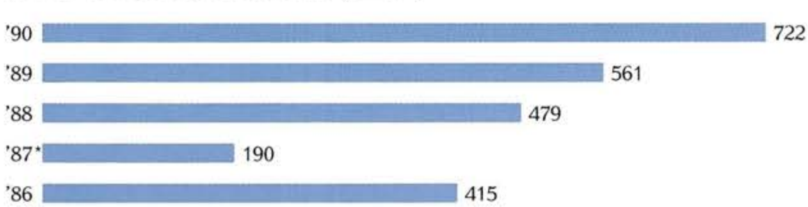
■ Mini-Component Stereos

Sony's mini-component stereos have a solid reputation for superior sound quality and functions. During the year under review, we launched in Japan a new mini-component stereo that is smaller in size and has a free-layout design superior to models of the past,

The percentage of radio-cassette tape recorders equipped with CD players continues to climb. This model features advanced editing capabilities for recording from CD to tape and offers superior quality sound through well-balanced bass and treble.

To meet diversifying needs in the mini-component stereo market, Sony launched the "pixy" series in summer 1989 in Japan. These models allow for more freedom and economy of space in interior layout, and their stylish designs have contributed to their outstanding success.

SALES OF AUDIO EQUIPMENT (Billion ¥)



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This new Walkman with remote control offers improved operability, enabling the listener to determine tape direction and operating status with light and by sound.

allowing greater flexibility in interior decoration. This product was a resounding success and tapped new frontiers in the mini-component stereo market.

■ Digital Audio Tape (DAT) Decks

In summer 1990, Sony is scheduled to launch a new consumer-use DAT deck that meets the new standard for DAT equipment in Japan and the United States. The new standard allows for one generation of digital to digital recording from such sources as CDs. In the future, we will introduce this model in European markets while bolstering our lineup of DAT decks that meet the new standard and actively promoting the expansion of the DAT market.

■ Headphone Stereo Cassette Players

Through the years, Sony has endeavored to introduce new products for the headphone stereo Walkman, and the Walkman has endured as a locomotive force in the headphone stereo cassette player market. During the year under review, we introduced models with remote controls and fast-recharging batteries while launching new products that offer even better sound quality and are easier to use to meet ever diversifying customer demands.

■ Car Stereos

In car stereos, the market for units that bring forth the superior sound quality and ease of operation of CD players is flourishing. Sony's car stereos have recorded major sales gains, and its new models, notably one with a CD player that incorporates a 10-disc autochanger, have been very well received in the market.

■ Other Audio Products

During the year under review, we introduced such new products as a radio kit to our My First Sony line of audio equipment for children that is highly regarded for imaginative, easy-to-use designs.

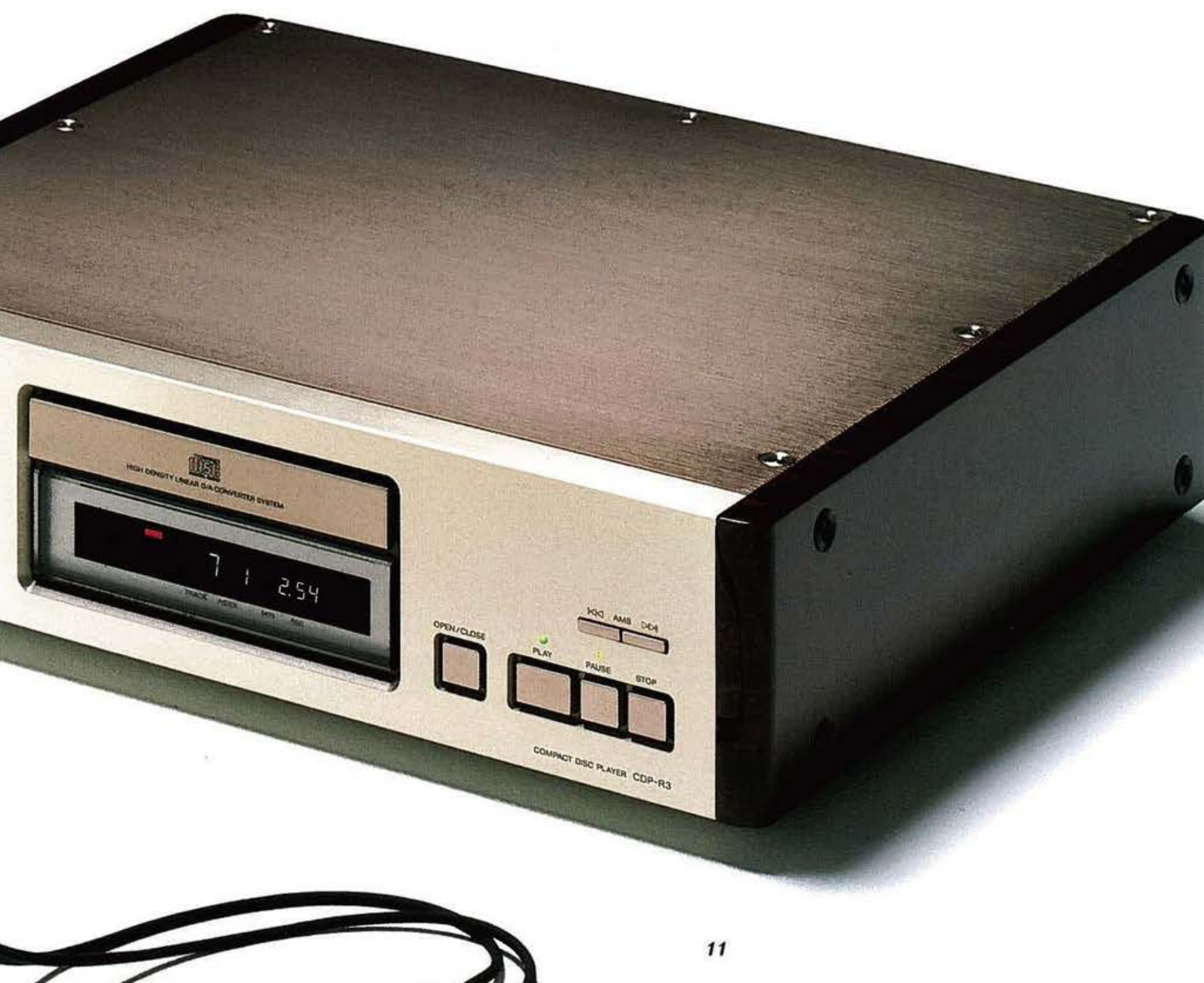
Radio sales were healthy, buoyed by the introduction of ultraslim card-type models and the world-band receiver, capable of capturing short-wave news broadcasts from around the globe.

Sony has decided to add magnetic tape coating facilities—targeted to become operational in spring 1991—to its videotape assembly plant in Dax, France. This facility will serve as a valuable supply base in Europe for audiotape and videotape materials and signifies the beginning of integrated production in Europe to follow that already underway in the U.S.

■ Professional-Use Audio Equipment

We are developing our professional-use audio equipment operations, centering on digital audio-tape recorders, digital audio processors, CD players, CD mastering systems, and microphones.

This upmarket CD player and headphone set represents the integration of Sony's wealth of experience in audio science and advanced technology. This model has won the approval of audiophiles who appreciate the ability of superior sound quality to faithfully relay the subtle nuances in music.



Televisions

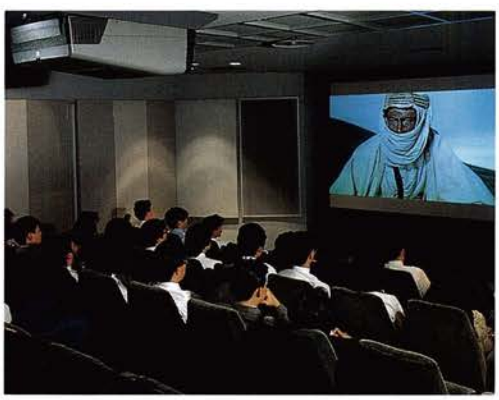
■ Home-Use TVs and Monitors

In line with the increasing popularity of high-resolution video decks and laserdisc players, Sony has endeavored to provide Trinitron color televisions with enhanced picture quality and larger screens. During the period, Sony launched several new large-screen Trinitron sets with life-like ambience to meet consumer demand for a variety of image-based software, leading to exceptionally strong sales of Trinitron color TVs in Japan and overseas.

Sony has promoted integrated production—from production of Trinitron color picture tubes to assembly of finished televisions—in Japan, the United States, and Europe. In the U.S., Sony has been producing color TVs at its plant in San Diego, and to further meet rising demand in the U.S. and around the world, Sony announced it would build another plant to produce color picture tubes for Trinitron color TVs. The facility, located in the suburbs of Pittsburgh, is scheduled to be brought on stream in autumn 1992.

We have decided to build a color picture tube plant in Singapore for integrated production of color TVs in Southeast Asia as well. We aim to begin operations at this plant in 1991 to complement the color TV plant in operation in Malaysia.

Television sales for the period under review climbed 30.6%, to ¥446 billion ($2,844 million), constituting 15.5% of consolidated net sales. During the term, color TV sales recorded vigorous growth, spurred by the popularity of large-screen sets and rising demand in Japan for satellite broadcast reception systems and related equipment. In professional-use equipment, sales of computer displays surged across all geographic regions, most notably in the U.S. and Europe.

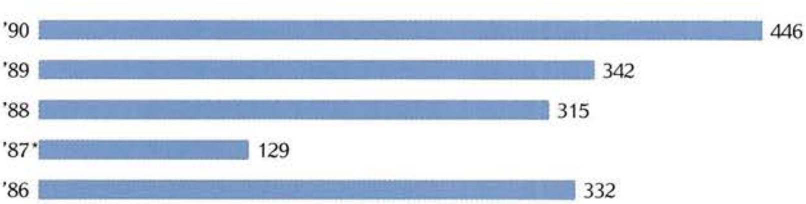


HDTV-related equipment matches the superior picture quality of 35mm film and is expected to find myriad applications in the motion picture industry. Shown here is an example of a video theater using an HDTV projector.

■ Satellite Broadcast Reception Systems

The popularity of satellite broadcast programs in Japan has grown tremendously of late. In response, Sony has launched a newly developed,

SALES OF TELEVISIONS (Billion ¥)



**Five-month fiscal period ended March 31, 1987*

highly sensitive antenna and a satellite broadcast tuner with excellent picture and sound quality. The widening array of satellite broadcast programming is expected to expand demand for its reception systems for such entertainment, and Sony is committed to bolstering its product lineup for this market.

Pictured on this Profeel Pro Trinitron color monitor is a scene from the dance drama "Fifth-V" performed in Japan. The stage featured images displayed on 144 Profeel Pro monitors and the movements of the players.

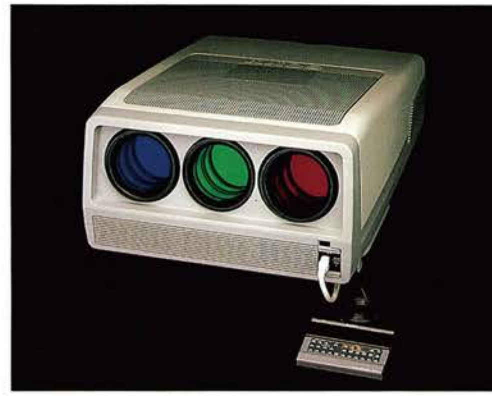
■ Professional-Use Projectors

Sony is the leader in the worldwide market for professional-use projectors. Response has been favorable to a color video projector launched during the year under review that automatically adjusts to an impressive range of input sources, from video decks to sophisticated computers, and easily projects images of high quality.

■ Professional-Use Displays

Our Trinitron color picture displays for computers are utilized for such purposes as the main display by many computer makers—particularly those in the U.S.—and have been highly regarded for their exceptional picture quality and resolution. Demand during the period under review has been brisk for personal computer displays and graphic displays, underpinning a major advance in sales.

The color video projector shown automatically discriminates between scanning frequencies of various input sources, permitting high-resolution projection from computers, videodecks, video cameras, and other sources without complicated adjustments.



■ HDTV Monitors and Projectors

Professional-use HDTVs are finding applications outside broadcasting in such areas as entertainment, events, sales presentations, and corporate advertising. During the fiscal year ended March 31, 1990, we brought to market a 55-inch rear projector for HDTV that displays vivid images even in ambient light.

Furthermore, at the 1990 NAB Show, we displayed a recently developed HDTV projection system with ultralarge screens for commercial entertainment purposes, such as at events and in video theaters.

Satellite broadcast programs are gaining popularity in Japan, and demand for Sony's Trinitron color TVs with a built-in satellite broadcast tuner for easy enjoyment of these programs has grown in concert with this trend.

Other Products

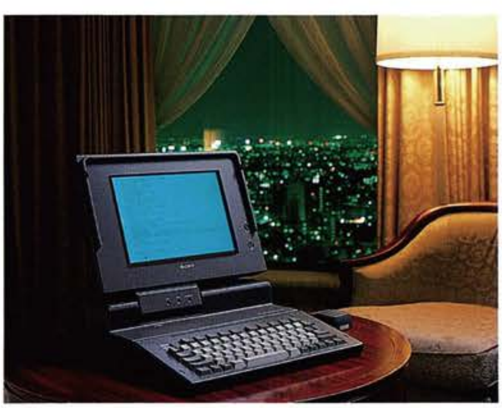
■ Semiconductors

Our semiconductor operations center on metal oxide semiconductor (MOS) devices, such as static random access memory chips (SRAMs); charge-coupled devices (CCDs); and bipolar ICs for consumer audiovisual equipment; during the year under review, we continued to expand production of these devices. As for SRAMs, in January 1990, Sony began shipping a one-megabit SRAM with an access time of 35 nanoseconds and anticipates that the SRAM market will grow steadily in the years to come. In addition, Sony is upgrading its production capabilities for CCDs, activities which will be indispensable in expanding its market for camcorders, and in February 1990 announced the successful development of a CCD with two million pixels for HDTV cameras.

In another significant event also in February 1990, Sony and Advanced Micro Devices Inc. (AMD), of the U.S., concluded agreements for the transfer to AMD of certain of Sony's leading-edge semiconductor technology and for the acquisition by Sony of an AMD microchip manufacturing facility in the U.S. The agreement will form the basis of a wide range of cooperative tie-ups, including those to jointly develop next-generation semiconductor manufacturing technologies. Sony has implemented a production line for 0.8-micron wafers—appropriate for one-megabit SRAMs—at the plant acquired from AMD in San Antonio, Texas. Production is scheduled to begin at the end of 1991.

Sales in the Other products category expanded 27.6%, to ¥420 billion ($2,674 million), accounting for 14.6% of consolidated net sales. During the fiscal year ended March 31, 1990, electronic components, computers and related equipment, and telephones registered healthy sales.

The Palmtop is a compact personal computer that by applying fuzzy logic accepts over 3,500 characters, including Japanese *kanji*, the alphabet, numerals or symbols, written by hand. The unit is equipped with the personal information processing capabilities needed for managing schedules, keeping track of data on people, and performing simple word processing.



Sony will augment the NEWS computer lineup with a laptop model. This computer offers—in a laptop size—the high performance and wide spectrum of interfaces found in our desktop models.

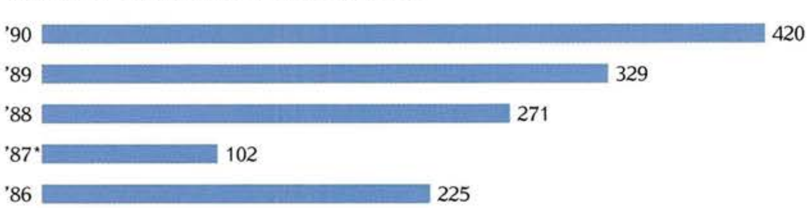
■ Materials Research Corporation

In September 1989, Sony purchased the Materials Research Corporation (MRC), of the United States. MRC is a leading manufacturer and supplier of sputtering equipment for thin metal films, etching equipment, and high-purity metal materials and ceramic substrates. We expect MRC's technology to find applications in Sony's ICs, optical discs, and various magnetic devices.

■ Components

In response to expanding production of audio and video equipment in Asia, Sony began producing, in Singapore, nonspherical plastic

SALES OF OTHER PRODUCTS (Billion ¥)



Five-month fiscal period ended March 31, 1987 lenses to be used in optical pickups for CD players and cylinders for use in VTRs. These activities shift Sony's cutting-edge technology in optical and magnetic devices to Singapore and strengthen Sony's supply system for components to its Asian and European production facilities.

As part of its commitment to promote localization and integrated production in Europe, Sony announced it would construct a plant in France to manufacture optical pickups for CD players and printed circuit boards for AV equipment. We expect to bring the plant on stream in summer 1991.

■ Computers

Sony's 32-bit super workstation NEWS, which features compact size and advanced functions, is gaining popularity in a diverse range of fields, from software development to desktop publishing. In October 1989, we launched—to a favorable reception on the market—a top-of-the-line model with a central processing unit (CPU) incorporating a Reduced Instruction Set Computer (RISC) processor that has attracted attention for its dramatic improvements in processing speed. Similarly, we plan to launch a new laptop model in summer 1990.

■ Information-Related Equipment

Sales of Sony's 3.5-inch micro floppydisk systems continued to expand steadily, supported by strong demand primarily from U.S. computer manufacturers. To meet escalating demand for its 3.5-inch micro floppydisk drives, Sony has been producing the units in Japan and the U.S.

We have added an image-based series to the My First Sony line of audio products for children. The computer shown lets kids draw colorful pictures on a TV screen with the attached pen. For further enjoyment, their masterpieces can be preserved on videotape.

Additionally, in May 1990, Sony began producing 3.5-inch micro floppydisk drives in Malaysia to supply the increasingly brisk output at the Asian production facilities of other computer makers.

In December 1989, Sony announced the development of an erasable videodisc system. Utilizing a 30cm videodisc, the system can record and play back up to 60 minutes of motion picture images. We aim to bring this product to the market in one or two years.

■ Telecommunications Equipment

In telecommunications equipment, sales of integrated telephone answering machines, cordless phones, and cellular mobile telephones are advancing favorably. In the U.S., a telecommunications system, by using a satellite, has been developed with such advanced capabilities as the ability to estimate the present location of moving objects, such as trucks and ships, and enable two-way telecommunications. This system is attracting attention as a new communications method. Sony forecasts strong growth in this market and is endeavoring to further develop telecommunications equipment, centering on terminal equipment for mobile communications.

■ Audiovisual Systems for Airplanes

In June 1989, Sony purchased from Sundstrand Corporation, of the U.S., its Trans Com Systems division, the world's leading supplier of audio and video entertainment systems for airline passengers. In the future, Sony will continue to expand its business related to in-flight AV entertainment systems, centering on the recently acquired division.

With a compact body weighing only 550 grams (1.2 pounds), Sony's electronic book player, the Data Discman, equipped with an 8cm CD-ROM disk drive and a liquid crystal display, can facilely search for several dictionaries' (up to 200 megabytes) worth of information recorded on its 8cm CD-ROM electronic book.

■ CBS Records Inc.

The phenomenal success of the group New Kids on the Block helped spark CBS Records to the best results in its history. Not only did the three New Kids albums sell almost 15 million units worldwide, the group's first two home-video releases sold more than one million units each in the United States—the first music home-video products to do so.

An encouraging mix of superstars and new talent also contributed to these healthy results. Such established names as Billy Joel, Gloria Estefan, Michael Bolton, and The Rolling Stones delivered major hit albums, while such newcomers as Warrant, Indigo Girls, Martika, and Babyface made strong first impressions on the U.S. market. Internationally, the "lambada" dance craze brought the group Kaoma tremendous success in Europe and around the world. In addition, several Latin American subsidiaries of CBS Records International enjoyed exceptional sales despite difficult market conditions.

The direct marketing "clubs" of the Columbia House division also enjoyed a best-ever year: the Compact Disc Club accounted for 60% of music-club enrollments, while the Video Club,

Record division sales for the fiscal year ended March 31, 1990, rose 33.8%, to ¥455 billion ($2,900 million), and comprised 15.8% of consolidated net sales. During the year under review, both CBS Records Inc. and CBS/Sony Group Inc. in Japan registered robust sales, buoyed by a steady flow of hit albums. In addition, expansion of our CD software production in Japan and overseas has progressed smoothly.

Walter R. Yetnikoff, President and CEO of CBS Records Inc.

RECORD BUSINESS SALES (Billion ¥)

**Sales after the date of acquisition of CBS Records group*

with distribution agreements with virtually every major film studio, continued to lead the U.S. market. During the year under review, CBS Records and Time Warner Inc. signed a contract—subject to receipt of appropriate government approvals—to create a joint venture to conduct direct marketing of music and home-video products worldwide.

Pictured (from left) is just a smattering of recent hit CD and video releases by artists in the CBS Records group, such as Toshinobu Kubota; Living Color; New Kids on the Block; Billy Joel; Babyface; The Rolling Stones; and the Wiener Philharmoniker conducted by Carlos Kleiber.

In a year that saw unprecedented sales growth in the market for music home-video products, CBS Music Video Enterprises emerged as the U.S. market leader, with artists as diverse as Neil Diamond, Pink Floyd, Michael Jackson, and Kate Bush all achieving significant chart success.

The platinum success of Gloria Estefan's album *Cuts Both Ways* on the Epic label was overshadowed by the back injury the singer sustained in a March 1990 highway collision. Now recovering ahead of schedule, Estefan is expected to resume recording and performing later in the year.

Sony Classical G.m.b.H., of West Germany, has received perpetual worldwide marketing rights to 45 videos of performances by Maestro Herbert von Karajan, who passed away suddenly in July 1989. CSB/Sony Goup Inc. intends to launch the collection successively on laserdisc from September 1990.

■ CBS/Sony Group Inc.

CBS/Sony Group earned solid sales gains, underpinned by a continuing flow of hit releases of Japanese and Western popular music. Among Japanese artists, albums by Princess Princess and Toshinobu Kubota were major successes, each selling over one million copies. Video software also expanded substantially, supported by music videos of concert footage and animated cartoons. Additionally, in early 1990 we began producing laserdisc software in Japan.

■ CD Software Business

In response to rising worldwide demand for CDs, Sony has been boosting the capabilities of its CD production facilities in Japan, the U.S., and Austria. Currently, we are capable of producing a combined output of over 300 million units annually, a scale believed to be the largest in the world. In the future, we will continue to expand our record operations, with an emphasis on CDs.

The five-member female rock band, Princess Princess, of CBS/Sony Group had an extremely successful year, with its album *Lovers* and single *Diamonds* each selling over one million units.

New Management Team

Columbia Pictures Entertainment, Inc. (CPE)'s new management team is led by Chairmen of the Board Peter Guber and Jon Peters. They have established a remarkable record of achievement in motion pictures, television, and music. In the past few years alone, they have co-produced such movies as *Batman*, *Rain Man*, and *Tango and Cash*. Guber and Peters have begun restructuring and rebuilding the Columbia family. They have revitalized the company's infrastructure, naming new chairmen for each motion picture studio and a head for the new Filmed Entertainment Group, establishing the cornerstone of the company and providing new leadership.

Movie business sales for the fiscal year ended March 31, 1990, totaled ¥93 billion ($589 million), comprising 3.2% of consolidated net sales. Sony acquired Columbia Pictures Entertainment, Inc., and The Guber-Peters Entertainment Company on November 1, 1989, and November 7, 1989, respectively. The performances of these companies have been incorporated in Sony's consolidated financial results for the year under review from the dates of purchase.

Peter Guber (right) and Jon Peters, Chairmen of the Board of Columbia Pictures Entertainment, Inc.

Filmed Entertainment Group

U.S. box office receipts broke the $5 billion mark for the first time ever in 1989 and continued at a record-breaking pace during the first quarter of this year. Strength at the box office was primarily due to the performance of blockbuster pictures featuring top creative talent.

The top 25 U.S. releases of 1989—about 5% of last year's 450 U.S. motion picture releases—generated nearly 50% of the record U.S. theatrical box office revenues.

In this dynamic environment, CPE's new management team is establishing the foundation for consistent success at the box office. They are creating a powerful motion picture development process through the formation of productive long-term relationships with leading creative talent and aggressive acquisition and development of exciting scripts and concepts.

CPE released four major films during the second half of last year. Tri-Star Pictures' *Look Who's Talking* and *Steel Magnolias* and Columbia Pictures' *Ghostbusters II* and *When Harry Met Sally...* grossed an average of more than $100 million apiece in U.S. theaters.

A sequel to *Look Who's Talking* is scheduled for release in 1991 and reprises the original stars, director, and producer. *Look Who's Talking* also has spawned a new Columbia Pictures Television (CPT) series, *Baby Talk*, scheduled to begin airing on ABC in fall 1990.

An important film scheduled for release later in 1990 is Columbia's adaptation of the bestselling novel, *Postcards from the Edge*. Directed by Mike Nichols (*Working Girl*), *Postcards from the Edge* features an all-star cast—including Meryl Streep, Shirley MacLaine, and Dennis Quaid—in a comedy that is by turns poignant and savagely funny.

In 1989, CPE recorded its best theatrical performance in years at theaters around the world on the strength of international hits, such as Tri-Star Pictures' *See No Evil, Hear No Evil* and Columbia Pictures' *Ghostbusters II*. Tri-Star's *Look Who's Talking* had an exceptionally strong theatrical opening outside the U.S. during the first quarter of 1990.

The new management team is capitalizing on the increasing importance of the worldwide marketplace, entering a major international distribution agreement with Orion Pictures Corp., which will commence in the latter half of 1990. The agreement, covering filmed entertainment products for the next five years, calls for the distribution of Orion products through CPE's facilities worldwide.

Columbia Pictures Television demonstrated its production and distribution strength during the year with hit series on all three major U.S. networks and Fox. CPT currently ranks among the industry leaders in production and distribution of network prime time series, and continues its traditional strength in half-hour comedies, the most popular program format in U.S. off-network syndication.

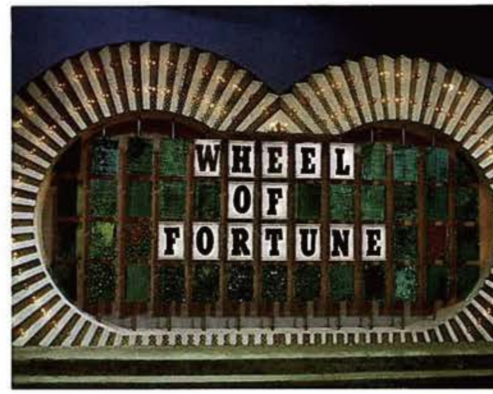
CPE continues to lead the film industry with such popular and highly acclaimed movies as *Look Who's Talking*, an Amy Heckerling film; *Steel Magnolias*, directed by Herbert Ross; *Glory*, directed by Edward Zwick; and *When Harry Met Sally...*, a film by Rob Reiner.

Merv Griffin Enterprises' two top game shows, *Wheel of Fortune* and *Jeopardy!*, are completing their fifth straight year of worldwide popularity and leadership in the first-run syndication marketplace.

■ Exhibition

CPE's exhibition business, Loews Theatre Management Corp., continued to expand its strong presence in the eastern half of the United States. Loews is building 73 new screens at eight sites, maintaining its strategy of building theaters in top demographic locations. Loews' theaters are strategically positioned in areas with high concentrations of moviegoers and opportunities for additional growth, enhancing its status as one of the premier exhibition circuits in North America.

The Merv Griffin trademark encompasses some of the most original and successful programming in television. Merv Griffin Enterprises' *Wheel of Fortune* is the most popular game show in the world for the fifth consecutive year. Another Merv Griffin game show, *Jeopardy!*, continues to rank a strong second. The two shows have a weekly audience of over 40 million viewers in the United States alone.



BOARD OF DIRECTORS

(As of March 31, 1990)

Honorary Chairman and Director
Masaru Ibuka

Chairman of the Board
Akio Morita*

President and Chief Executive Officer
Norio Ohga*

Deputy President
Masaaki Morita*

Deputy President
Masahiko Morizono*

Deputy President
Nobuo Kanoi

Deputy President
Ken Iwaki

Senior Managing Directors
Tsunehiko Ishizuka
Tsunao Hashimoto
Koji Adachi

Managing Directors
Kazuyuki Shirakura
Fumio Kohno
Jiro Aiko
Kiyoshi Yamakawa
Junichi Kodera
Yoshiyuki Kaneda
Akira Nagano
Kenji Tamiya
Masahiro Takahashi
Kozo Ohsone

Directors
Yusuke Kashiwagi
Kenichi Kamiya
Senri Miyaoka
Shiro Koriyama
Yoshiro Kato
Yasuo Kuroki
Koichi Momoi
Minoru Morio
Toshitada Doi
Ryoichi Matsuda
Akihisa Ohnishi
Nobuyuki Idei
Jakob J. Schmuckli
Teruaki Aoki
Michael P. Schulhof

Standing Statutory Auditors
Toshio Sakai
Eijiro Oki

Statutory Auditor
Kazuaki Morita

*Representative director

■ Analysis of Operations

Consolidated ***net sales*** for the fiscal year ended March 31, 1990, recorded a dramatic 34.2% increase, to ¥2,879.9 billion ($18,343 million). This reflected sales growth in all electronics product categories and across all geographic regions and in entertainment, which was supported by a favorable expansion in sales in the Record business and the addition of our Movie business through the acquisitions of Columbia Pictures Entertainment, Inc. (CPE), and The Guber-Peters Entertainment Company (GPEC).

In electronics, Video equipment sales registered robust growth across all markets and rose 29.7% over the previous year. The increase was led by extremely favorable growth in home-use products, notably 8mm video camcorders and VHS format VTRs, and solid sales gains in broadcast- and professional-use video equipment. Audio equipment sales advanced 28.8%, due to exceptionally strong sales of CD players, particularly overseas. Sales in the Televisions category grew 30.6%, as sales of color televisions expanded, centering on large-screen sets both in Japan and overseas, and sales of computer displays climbed sharply in all regions, especially in the United States. In the Other products category, although sales of semiconductors lost some of their previous vigor, steady sales, especially overseas, of information-related equipment, such as micro floppydisk systems and workstations and components led to an overall category sales increase of 27.6%.

In entertainment, the Record business registered a 33.8% gain, buoyed by a continuing flow of hit albums and strong sales in all markets. Sales of CPE and GPEC, both of which were purchased in November 1989, contributed a total of ¥92.5 billion ($589 million) to consolidated net sales during the period following acquisition.

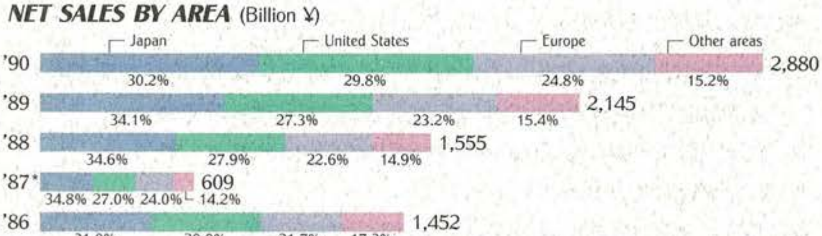
Sales grew significantly in all geographic regions—18.9% in Japan, 46.3% in the U.S., 43.7% in Europe, and 32.5% in other overseas markets. Sales in Japan accounted for 30.2% of consolidated net sales, with overseas sales accounting for 69.8%, an increase of 3.9 percentage points over the previous year.

Factors underlying the rise in overseas sales during the year under review include an 11% weakening in the yen against the dollar, to an average of ¥142 compared with ¥127 the previous year, and a decline in the yen relative to other currencies.

The increase in ***cost of sales*** during the term was held to 31.4%, despite a rise in consolidated net sales of 34.2%, and the ratio of cost of sales to net sales improved 1.5 percentage points, to 67.3%, from 68.8% the previous year. Behind this improvement were the success of cost-cutting measures in manufacturing, particularly in electronics, and a decrease in the percentage of fixed costs along with the increase in net sales.

NET SALES BY PRODUCT GROUP (Billion ¥)

NET SALES BY AREA (Billion ¥)



**Five-month fiscal period ended March 31, 1987*

In the cost of sales category, ***research and development expenditures*** increased 16.3% from the previous year's ¥142.1 billion to ¥165.2 billion ($1,052 million). However, R&D expenses were 5.7% of net sales, down from 6.6% a year ago, due to the substantial advance in net sales.

Additionally, the rise in ***selling, general and administrative expenses*** was held to 25.9%, and the ratio of these expenses to net sales declined to 24.7%, from the previous year's 26.4%, an improvement of 1.7 percentage points.

Operating income posted an 83.9% increase over the previous year, to ¥295.2 billion ($1,880 million), reflecting the large gain in net sales and reductions of the ratios of cost of sales and selling, general and administrative expenses to net sales. Consequently, the ratio of operating income to net sales climbed 2.8 percentage points, to 10.3%, from 7.5% a year ago, due to an increase in profits from the electronics divisions and notably from the Record business.

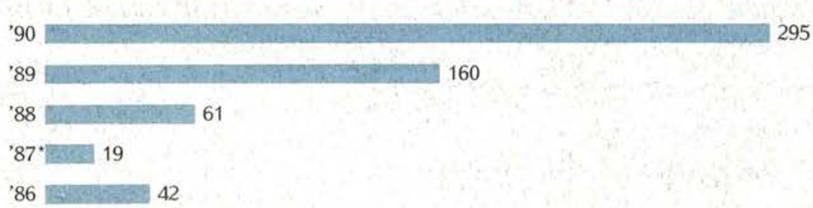
Other income grew 52.5% over the previous year, to ¥91.6 billion ($583 million). This advance was attributable to an increase in working funds and to an increase in interest income from a rise in interest rates.

Other expenses rose 189.7%, to ¥159.3 billion ($1,015 million). Major factors influencing this increase were interest payments on short-term loans used to finance the acquisition of CPE, a rise in interest payments due to such factors as higher short-term interest rates, and a foreign exchange loss. Interest payments were ¥70.9 billion ($451 million), up 117.8% over the previous year. Foreign exchange gains and losses arise primarily when there is a difference between the value of sales in foreign currencies converted to yen at prevailing exchange rates and the value at settlement of forward foreign exchange contracts used to hedge against exchange rate fluctuations. Since the yen depreciated against the dollar and other currencies during the year under review, the foreign exchange loss was equivalent to ¥39.7 billion ($253 million).

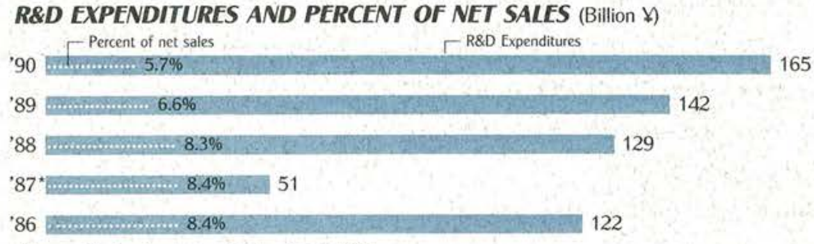
Income before income taxes registered a strong 37.4% gain, to ¥227.4 billion ($1,449 million), for the year under review. Income taxes increased 33.4%, to ¥127.0 billion ($809 million), and income taxes as a percentage of income before income taxes for the term fell from 57.5% to 55.8%, a 1.7 percentage point decrease. As a result, ***income from consolidated companies*** advanced 42.8%, to ¥100.5 billion ($640 million).

Net income, including equity in earnings of affiliated companies, totaled ¥102.8 billion ($655 million), advancing 41.9% over the previous year. The ratio of net income to net sales increased 0.2 percentage points, from 3.4% to 3.6%. ***Primary net income per Depositary Share*** (each Depositary Share represents one share of Common Stock) increased to ¥306.9 ($1.95), up from ¥241.7 for the previous year, and fully diluted ***net income per Depositary Share*** increased to ¥306.8 ($1.95), up from ¥240.8 for the previous year.

OPERATING INCOME (Billion ¥)



R&D EXPENDITURES AND PERCENT OF NET SALES (Billion ¥)



**Five-month fiscal period ended March 31, 1987*

■ Financial Position and Liquidity

At March 31, 1990, ***total assets*** of Sony and its consolidated subsidiaries were ¥4,370.1 billion ($27,835 million), up ¥2,005.3 billion ($12,773 million), and representing a substantial 84.8% increase from the figure at March 31, 1989. This gain was due primarily to overall expansion of the operations of the Sony group and the acquisition of CPE during the year under review. Other assets, centering on goodwill associated with the acquisitions, increased ¥690.5 billion ($4,398 million).

Stockholders' equity was up a substantial 56.8%, to ¥1,430.1 billion ($9,109 million), at March 31, 1990. This was ascribed to increases in common stock and additional paid-in capital stemming from the issuance of new Common Stock, the conversion of convertible bonds, and the exercise of warrants, coupled with a rise in net income. Reflecting the large increases in short- and long-term debt totaling ¥1,021.5 billion ($6,506 million) as funds for the acquisitions and investments and advances, the stockholders' equity ratio fell 5.9 percentage points, from 38.6% to 32.7%. ***Stockholders' equity per Depositary Share*** was ¥4,308.33 ($27.44), based on the number of shares outstanding at March 31, 1990.

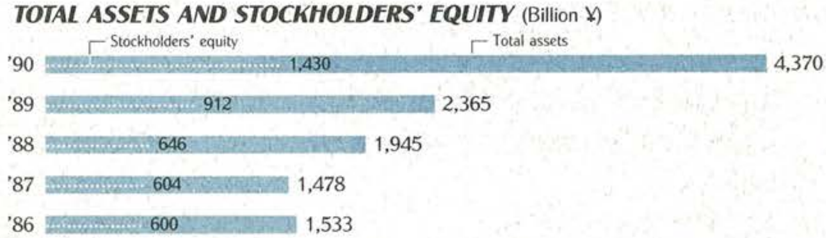
Among ***cash flows from investing activities***, a total of ¥550.7 billion ($3,508 million) was paid for the acquisitions, including the purchase of CPE.

Total expenditures, including the addition of fixed assets, those temporarily invested in time deposits and short-term marketable securities from raised funds, and payments for investments and advances, amounted to ¥1,231.0 billion ($7,841 million). Inflows amounted to ¥179.4 billion ($1,143 million) and included collections of investments and advances, proceeds from the sale of short-term marketable securities and from the sale of fixed assets. As a result, net cash used in investing activities amounted to ¥1,051.6 billion ($6,698 million).

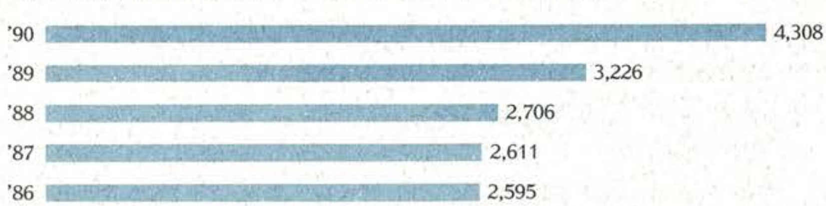
In ***cash flows from operating activities, depreciation and amortization*** increased to ¥164.8 billion ($1,049 million), up 31.0% over the previous year, reflecting recent vigorous capital investment. Included in this amount was the amortization of goodwill and intangible assets arising from the acquisitions of the CBS Records group and CPE. Net cash provided by operating activities was ¥215.9 billion ($1,375 million) after additions and subtractions to net income of those items that charge or credit to income not requiring funds, such as depreciation and amortization, and those items that arise as a result of operations, such as increases in notes and accounts receivable and inventories.

Among ***cash flows from financing activities***, proceeds of ¥1,028.7 billion ($6,552 million) were obtained, chiefly from the issuance of new Common Stock, bonds with warrants, and convertible bonds and from increases in bank loans. In July 1989, 30 million shares of Common Stock were issued

TOTAL ASSETS AND STOCKHOLDERS' EQUITY (Billion ¥)



STOCKHOLDERS' EQUITY PER DEPOSITARY SHARE (¥)



in a public offering in Japan. Net proceeds totaling ¥221.8 billion ($1,413 million) were mainly appropriated for capital investments. In February 1990, ¥100 billion ($637 million) in unsecured bonds with warrants and ¥300 billion ($1,911 million) in unsecured convertible bonds were issued in Japan. Net proceeds totaling ¥390.5 billion ($2,487 million) were appropriated to refinance the acquisitions of CPE and GPEC. It should be noted that buyers for the public offerings of Common Stock, unsecured bonds with warrants, and convertible bonds were not solicited in the United States, Canada, or among citizens of those countries.

Additionally, after taking account of an increase in short-term borrowings associated with acquisitions and the subtraction of outflows, net cash provided by financing activities amounted to ¥986.1 billion ($6,281 million).

As a result of the activities outlined above, the ***net increase in cash and cash equivalents***, including the effect of exchange rate changes, was ¥153.8 billion ($979 million), and ***cash and cash equivalents at the end of the year*** totaled ¥451.7 billion ($2,877 million).

Capital investments for the year ended March 31, 1990, were increased 50.2% from the previous year's ¥215.6 billion, to ¥323.8 billion ($2,062 million). The increased expenditures were primarily used for expanding production facilities to meet rising demand for semiconductors; image-based devices, such as color picture tubes; magnetic products; and audio and video equipment.

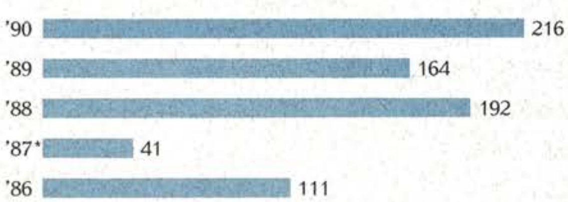
■ Future Outlook

The operating environment is expected to grow more unpredictable and warrant careful monitoring due to rising uncertainty regarding the world's economies and growing competition in the electronics industry. Amid these conditions, Sony will continue to develop attractive products, strengthen overseas operations, improve productivity, and lower costs. For the fiscal year ending March 31, 1991, we are confident we will be successful in raising revenues further, and, by covering the interest and amortization expenses incurred through the purchase of CPE with profits earned by our electronics divisions and Record business, we expect to be able to advance overall profits as well.

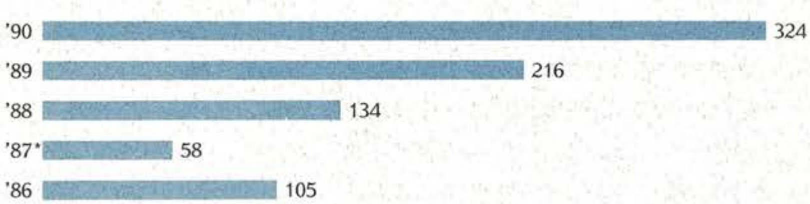
We intend to maintain a high level of capital investment and expect expenditures to exceed the ¥323.8 billion ($2,062 million) allocated during the year under review. Sony is stressing the further expansion of its overseas production facilities, evidenced by its appropriation of approximately 30% to capital investment overseas. We anticipate this ratio to rise in the fiscal year ending March 31, 1991.

In addition, as we believe R&D activities are vital to long-term growth in electronics, we will continue to fund these activities aggressively.

NET CASH PROVIDED BY OPERATING ACTIVITIES (Billion ¥)



CAPITAL INVESTMENTS (Billion ¥)



**Five-month fiscal period ended March 31, 1987*

QUARTERLY FINANCIAL AND STOCK INFORMATION

(Unaudited)

Year ended March 31

	Billions of yen except per share amounts								Millions of U.S. dollars except per share amounts
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		**4th Quarter**
	1989	**1990**	1989	**1990**	1989	**1990**	1989	**1990**	**1990**
Net sales	¥463.6	**¥571.8**	¥528.7	**¥656.7**	¥613.8	**¥870.6**	¥539.3	**¥780.8**	**$4,973.0**
Cost of sales	319.7	**378.8**	364.4	**453.5**	424.1	**587.4**	367.1	**518.3**	**3,301.3**
Selling, general and administrative expenses	122.8	**147.0**	132.8	**165.9**	147.7	**192.4**	162.4	**206.7**	**1,316.7**
Operating income	30.6	**60.0**	42.9	**54.2**	55.1	**106.0**	31.8	**74.9**	**477.4**
Interest income (expense)—net	(4.1)	**(2.4)**	(2.4)	**(1.2)**	(1.9)	**(10.4)**	(1.5)	**(12.7)**	**(80.8)**
Foreign exchange gain (loss)—net	3.9	**(4.7)**	(7.0)	**(16.5)**	5.8	**(6.8)**	2.2	**(11.6)**	**(73.8)**
Income before income taxes	35.9	**53.2**	32.1	**35.6**	63.0	**92.9**	34.5	**45.8**	**291.7**
Income taxes	20.3	**30.2**	19.5	**10.0**	34.7	**52.2**	20.7	**34.5**	**219.9**
Net income	16.1	**23.2**	13.1	**25.9**	28.9	**41.9**	14.4	**11.9**	**75.7**
Net income per Depositary Share:									
Primary	¥ 57.2	**¥ 74.6**	¥ 43.7	**¥ 76.6**	¥ 94.4	**¥121.7**	¥ 46.9	**¥ 33.8**	**$ 0.22**
Fully diluted	55.2	**74.6**	42.7	**76.6**	93.3	**121.7**	46.6	**33.8**	**0.22**
Depreciation and amortization	¥ 25.8	**¥ 32.1**	¥ 27.6	**¥ 36.9**	¥ 33.6	**¥ 46.1**	¥ 38.8	**¥ 49.7**	**$ 316.4**
Capital investments (additions to fixed assets)	44.9	**61.1**	53.3	**80.4**	45.2	**87.0**	72.3	**95.3**	**607.1**
R&D expenditures	33.0	**35.7**	35.6	**38.2**	34.9	**45.3**	38.6	**46.0**	**293.1**
Tokyo Stock Exchange price per share of Common Stock:									
High	¥5,700	**¥8,020**	¥7,260	**¥9,070**	¥7,290	**¥9,500**	¥7,570	**¥8,810**	
Low	5,010	**6,550**	5,090	**7,550**	5,660	**8,080**	6,610	**6,880**	
New York Stock Exchange price per American Depositary Share:									
High	$ 45 1/4	**$ 55 7/8**	$ 54 1/4	**$ 62 1/2**	$ 58 1/2	**$ 65 3/4**	$ 59 7/8	**$ 60 7/8**	
Low	38 1/4	**49 3/4**	37 3/4	**53 3/4**	45 1/8	**56 1/4**	50 1/4	**48**	

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥157=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 30, 1990, as described in Note 2 of Notes to Consolidated Financial Statements.

2. Primary 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. Fully diluted net income per Depositary Share further assumes that all other convertible bonds and debentures were converted into common stock.

3. On November 1, and November 7, 1989, Sony acquired Columbia Pictures Entertainment, Inc. and The Guber-Peters Entertainment Company. Sony's consolidated financial statements include the operating results of acquired companies for the period from the dates of acquisition.

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

	Millions of yen except per share amounts						Thousands of U.S. dollars except per share amounts
	Year ended October 31		Year ended March 31				Year ended March 31, 1990
	1985	1986 (Restated)	1987* (Restated)	1988 (Restated)	1989	**1990**	
FOR THE FISCAL PERIOD							
Net sales:							
Overseas	¥1,054,274	¥1,001,751	¥ 397,494	¥1,017,277	¥1,414,032	**¥2,010,378**	**$12,804,955**
Japan	366,511	450,339	211,931	537,942	731,297	**869,478**	**5,538,077**
Total	1,420,785	1,452,090	609,425	1,555,219	2,145,329	**2,879,856**	**18,343,032**
Operating income	133,684	42,144	19,477	60,664	160,499	**295,191**	**1,880,197**
Income before income taxes	141,911	84,128	25,626	71,836	165,516	**227,429**	**1,448,592**
Income taxes	78,023	48,802	16,105	41,465	95,176	**126,976**	**808,764**
Net income	73,021	41,244	13,254	37,236	72,469	**102,808**	**654,828**
Net income per Depositary Share:							
Primary	316.0	178.4	57.3	151.0	241.7	**306.9**	**1.95**
Fully diluted	292.5	166.6	54.2	145.7	240.8	**306.8**	**1.95**
Depreciation and amortization	72,025	86,029	37,261	92,511	125,790	**164,751**	**1,049,369**
Capital investments (additions to fixed assets)	130,416	105,207	58,150	134,049	215,613	**323,750**	**2,062,102**
R&D expenditures	110,636	122,383	51,182	128,707	142,077	**165,227**	**1,052,401**
AT FISCAL PERIOD-END							
Net working capital	¥ 318,610	¥ 359,405	¥ 347,935	¥ 140,353	¥ 348,476	**¥ 205,642**	**$ 1,309,822**
Stockholders' equity	599,163	600,059	603,816	646,076	911,816	**1,430,058**	**9,108,650**
Stockholders' equity per Depositary Share	2,592.12	2,595.13	2,611.25	2,705.86	3,226.49	**4,308.33**	**27.44**
Total assets	1,447,261	1,532,919	1,477,565	1,945,447	2,364,775	**4,370,085**	**27,834,936**
Average number of shares outstanding during the fiscal period (thousands of shares)	231,043	231,223	231,236	249,600	303,941	**337,682**	
Number of shares issued at fiscal period-end (thousands of shares)	231,148	231,225	231,236	238,769	282,603	**331,929**	

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥157=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 30, 1990, as described in Note 2 of Notes to Consolidated Financial Statements.

2. Primary 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. Fully diluted net income per Depositary Share further assumes that all other convertible bonds and debentures were converted into common stock.

3. Stockholders' equity per Depositary Share is based on the number of shares issued at fiscal period-end.

4. Commencing April 1, 1988, Sony adopted the policy of consolidating its previously unconsolidated subsidiaries to comply with Statement of Financial Accounting Standards No. 94. Financial data for the year ended October 31, 1986, for the five-month period ended March 31, 1987 and for the year ended March 31, 1988 have been restated to comply with this new accounting standard.

5. On January 5, 1988, Sony purchased CBS Inc.'s Records group and now holds 100% of the shares of CBS Records Inc., as well as the former joint venture CBS/Sony Group Inc. On November 1, and November 7, 1989, Sony acquired Columbia Pictures Entertainment, Inc. and The Guber-Peters Entertainment Company.
Sony's consolidated financial statements include the operating results of acquired companies for the period from the dates of acquisition.

* Five-month fiscal period ended March 31, 1987.

COMPOSITION OF NET SALES BY AREA AND PRODUCT GROUP

	Millions of yen						Thousands of U.S. dollars
	Year ended October 31		Year ended March 31				Year ended March 31, 1990
	1985	1986 (Restated)	1987* (Restated)	1988 (Restated)	1989	**1990**	
Sales by Area							
Japan	¥ 366,511 25.8%	¥ 450,339 31.0%	¥211,931 34.8%	¥ 537,942 34.6%	¥ 731,297 34.1%	**¥ 869,478** **30.2%**	**$ 5,538,077**
United States	477,559 33.6	435,214 30.0	164,523 27.0	434,473 27.9	586,278 27.3	**857,812** **29.8**	**5,463,771**
Europe	249,123 17.5	315,045 21.7	146,441 24.0	351,262 22.6	497,842 23.2	**715,422** **24.8**	**4,556,828**
Other areas	327,592 23.1	251,492 17.3	86,530 14.2	231,542 14.9	329,912 15.4	**437,144** **15.2**	**2,784,356**
Net sales	¥1,420,785	¥1,452,090	¥609,425	¥1,555,219	¥2,145,329	**¥2,879,856**	**$18,343,032**
Sales by Product Group							
Video equipment	¥ 515,531 36.3%	¥ 480,940 33.1%	¥188,712 30.9%	¥ 451,064 29.0%	¥ 573,493 26.7%	**¥ 743,709** **25.8%**	**$ 4,737,000**
Audio equipment	338,356 23.8	414,957 28.6	189,963 31.2	479,484 30.8	560,772 26.2	**722,211** **25.1**	**4,600,070**
Televisions	364,827 25.7	331,645 22.8	129,041 21.2	315,322 20.3	341,800 15.9	**446,436** **15.5**	**2,843,541**
Other products	202,071 14.2	224,548 15.5	101,709 16.7	270,529 17.4	329,076 15.3	**419,765** **14.6**	**2,673,663**
Records				38,820 2.5	340,188 15.9	**455,226** **15.8**	**2,899,529**
Movies						**92,509** **3.2**	**589,229**
Net sales	¥1,420,785	¥1,452,090	¥609,425	¥1,555,219	¥2,145,329	**¥2,879,856**	**$18,343,032**

CONSOLIDATED BALANCE SHEETS

ASSETS	Millions of yen March 31 1989	1990	Thousands of U.S. dollars (Note 2) March 31, 1990
Current assets:			
Cash and cash equivalents (Note 4)	¥ 297,889	**¥ 451,668**	**$ 2,876,866**
Time deposits (Note 9)	33,665	**182,533**	**1,162,631**
Marketable securities (Note 7)	91,115	**54,784**	**348,943**
Notes and accounts receivable, trade (Note 6)	432,692	**696,950**	**4,439,172**
Allowance for doubtful accounts and sales returns	(32,957)	**(46,560)**	**(296,561)**
Inventories (Note 5)	483,648	**692,966**	**4,413,796**
Income tax prepayments	51,408	**57,637**	**367,115**
Prepaid expenses and other current assets	76,338	**111,555**	**710,541**
Total current assets	1,433,798	**2,201,533**	**14,022,503**
Noncurrent inventories—film (Notes 5 and 14)	—	**168,788**	**1,075,083**
Investments and advances:			
Affiliated companies (Note 6)	16,015	**14,834**	**94,484**
Officers and employees	2,445	**2,315**	**14,745**
Security investments and other (Note 7)	94,975	**151,213**	**963,140**
	113,435	**168,362**	**1,072,369**
Property, plant and equipment (Notes 9 and 14):			
Land	86,964	**114,002**	**726,127**
Buildings	267,351	**415,835**	**2,648,631**
Machinery and equipment	726,564	**908,646**	**5,787,554**
Construction in progress	24,611	**90,693**	**577,663**
	1,105,490	**1,529,176**	**9,739,975**
Less—Accumulated depreciation	560,714	**661,048**	**4,210,497**
	544,776	**868,128**	**5,529,478**
Other assets (Notes 3 and 8):			
Intangibles	141,779	**168,748**	**1,074,828**
Goodwill	59,168	**629,401**	**4,008,923**
Other	71,819	**165,125**	**1,051,752**
	272,766	**963,274**	**6,135,503**
	¥2,364,775	**¥4,370,085**	**$27,834,936**

The accompanying notes are an integral part of these statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	Millions of yen, March 31, 1989	Millions of yen, March 31, 1990	Thousands of U.S. dollars (Note 2), March 31, 1990
Current liabilities:			
Short-term borrowings (Note 9)	¥ 224,637	¥ 757,017	$ 4,821,764
Current portion of long-term debt (Notes 9 and 14)	12,797	76,715	488,631
Notes and accounts payable, trade (Note 6)	468,784	580,932	3,700,204
Notes payable, construction	21,323	27,375	174,363
Dividends payable	6,461	8,770	55,860
Accrued income and other taxes	84,752	112,664	717,605
Other accounts payable and accrued liabilities	266,568	432,418	2,754,254
Total current liabilities	1,085,322	1,995,891	12,712,681
Long-term liabilities:			
Long-term debt (Notes 9 and 14)	220,790	645,969	4,114,452
Accrued pension and severance costs (Note 10)	61,319	70,949	451,904
Deferred income taxes	36,928	46,493	296,134
Other long-term liabilities	33,699	163,846	1,043,605
	352,736	927,257	5,906,095
Minority interest in consolidated subsidiary companies	14,901	16,879	107,510
Stockholders' equity (Note 12):			
Common stock, ¥50 par value—			
Authorized —920,000,000 shares			
Issued: 1989—282,602,923 shares	114,641		
1990—331,928,730 shares		278,038	1,770,943
Additional paid-in capital	232,050	419,417	2,671,446
Legal reserve	10,535	13,566	86,408
Retained earnings appropriated for special allowances	16,313	20,547	130,872
Retained earnings	600,184	674,962	4,299,121
Cumulative translation adjustment	(61,907)	23,528	149,860
	911,816	1,430,058	9,108,650
Commitments and contingent liabilities (Note 15)			
	¥2,364,775	¥4,370,085	$27,834,936

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

	Millions of yen			Thousands of U.S. dollars (Note 2)
	Year ended March 31			Year ended March 31,
	1988	1989	1990	1990
Sales and operating revenue:				
Net sales—				
Overseas	¥1,017,277	¥1,414,032	¥2,010,378	$12,804,955
Japan	537,942	731,297	869,478	5,538,077
	1,555,219	2,145,329	2,879,856	18,343,032
Operating revenue	32,742	56,143	65,386	416,471
	1,587,961	2,201,472	2,945,242	18,759,503
Costs and expenses:				
Cost of sales (Note 13)	1,147,014	1,475,352	1,938,016	12,344,051
Selling, general and administrative	380,283	565,621	712,035	4,535,255
	1,527,297	2,040,973	2,650,051	16,879,306
Operating income	60,664	160,499	295,191	1,880,197
Other income:				
Interest and dividends	15,448	22,609	44,190	281,465
Foreign exchange gain, net	13,850	4,818	—	—
Other	27,849	32,591	47,363	301,675
	57,147	60,018	91,553	583,140
Other expenses:				
Interest	27,195	32,550	70,883	451,484
Foreign exchange loss, net	—	—	39,724	253,019
Other	18,780	22,451	48,708	310,242
	45,975	55,001	159,315	1,014,745
Income before income taxes	71,836	165,516	227,429	1,448,592
Income taxes (Note 11):				
Current	37,120	91,129	128,017	815,395
Deferred	4,345	4,047	(1,041)	(6,631)
	41,465	95,176	126,976	808,764
Income from consolidated companies	30,371	70,340	100,453	639,828
Equity in earnings of affiliated companies (Note 6)	6,865	2,129	2,355	15,000
Net income	37,236	72,469	102,808	654,828
Retained earnings:				
Balance, beginning of year	523,471	547,271	600,184	3,822,828
Common stock issue costs, net of tax	—	(2,033)	(4,301)	(27,395)
Cash dividends	(10,555)	(12,408)	(16,464)	(104,866)
Transfer to legal reserve	(1,547)	(1,913)	(3,031)	(19,306)
Appropriation for special allowances, net of taxes	(1,334)	(3,202)	(4,234)	(26,968)
Balance, end of year	¥ 547,271	¥ 600,184	¥ 674,962	$ 4,299,121

	Yen			U.S. dollars (Note 2)
Net income per common share:				
Primary	¥ 151.0	¥ 241.7	¥ 306.9	$ 1.95
Fully diluted	145.7	240.8	306.8	1.95
Cash dividends per common share	44.6	44.6	50.0	0.32

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Millions of yen			Thousands of U.S. dollars (Note 2)
	Year ended March 31			Year ended March 31, 1990
	1988	1989	1990	1990
Cash flows from operating activities:				
Net income	¥ 37,236	¥ 72,469	¥ 102,808	$ 654,828
Adjustments to reconcile net income to net cash provided by operating activities—				
Depreciation and amortization	92,511	125,790	164,751	1,049,369
Equity in earnings of affiliated companies, less dividends	(3,417)	(1,582)	1,511	9,624
Exchange (gain) loss	(1,059)	1,869	8,778	55,911
Accrual for pension and severance costs, less payments	2,345	5,178	9,878	62,917
Loss on disposal of fixed assets	3,650	4,093	10,837	69,025
Deferred income taxes	4,345	4,047	(1,041)	(6,631)
Changes in assets and liabilities net of effects from acquisitions:				
Increase in notes and accounts receivable	(27,954)	(67,296)	(104,248)	(664,000)
Increase in inventories	(31,673)	(119,145)	(109,951)	(700,324)
Increase in other current assets	(12,273)	(16,508)	(20,505)	(130,605)
Increase in notes and accounts payable	64,547	84,565	108,604	691,745
Increase in accrued income and other taxes	12,616	33,012	18,755	119,459
Increase in other current liabilities	45,918	34,615	33,438	212,981
Other	5,343	2,940	(7,734)	(49,261)
Net cash provided by operating activities	192,135	164,047	215,881	1,375,038
Cash flows from investing activities:				
Payments for purchases of fixed assets	(135,504)	(182,324)	(325,979)	(2,076,299)
Proceeds from sales of fixed assets	10,725	7,999	9,485	60,414
Payments for investments and advances	(7,962)	(14,707)	(129,491)	(824,784)
Proceeds from sales of investment securities and collections of advances	5,090	4,319	83,961	534,783
Payments for purchases of marketable securities	(162,602)	(268,439)	(53,720)	(342,166)
Proceeds from sales of marketable securities	181,564	224,178	85,944	547,414
(Increase) decrease in time deposits	(11,437)	40,639	(143,109)	(911,522)
Payments for acquisitions in 1988 and 1990, net of cash acquired of ¥25,259 million and ¥11,404 million ($72,637 thousand), respectively	(221,676)	—	(550,721)	(3,507,777)
Other	7,814	(1,573)	(27,971)	(178,159)
Net cash used in investing activities	(333,988)	(189,908)	(1,051,601)	(6,698,096)
Cash flows from financing activities:				
Proceeds from issuance of long-term debt	86,631	109,881	427,888	2,725,401
Proceeds from issuance of common stock warrants	—	—	23,600	150,318
Proceeds from issuance of common stock, net of stock issue costs	—	120,819	237,025	1,509,714
Payments of long-term debt	(5,082)	(7,471)	(4,217)	(26,860)
Increase (decrease) in short-term borrowings	107,224	(95,728)	340,197	2,166,860
Dividends paid	(9,476)	(11,339)	(14,155)	(90,159)
Other	8,126	(6,881)	(24,224)	(154,293)
Net cash provided by financing activities	187,423	109,281	986,114	6,280,981
Effect of exchange rate changes on cash and cash equivalents	(2,556)	(405)	3,385	21,561
Net increase in cash and cash equivalents	43,014	83,015	153,779	979,484
Cash and cash equivalents at beginning of year	171,860	214,874	297,889	1,897,382
Cash and cash equivalents at end of year	¥214,874	¥297,889	¥ 451,668	$2,876,866

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of significant accounting policies

The parent company and its Japanese subsidiaries 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 timing 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 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, with minor exceptions, those of its majority-owned subsidiary companies. All significant intercompany transactions and accounts are eliminated. Investments in 20% to 50% owned companies are stated, with minor exceptions, 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 consolidated subsidiaries and affiliated companies accounted for on an equity basis is allocated to identifiable assets based on fair market value at the date of acquisition. The unassigned residual value, which is recognized as goodwill, is amortized on a straight-line basis principally over a 40-year period, with the exception of minor amounts which are charged to income in the year of acquisition.

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 generally recognized by the company when products are shipped to customers.

Motion picture revenue is recognized 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 licensing 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 security investments

Marketable equity securities included in marketable securities (current) are stated at the lower of cost or market in the aggregate as are those marketable equity securities included in security investments and other (noncurrent); other marketable securities (current), principally bank debentures, and other security 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.

Inventories

Inventories in electronics and record business 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. Liabilities for profit participation are accrued and also included in inventory in the proportion that revenue for a period relates to estimated ultimate revenues. 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 primarily on the declining balance method for the parent company and Japanese subsidiary companies 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.

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 significant 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.

The parent company and most subsidiaries in Japan have non-contributory funded pension plans with a trust bank and two insurance companies. The defined benefits under the plans cover 60% of the indemnities under the existing regulations to employees retiring involuntarily after 20 years or more of service and an additional amount applicable to retirees due to age limit which is based principally on length of service. The benefits are payable, at the option of the retiring employee, as a monthly pension or in a lump-sum amount.

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.

Prior to April 1, 1989, the recorded liability for employees' severance indemnities plus the retirement funds, excluding those funds covering the additional benefits, were sufficient to state the companies' maximum liability for employee service to the balance sheet date.

Effective April 1, 1989, the company adopted Statement of Financial Accounting Standards No. 87 (FAS 87), Employers' Accounting for Pensions. As of that date, the sum of combined plan assets and unfunded accrued pension and severance costs exceeded the projected benefit obligation by ¥8,231 million ($52,427 thousand) which is being amortized and recognized in income by reducing annual pension and severance costs, principally over a 16.5-year period for Japanese plans and an 11.0-to-26.0-year period for foreign plans. The effect of this change on net income for the fiscal year ended March 31, 1990 was insignificant.

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 financial statements as "Retained earnings appropriated for special allowances."

In December 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96 (FAS 96), Accounting for Income Taxes, which requires an asset and liability approach in the measurement of deferred taxes and restricts the recognition of deferred tax debits (assets). However, the effective date was deferred, in the case of the company, until the year ending March 31, 1993 by FAS 103 which amended FAS 96. If FAS 96 had been implemented as at March 31, 1990, deferred tax debits (assets) and retained earnings as at March 31, 1990 would probably decrease.

Net income per share

Primary net income per common 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. Fully diluted net income per common share further assumes that all other convertible bonds and debentures were converted into common stock. The dilutive effect of warrants is determined using the treasury stock method.

Both primary and fully diluted net income per common share are appropriately adjusted for the free share distribution of common stock.

Distributions 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. The free share distribution is made in accordance with the provisions of the Commercial Code of Japan, and such action is approved by the Board of Directors. In Japan, a gratis distribution as described above is clearly distinguished from a "stock dividend" paid out of profits which, under the Commercial Code, must be approved by the stockholders.

Common stock issue costs

Common stock issue costs are directly charged to retained earnings, net of tax, in the accompanying 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. On the books, such issue costs are charged to expense.

Reclassifications

Certain accounts in the balance sheet as of March 31, 1989 have been reclassified to conform to the 1990 presentation.

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 ¥157=U.S.$1, the approximate current rate at March 30, 1990, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying financial statements.

3. Acquisitions

On January 5, 1988, the company acquired from CBS Inc. all of the outstanding common stock of CBS Records Inc. and its affiliates, which are operating primarily in the record business, for approximately U.S.$2 billion in cash. The purchase agreement provides for an additional payment in the form of a dividend to CBS Inc. from the acquired company based on its net worth at the acquisition date. The amount of the additional payment is still subject to the determination of net worth.

On June 22, 1989, the company acquired all assets and liabilities of Trans Com Systems Division of Sundstrand Corporation (Trans Com) for approximately U.S.$60 million. Trans Com is engaged in designing, manufacturing and installing inflight AV entertainment systems in commercial aircraft worldwide.

On September 19, 1989, the company acquired all of the outstanding shares of common stock of Materials Research Corporation (MRC) and its affiliates for approximately U.S.$58 million. MRC is a manufacturer and supplier of sputtering and etching equipment, high-purity metals, and ceramics.

In November 1989, the company acquired all of the outstanding shares of common stock of Columbia Pictures Entertainment, Inc. (CPE) and The Guber-Peters Entertainment Company (GPEC), which are operating primarily in the film business, for approximately U.S.$3.4 billion and U.S.$0.2 billion, respectively.

All of the acquisitions were accounted for as purchases and the company's consolidated financial statements include operating results of the acquired companies for the periods from the dates of acquisition. The excess of the purchase price over the net assets acquired has been allocated to identifiable assets such as inventories, land, property, plant and equipment and intangible assets (primarily artist contracts and music catalogues), based upon the estimated fair value of such assets. The excess of the acquisition costs over the amounts preliminarily assigned to identifiable assets less liabilities assumed is recognized as goodwill.

Property, plant and equipment and various intangible assets, after the above allocations, are depreciated or amortized based on estimated useful lives. In the case of artist contracts and music catalogues, the amounts are amortized on a straight-line basis principally over 16 years and 21 years, respectively. Goodwill is being amortized on a straight-line basis principally over a 40-year period.

In conjunction with the acquisition of GPEC, Warner Bros. Inc. (Warner) raised a dispute regarding Guber-Peters' contractual commitment to Warner. A settlement was made among Warner, Sony USA Inc. and GPEC on November 16, 1989. By this settlement, all litigation relating to Guber's and Peters' acceptance of Sony's offer of employment has been dismissed. The settlement includes a number of joint business arrangements. Among other arrangements, CPE transferred to Warner its 35% interest in the Burbank Studio, and CPE acquired the Lorimar Studio in Culver City, California from Warner. In addition, Warner will acquire a 50% interest in Columbia House, a division of CBS Records Inc. and a direct marketer of records, tapes and videocassettes in the United States.

The following unaudited consolidated pro forma information shows results of the company's consolidated operations for the years ended March 31, 1989 and 1990 as though the purchases of the acquired companies had been made as of the beginning of each year presented.

	Yen in millions		Dollars in thousands
	Year ended March 31		**Year ended March 31,**
	1989	**1990**	**1990**
Net sales	¥2,375,813	**¥3,078,643**	**$19,609,191**
Net income	42,029	**89,547**	**570,363**
	Yen		U.S. dollars
Net income per common share—			
Primary	¥141.6	**¥267.6**	**$1.70**
Fully diluted	141.6	**267.5**	**1.70**

The pro forma results of operations are not necessarily indicative of the actual results of operations that would have occurred had the purchase been consummated at the beginning of the respective years, or of results which may occur in the future.

4. Cash flow information

Cash payments for income taxes were ¥26,576 million, ¥46,091 million and ¥107,369 million ($683,879 thousand) for the years ended March 31, 1988, 1989 and 1990, respectively; in these respective periods, interest payments were ¥26,511 million, ¥32,192 million and ¥73,629 million ($468,975 thousand).

Capital lease obligations of ¥1,177 million, ¥1,315 million and ¥2,977 million ($18,962 thousand) were incurred during the years ended March 31, 1988, 1989 and 1990, respectively.

Conversions of convertible debt into common stock and additional paid-in capital were ¥29,639 million, ¥80,349 million and ¥85,838 million ($546,739 thousand) for the years ended March 31, 1988, 1989 and 1990, respectively.

In connection with the acquisitions consummated in the years ended March 31, 1988 and 1990, the company assumed liabilities of ¥90,975 million and ¥435,041 million ($2,770,962 thousand), respectively.

5. Inventories

Inventories at March 31, 1989 and 1990 comprise the following:

	Yen in millions		Dollars in thousands
	March 31		March 31,
	1989	**1990**	**1990**
Current:			
Finished products	¥317,902	**¥442,543**	**$2,818,745**
Work in process	87,851	**110,192**	**701,860**
Raw materials, purchased components and supplies	77,895	**93,909**	**598,146**
Film—			
Theatrical—released	—	**34,661**	**220,771**
Television—released	—	**11,661**	**74,274**
	¥483,648	**¥692,966**	**$4,413,796**
Noncurrent:			
Film—			
Theatrical—released	¥ —	**¥ 69,665**	**$ 443,726**
—in process	—	**23,508**	**149,732**
Television—released	—	**46,119**	**293,752**
—in process	—	**29,496**	**187,873**
	¥ —	**¥168,788**	**$1,075,083**

6. Investments in and transactions with affiliated companies

The following summarized financial information, before intercompany eliminations, is for subsidiaries which were accounted for on an equity basis prior to April 1, 1988 and which have been consolidated in accordance with FAS 94 since that date.

	Yen in millions		Dollars in thousands
	March 31		March 31, 1990
	1989	1990	
Current assets	¥150,262	**¥236,672**	**$1,507,465**
Property, plant and equipment	33,800	**44,275**	**282,006**
Other assets	53,758	**72,647**	**462,720**
Total assets	¥237,820	**¥353,594**	**$2,252,191**
Current liabilities	¥138,688	**¥194,236**	**$1,237,172**
Long-term liabilities	48,719	**80,040**	**509,809**
Stockholders' equity	50,413	**79,318**	**505,210**
Total liabilities and stockholders' equity	¥237,820	**¥353,594**	**$2,252,191**
Number of companies at end of year	21	**21**	

	Yen in millions			Dollars in thousands
	Year ended March 31			Year ended March 31, 1990
	1988	1989	1990	
Net sales	¥319,140	¥438,643	**¥625,248**	**$3,982,471**
Gross profit	40,018	49,699	**67,607**	**430,618**
Net income	2,982	7,980	**16,106**	**102,586**

Summarized financial information for affiliated companies accounted for by the equity method is as shown below:

	Yen in millions		Dollars in thousands
	March 31		March 31, 1990
	1989	1990	
Current assets	¥43,837	**¥48,248**	**$307,312**
Property, plant and equipment	8,026	**9,395**	**59,841**
Other assets	2,162	**2,563**	**16,325**
Total assets	¥54,025	**¥60,206**	**$383,478**
Current liabilities	¥17,405	**¥17,346**	**$110,484**
Long-term liabilities	857	**980**	**6,242**
Stockholders' equity	35,763	**41,880**	**266,752**
Total liabilities and stockholders' equity	¥54,025	**¥60,206**	**$383,478**
Number of companies at end of year	4	**3**	

	Yen in millions			Dollars in thousands
	Year ended March 31			Year ended March 31, 1990
	1988	1989	1990	
Net sales	¥160,688	¥91,033	**¥115,064**	**$732,892**
Gross profit	53,534	27,473	**32,835**	**209,140**
Net income	11,748	5,604	**7,019**	**44,707**

Account balances and transactions with affiliated companies which are accounted for by the equity method are presented below:

	Yen in millions		Dollars in thousands
	March 31		March 31,
	1989	**1990**	**1990**
Accounts receivable, trade	¥6,322	**¥3,931**	**$25,038**
Accounts payable, trade	315	**323**	**2,057**

	Yen in millions			Dollars in thousands
	Year ended March 31			Year ended March 31,
	1988	1989	**1990**	**1990**
Sales	¥51,191	¥44,089	**¥54,790**	**$348,981**
Purchases	6,391	3,658	**3,954**	**25,185**

7. Marketable securities

The cost and market value of marketable equity securities included in marketable securities (current) and security investments and other (noncurrent) at March 31, 1989 and 1990 comprise the following:

	Yen in millions		Dollars in thousands
	March 31		March 31,
	1989	**1990**	**1990**
Current:			
Cost	¥ 9,695	**¥ 8,070**	**$ 51,401**
Market	11,067	**7,780**	**49,554**
Noncurrent:			
Cost	¥ 34,957	**¥ 44,702**	**$ 284,726**
Market	183,749	**181,396**	**1,155,388**

At March 31, 1990, 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	¥ 1,252	¥1,542	$ 7,975	$ 9,822
Noncurrent	139,988	3,294	891,643	20,981

Net realized gains on the disposal of marketable equity securities for the years ended March 31, 1988, 1989 and 1990 were ¥1,750 million, ¥3,051 million and ¥8,375 million ($53,344 thousand), respectively.

The cost of marketable securities other than equity securities at March 31, 1989 and 1990 approximated market.

8. Accumulated amortization of goodwill and intangibles

Accumulated amortization of goodwill and intangibles amounted to ¥24,239 million and ¥47,454 million ($302,255 thousand) at March 31, 1989 and 1990, respectively.

9. Short-term borrowings and long-term debt

Short-term borrowings at March 31, 1990 comprise the following:

	Yen in millions	Dollars in thousands
Loans, principally from banks, with interest ranging from 5.75% to 18.55% per annum	¥169,077	$1,076,923
Commercial paper with interest ranging from 7.90% to 10.13% per annum	587,940	3,744,841
	¥757,017	$4,821,764

Long-term debt at March 31, 1990 comprises the following:

	Yen in millions	Dollars in thousands
Unsecured loans, representing obligations principally to banks, due 1990 to 2004 with interest ranging from 4.0% to 16.0% per annum	¥105,254	$ 670,408
Unsecured 6.0% convertible debentures of U.S.$1,850 thousand due 1997, convertible currently at ¥3,520.2 ($13.73 calculated at ¥256.30=$1) for one common share, redeemable before due date	292	1,860
Unsecured 2.0% convertible bonds due 2000, convertible currently at ¥4,575.9 ($29.15) for one common share, redeemable before due date	2,671	17,013
Unsecured 1.5% convertible bonds due 2002, convertible currently at ¥4,826.7 ($30.74) for one common share, redeemable before due date	13,862	88,293
Unsecured 1.4% convertible bonds due 2003, convertible currently at ¥5,957 ($37.94) for one common share, redeemable before due date	58,208	370,751
Unsecured 1.4% convertible bonds due 2005, convertible currently at ¥8,790 ($55.99) for one common share, redeemable before due date	299,279	1,906,235
Unsecured 7 3/4% bonds of U.S.$100,000 thousand due 1990 with detachable warrants, net of unamortized discount	15,800	100,637
Unsecured 0.3% bonds of ¥100 billion due 1994 with detachable warrants, net of unamortized discount	77,097	491,064
Unsecured 8 1/4% bonds of U.S.$100,000 thousand due 1993	15,902	101,287
Unsecured 9 7/8% senior subordinated notes of U.S.$325 million of a consolidated subsidiary, due 1998	53,431	340,325
14 1/2% senior subordinated debentures of U.S.$28,750 thousand of a consolidated subsidiary, due 2000, redeemable beginning June 1, 1990	4,872	31,032
10 5/8% senior subordinated debentures of U.S.$250,000 thousand of a consolidated subsidiary, due 2018, redeemable before due date	42,943	273,522
Unsecured 8.90% notes of ECU28,000 thousand of a consolidated subsidiary, due 1992, redeemable before due date	4,678	29,796
Guaranteed 5.0% bonds of a consolidated subsidiary, due 1996, redeemable before due date	2,000	12,739
Guaranteed 5.3% bonds of a consolidated subsidiary, due 1996, redeemable before due date	2,000	12,739
Long-term capital lease obligations, 6.2% to 24.4%, due 1990 to 2034	20,564	130,981
Guarantee deposits received	3,831	24,401
	722,684	4,603,083
Less-Portion due within one year	76,715	488,631
	¥645,969	$4,114,452

The 7 3/4% bonds of U.S.$100,000 thousand, with detachable warrants to purchase common stock of the company, were issued in 1985. One warrant is attached to each $5,000 bond and entitles the holders to subscribe ¥1,278,500 ($8,143) for shares of common stock of the company at ¥4,467 ($28.45) per share. At March 31, 1990, 1,605 warrants issued in 1985 were outstanding and will expire on April 26, 1990. On February 14, 1990, the company issued the 0.3% bonds of ¥100 billion, with detachable warrants. One warrant is attached to each ¥1,000,000 bond and entitles the holders to subscribe ¥1,000,000 ($6,369) for shares of common stock of the company at ¥8,437 ($53.74) per share (subject to adjustment in certain circumstances). At March 31, 1990, 100,000 warrants issued in 1990 were outstanding and will expire on February 10, 1994.

The estimated fair values of the warrants at the time of issuances were credited to additional paid-in capital with a corresponding charge to bond discounts. These discounts, which are netted against the face amount of the bond, are being amortized over the lives of the bonds. The effective annual interest rates with respect to the 7 3/4% bonds due 1990 and the 0.3% bonds due 1994 are approximately 11.35% and 6.2%, respectively, after giving effect to the amount assigned to the warrants.

The agreements for the 1.4% convertible bonds due 2005 and the 0.3% bonds due 1994 place certain restrictions on the creation of liens and call for the maintenance of a defined profit on a consolidation basis.

The 14 ½% senior subordinated debentures of $28,750 thousand and the 10 ⅝% senior subordinated debentures of $250,000 thousand are scheduled for redemption on June 1, 1990.

Land and buildings with a book value of ¥1,804 million ($11,490 thousand) and ¥858 million ($5,465 thousand), respectively, are mortgaged as security for the guaranteed bonds of 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
1991	¥ 76,715	$488,631
1992	11,358	72,344
1993	43,350	276,115
1994	101,633	647,344
1995	21,437	136,541

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.

Although the maintenance of official compensating balances in respect of bank loans and other credit arrangements is contrary to public policy in Japan, it is quite common for a company to maintain time deposits with banks with which it has various credit arrangements. The company had time deposits of ¥2,210 million ($14,076 thousand) with such banks at March 31, 1990.

10. Pension and severance plans

The charges to income for pension and severance plans were ¥9,935 million, ¥14,791 million and ¥16,754 million ($106,713 thousand) for the years ended March 31, 1988, 1989 and 1990, respectively.

As discussed in Note 1 to the consolidated financial statements, the company adopted FAS 87 effective April 1, 1989. Accordingly, the charges for the year ended March 31, 1990 were determined under the provisions of FAS 87.

Net pension and severance costs under FAS 87 for the year ended March 31, 1990 and the related pension plans' funded status and rate assumptions at March 31, 1990 are shown below:

	Japanese plans		Foreign plans	
	Yen in millions	Dollars in thousands	Yen in millions	Dollars in thousands
Net pension and severance cost (credit):				
Service cost—benefits earned during the year	¥ 11,316	$ 72,076	¥ 4,728	$ 30,115
Interest cost on projected benefit obligation	5,919	37,701	2,292	14,599
Actual return on plan assets	(5,948)	(37,885)	(2,156)	(13,733)
Net amortization and deferral	591	3,764	12	76
Net pension and severance cost for the year	¥ 11,878	$ 75,656	¥ 4,876	$ 31,057
Pension plans' funded status:				
Actuarial present value of obligations—				
Vested benefit	¥ 69,235	$440,987	¥19,947	$127,051
Nonvested benefit	21,492	136,892	2,535	16,146
Accumulated benefit obligation	90,727	577,879	22,482	143,197
Additional benefits related to projected salary increase	40,935	260,732	14,511	92,427
Projected benefit obligation	131,662	838,611	36,993	235,624
Plan assets at fair value	78,064	497,223	26,250	167,197
Excess of projected benefit obligation over plan assets	53,598	341,388	10,743	68,427
Unrecognized net gain (loss)	941	5,994	(466)	(2,968)
Unrecognized net transition asset	5,870	37,389	1,756	11,184
Net pension liability recognized in the balance sheet	¥ 60,409	$384,771	¥12,033	$ 76,643

Assumptions in determination of net periodic pension costs:

	Japanese plans	Foreign plans
Discount rate	5.5%	6.5— 9.5%
Long-term rate of salary increase	5.0%	4.0— 8.5%
Long-term rate of return on funded assets	7.0%	7.5—12.0%

As of March 31, 1990, approximately 30% of the plan assets for Japanese plans and approximately 40% of those for foreign plans were invested in equity securities. The remainder was mainly invested in fixed income securities.

11. Income taxes

The company is subject to a number of different income taxes which, in the aggregate, indicate an effective statutory rate in Japan of approximately 56% for the years ended March 31, 1988 and 1989 and 54% for the year ended March 31, 1990. The ordinary relationship between income tax expense and pretax accounting income is distorted by a number of items including various tax credits, certain expenses not allowable for income tax purposes, non-deductibility of losses of subsidiaries, different tax rates applicable to foreign subsidiaries, reduced tax rates on earnings appropriated for dividends and dividend income which is not taxable.

It has become apparent that the undistributed earnings of certain foreign subsidiaries on which income taxes have been accrued will not be remitted. As a result, the company reversed accrued taxes of ¥8,915 million ($56,783 thousand) as a credit to income taxes for the year ended March 31, 1990. At March 31, 1990, the undistributed earnings of foreign subsidiaries for which income taxes have not been provided amounted to ¥74,808 million ($476,484 thousand).

During the year ended March 31, 1990, deferred tax debits of ¥9,860 million ($62,803 thousand) recognized at certain foreign subsidiaries were written off as the future realization became doubtful.

Net operating loss carryforwards of consolidated subsidiaries at March 31, 1990 amounted to approximately ¥36,852 million ($234,726 thousand) and are available as an offset against future earnings 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		Dollars in thousands	
	Number of shares	Common stock	Additional paid-in capital	Common stock	Additional paid-in capital
Balance at March 31, 1987	231,236,181	¥ 11,975	¥ 99,692	$ 76,274	$ 634,981
Conversion of convertible debt	7,532,586	11,690	17,949	74,458	114,325
Change in interest in consolidated subsidiary	—	—	2,183	—	13,905
Balance at March 31, 1988	238,768,767	23,665	119,824	150,732	763,211
Public offering of common stock	20,000,000	54,540	54,520	347,389	347,261
Exercise of stock purchase warrants	3,086,210	6,898	6,895	43,936	43,917
Conversion of convertible debt	20,747,946	29,538	50,811	188,140	323,637
Balance at March 31, 1989	282,602,923	114,641	232,050	730,197	1,478,026
Public offering of common stock	30,000,000	115,800	115,800	737,580	737,580
Exercise of stock purchase warrants	2,176,272	4,864	4,862	30,981	30,968
Conversion of convertible debt	17,149,535	42,733	43,105	272,185	274,554
Common stock warrants	—	—	23,600	—	150,318
Balance at March 31, 1990	331,928,730	¥278,038	¥419,417	$1,770,943	$2,671,446

The company made public offerings of 20,000,000 and 30,000,000 shares of common stock on April 21, 1988 and July 20, 1989, respectively, outside the United States of America and Canada, at respective prices of ¥5,453 ($34.73) and ¥7,720 ($49.17) per share. In each case, the total proceeds were credited to the common stock account and additional paid-in capital.

During the year ended March 31, 1988, a consolidated subsidiary issued shares to third parties by a public offering at amounts per share in excess of the company's average per share carrying value. The increase, net of deferred tax, in the stockholders' equity of the subsidiary applicable to the company was credited to additional paid-in capital.

Conversions of convertible debt issued in 1983 and thereafter into common stock are accounted for in accordance with the provisions of the Japanese Commercial Code by crediting one-half of the conversion proceeds to the common stock account and the other half to the additional paid-in capital account. For conversions of convertible bonds issued prior to 1983, the par value of the stock issued was credited to the common stock account and the remainder of conversion proceeds was credited to additional paid-in capital.

The Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends 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, 1990, which have been incorporated in the accompanying financial statements, will be proposed for approval at the general stockholders' meeting to be held in June 1990 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 for the years ended March 31, 1988, 1989 and 1990 is presented below:

	Yen in millions			Dollars in thousands
	Year ended March 31			**Year ended March 31,**
	1988	1989	**1990**	**1990**
Balance, beginning of year	(¥50,174)	(¥66,417)	**(¥61,907)**	**($394,312)**
Aggregate translation adjustment for the year	(17,125)	3,907	**92,410**	**588,599**
Income taxes for the year allocated to translation adjustment	882	603	**(6,975)**	**(44,427)**
Balance, end of year	(¥66,417)	(¥61,907)	**¥23,528**	**$149,860**

13. Research and development expenses

Research and development expenses charged to cost of sales for the years ended March 31, 1988, 1989 and 1990 were ¥128,707 million, ¥142,077 million and ¥165,227 million ($1,052,401 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 at March 31, 1989 and 1990 is as follows:

	Yen in millions		Dollars in thousands
	March 31		**March 31,**
Class of property	1989	**1990**	**1990**
Noncurrent inventories—film	¥ —	**¥ 9,758**	**$ 62,153**
Land	996	**748**	**4,764**
Buildings	4,423	**9,181**	**58,478**
Machinery and equipment	3,212	**3,199**	**20,376**
Accumulated amortization	(1,934)	**(3,205)**	**(20,414)**
	6,697	**9,923**	**63,204**
	¥6,697	**¥19,681**	**$125,357**

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of March 31, 1990:

Year ending March 31	Yen in millions	Dollars in thousands
1991	¥ 4,008	$ 25,529
1992	3,741	23,828
1993	2,768	17,630
1994	2,691	17,140
1995	2,512	16,000
Later years	8,648	55,083
Total minimum lease payments	24,368	155,210
Less—Amount representing interest	3,804	24,229
Present value of net minimum lease payments	20,564	130,981
Less—Current obligations	3,640	23,185
Long-term capital lease obligations	¥16,924	$107,796

Rental expenses under operating leases for the years ended March 31, 1988, 1989 and 1990 were ¥22,246 million, ¥28,708 million and ¥61,812 million ($393,707 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, 1990 are as follows:

Year ending March 31	Yen in millions	Dollars in thousands
1991	¥ 25,966	$ 165,388
1992	22,405	142,707
1993	18,929	120,567
1994	14,530	92,548
1995	13,315	84,809
Later years	92,597	589,790
Total minimum future rentals	¥187,742	$1,195,809

15. Commitments and contingent liabilities

Commitments outstanding at March 31, 1990 for the purchase of property, plant and equipment and other assets approximated ¥103,074 million ($656,522 thousand).

Contingent liabilities at March 31, 1990 for notes discounted and guarantees given in the ordinary course of business amounted to approximately ¥70,811 million ($451,025 thousand), including ¥802 million ($5,108 thousand) for loans guaranteed on behalf of affiliated companies.

Certain subsidiaries in the record and music industry entered into long-term contracts with recording artists and companies for the production and/or distribution of records, tapes, compact discs and videos. These contracts cover various periods mainly through March 31, 1993. As of March 31, 1990, these subsidiaries were committed to make payments under such long-term contracts of ¥38,561 million ($245,611 thousand).

At March 31, 1990, the parent company and its subsidiaries and affiliates had no material litigation or claims outstanding, pending or threatened against them.

REPORT OF INDEPENDENT ACCOUNTANTS

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Price Waterhouse

May 21, 1990

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

We have audited the accompanying consolidated balance sheets of Sony Corporation and its consolidated subsidiaries as of March 31, 1989 and 1990, and the related consolidated statements of income and retained earnings and of cash flows for each of the three years in the period ended March 31, 1990, expressed in yen. 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 in accordance with generally accepted auditing standards. Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The company has not presented segment information for each of the three years in the period ended March 31, 1990. In our opinion, the presentation of segment information concerning operations in different industries, and foreign operations and export sales is required by accounting principles generally accepted in the United States of America for a complete presentation of the consolidated financial statements.

In our opinion, except for the omission of segment information as discussed in the third paragraph of this report, the consolidated financial statements audited by us present fairly, in all material respects, the financial position of Sony Corporation and its consolidated subsidiaries at March 31, 1989 and 1990, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1990, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the company changed its method of accounting for pension costs in the year ended March 31, 1990 in accordance with Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions.

Price Waterhouse

PRINCIPAL SUBSIDIARIES AND AFFILIATED COMPANIES

OVERSEAS

NORTH AMERICA

■ UNITED STATES

Sony USA Inc.
Financial, tax, and administrative services to its subsidiaries

Sony Corporation of America
Manufacture and sale of Sony products in the United States

Digital Audio Disc Corporation
Manufacture and sale of compact discs and laserdiscs

CBS Records Inc.
Record operation, including production, manufacture, and sale of records, tapes, compact discs, and video software

Columbia Pictures Entertainment, Inc.
Production, worldwide distribution, and exploitation of feature-length motion pictures and television programs; the theatrical exhibition of motion pictures

Materials Research Corporation
Manufacture and sale of sputtering and etching equipment, high-purity metal materials, and ceramic substrates

Sony Trans Com Inc.
Manufacture and sale of airborne audio and visual entertainment systems; distribution service of audio and visual programs

■ CANADA

Sony of Canada Ltd.
Sale of Sony products in Canada

CENTRAL AND SOUTH AMERICA

■ PANAMA

Sony Corporation of Panama S.A.
Sale of Sony products in Central and South America

■ BRAZIL

Sony Comercio e Industria Ltda.
Manufacture of Sony products in Brazil

EUROPE

■ WEST GERMANY

Sony Europa G.m.b.H.
Coordination of Sony operations in Europe

Sony Deutschland G.m.b.H.
Sale of Sony products in West Germany

Sony-Wega Produktions G.m.b.H.
Manufacture and sale of Sony products

■ UNITED KINGDOM

Sony (U.K.) Limited
Manufacture and sale of Sony products in the United Kingdom

Sony Broadcast and Communications Limited
Sales headquarters of broadcast- and professional-use video and audio equipment in Europe, Africa, and the Middle East

■ FRANCE

Sony France S.A.
Manufacture and sale of Sony products in France

■ SWITZERLAND

Sony Overseas S.A.
Sale of Sony products, foreign exchange, and financial operations in Europe

Sony (Schweiz) A.G.
Sale of Sony products in Switzerland

■ THE NETHERLANDS

Sony Logistics Europe B.V.
Logistics in Europe (transportation, cargo work, and warehousing)

Sony Euro Finance B.V.
Issue of Euro-commercial paper

Sony Communication Products B.V.
Distribution of business- and professional-use products in Europe, Africa, and the Middle East

Sony Nederland B.V.
Sale of Sony products in the Netherlands

■ BELGIUM

Sony Service Centre (Europe) N.V.
Repair and service of Sony products in Europe

Sony Belgium N.V.
Sale of Sony products in Belgium

■ DENMARK

Sony Scandinavia A/S
Sale of Sony products in Scandinavia

■ AUSTRIA

Sony Ges.m.b.H.
Sale of Sony products in Austria

DADC Austria Ges.m.b.H.
Manufacture and sale of compact discs

■ ITALY

Sony Italia S.p.A.
Manufacture and sale of Sony products in Italy

■ SPAIN

Sony España, S.A.
Manufacture and sale of Sony products in Spain

THE MIDDLE EAST

■ SAUDI ARABIA

Sony Saudi Arabian Company Ltd.
Manufacture and sale of Sony Language Laboratory systems in Saudi Arabia

ASIA

■ HONG KONG

Sony Corporation of Hong Kong Limited
Sale of Sony products in Hong Kong and Southeast Asia

■ SINGAPORE

Sony International (Singapore) Pte. Ltd.
Procurement, repair, and service in Asia and Oceania; offshore trade

Sony Singapore Pte. Ltd.
Sale of Sony products in Singapore

Sony Precision Engineering Center (Singapore) Pte. Ltd.
Production technology support to other Sony manufacturing facilities in the Asian NIES; manufacture and sale of precision parts and components

Sony Logistics (Singapore) Pte. Ltd.
Logistics in Southeast Asia (transportation, cargo work, and warehousing)

■ MALAYSIA

Sony TV Industries (M) Sdn. Bhd.
Manufacture of color television sets, deflection yokes, and television tuners

Sony Electronics (M) Sdn. Bhd.
Manufacture of audio products

■ THAILAND

Sony Magnetic Products (Thailand) Co., Ltd.
Manufacture of videotapes and audiotapes

■ KOREA

Korea Toyo Radio Co., Ltd.
Manufacture and sale of audio products and precision components

■ TAIWAN

Sony Video Taiwan Co., Ltd.
Manufacture of VTRs

OCEANIA

■ AUSTRALIA

Sony (Australia) Pty. Limited
Sale of Sony products in Australia, New Zealand, and the South Pacific Islands

JAPAN

Sony Kisarazu Corporation
Manufacture of VTRs and CD players

Sony Kohda Corporation
Manufacture of VTRs and laserdisc players

Sony Minokamo Corporation
Manufacture of 8mm video camcorders and high-density circuit boards

Sony Broadcast Products Corporation
Manufacture of broadcast- and professional-use audio products, VTRs, cameras, and optical systems

Iwate Toyo Corporation
Manufacture of car stereos and telephones

Sony Itakura Corporation
Manufacture of audio products

Taron Corporation
Manufacture of audio and video products

Sony Tsukuba Corporation
Manufacture of audio products

Tohoku Toyo Corporation
Manufacture of audio and mobile electronics products

Sony Bonson Corporation
Manufacture of headphone stereos and CD players

Sony Ichinomiya Corporation
Manufacture of color TVs and VTRs

Sony Denshi Corporation
Manufacture of professional-use color display monitors, color TVs, and components for televisions

Sony Inazawa Corporation
Manufacture of color TV tubes

Sony Mizunami Corporation
Manufacture of color TV tubes

Motomiya Denshi Corporation
Manufacture of electron guns, deflection yokes, and monochrome flat CRTs

Sony Magnetic Products, Inc.
Manufacture of magnetic and optical recording media and electronic components

Sony Oita Corporation
Manufacture of semiconductors

Sony Kokubu Semiconductor Corporation
Manufacture of semiconductors

Sony Shiroishi Semiconductor Inc.
Manufacture of semiconductors

Sony Nagasaki Corporation
Manufacture of semiconductors

Sony Digital Products Inc.
Manufacture of audio products and computers

Sound System Corporation
Manufacture of drums for professional-use VTRs, optical pickups for CDs and videodisc players, and high-density circuit boards

Max Precision Products Corporation
Manufacture of precision components, molding dies, and FA systems

Sony Asco Inc.
Manufacture of MFDDs, HDDs, CD-ROMs, and printer systems

Sony Engineering Corporation
Design and engineering of electronic products

Sony Procurement Service Corporation
International procurement and distribution services for parts and components

Sony Shoji Corporation
Lease of real estate

Sony Magnetic Tape Sales Corporation
Sale of magnetic tapes

Sony Enterprise Co., Ltd.
Operation of the Sony Building and Sony Tower; import of athletic goods; sales promotion and licensing; travel; language education; and insurance services

Sony Logistics Corporation
Warehousing; packing of cargo; airfreight forwarding; and transportation services

Sony Service Co., Ltd.
Repair and service of Sony products

Sony Trading Corporation
Import and distribution of overseas products

Sony Energytec Inc.
Manufacture and sale of batteries

Sony Finance International, Inc.
Credit, lease, and finance; rental of Sony products; and insurance services

CBS/Sony Group Inc.
Manufacture and sale of compact discs, music tapes, phonograph records, videocassettes, and laserdiscs

Sony Creative Products Inc.
Design, manufacture, and sale of stationery, gift goods, and cosmetics; sale of juvenile audio-visual equipment; and licensing of designs, copyrights, and trademarks

Sony PCL Inc.
Video and HDVS editing; video duplication; image transfers and conversions; film processings; and rental of video display systems

Sony Chemicals Corporation
Manufacture and sale of videotapes, adhesives, and electronic components

Sony Magnescale Inc.
Manufacture and sale of digital position readout and gauging systems, CNC systems, instrumentation recorders, and high-speed video duplicating systems

Sony Plaza Co., Ltd.
Import, wholesale, and retail of household goods, cosmetics, and confectioneries

Aiwa Co., Ltd.
Manufacture and sale of audio products, VTRs, and modems

Sony Pruco Life Insurance Co., Ltd.
Life insurance

Sony/Tektronix Corporation
Manufacture, sale, and service of electronic measurement and computer graphic products

As of March 31, 1990, the Company has 576 consolidated subsidiaries and has adopted the equity accounting method in respect to its 3 affiliated companies. The above table gives the main business of the Company's principal subsidiaries and affiliated companies as of April 30, 1990.

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■ Date of Establishment
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■ Depositary, Transfer Agent, and Registrar for American Depositary Receipts
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New York, New York

■ Co-Transfer Agents and Co-Registrars
Continental Illinois National Bank and Trust Company of Chicago
Chicago, Illinois

Bank of America National Trust and Savings Association
San Francisco, California

The Royal Trust Company
(Co-Transfer Agent only)
Montreal, Canada

National Trust Company, Limited
(Co-Registrar only)
Toronto, Canada

■ Overseas Stock Exchange Listings
New York, London, Amsterdam, Pacific, Paris, Frankfurt, Düsseldorf, Brussels, Antwerp, Vienna, Toronto, Montreal, Vancouver, Midwest, Zurich, Basle, and Geneva stock exchanges

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

Sony Corporation

Printed in Japan