

SONY



A new portable MiniDisc recorder/player, the MD Walkman

ANNUAL REPORT 1995

Year Ended March 31, 1995

PROFILE

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

Sony works to introduce new products not only to meet changing market needs but also to create new demand. As a good corporate citizen, Sony also actively contributes to each local community in which it conducts business. Sony recognizes that the protection of the global environment is a vital issue and strives to carry out its worldwide operations in an environmentally sound manner.

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FINANCIAL HIGHLIGHTS

Sony Corporation and Consolidated Subsidiaries

Year ended March 31

	Yen in millions except per share amounts		Percent change 1995/1994	Dollars in thousands except per share amounts (Note 1) 1995
	1994	1995		
OPERATING RESULTS				
FOR THE YEAR				
Sales and operating revenue	¥3,733,721	¥3,983,438	+6.7%	\$44,757,730
Operating income (loss)	99,668	(170,621)	—	(1,917,090)
Income (loss) before income taxes.....	102,162	(220,948)	—	(2,482,562)
Net income (loss)	15,298	(293,356)	—	(3,296,135)
Per Depositary Share:				
Net income (loss)	¥ 42.1	¥ (696.9)	—	\$ (7.83)
Cash dividends.....	50.0	50.0		0.56
AT YEAR-END				
Stockholders' equity	¥1,329,565	¥1,007,808	-24.2%	\$11,323,685
Total assets.....	4,269,885	4,223,920	-1.1	47,459,775
Number of employees	130,000	138,000		

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥89=U.S.\$1, the approximate Tokyo foreign exchange market rate as of March 31, 1995.

2. As of March 31, 1995, Sony Corporation had 895 consolidated subsidiaries. It has applied the equity accounting method in respect to its 30 affiliated companies.

3. The consolidated results for the fiscal year ended March 31, 1995 reflect the write-off of goodwill of ¥265 billion (\$2.979 million) in the second quarter in the Pictures Group (refer to Note 3 of Notes to Consolidated Financial Statements) and second-quarter losses in the Pictures Group of approximately ¥50 billion (\$562 million) arising from a combination of unusual items, such as abandoning a large number of projects in development and providing for settlement of outstanding lawsuits and contract claims.

Sales and Operating Revenue

(Billion ¥)



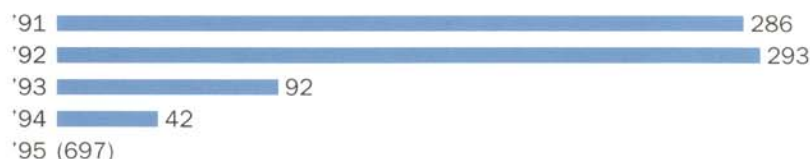
Net Income (Loss)

(Billion ¥)



Net Income (Loss) per Depositary Share

(¥)



Norio Ohga,
Chairman of the Board and
Chief Executive Officer (left),
and
Nobuyuki Idei,
President and
Chief Operating Officer



During the fiscal year ended March 31, 1995, the U.S. economy continued to enjoy steady expansion, the European economies headed toward recovery, and Asian economies posted strong growth. Meanwhile, the Japanese economy was sluggish, reflecting an unprecedented surge in the value of the yen and lackluster stock markets, although there were temporary signs of recovery in personal consumption. Furthermore, intensifying price competition in both Japanese and overseas audiovisual equipment markets created an exceptionally rigorous operating environment for Sony.

Performance

Sony's consolidated sales and operating revenue (herein referred to as "sales") for the fiscal year amounted to ¥3,983 billion (\$44,758 million), a 6.7% increase from the previous year. The write-off of goodwill and additional losses in the second quarter in the Pictures Group led to a consolidated

operating loss of ¥171 billion (\$1,917 million), a consolidated loss before income taxes of ¥221 billion (\$2,483 million), and a consolidated net loss of ¥293 billion (\$3,296 million).

During the year under review, the yen appreciated approximately 9%, 1%, and 5% against the U.S. dollar, the deutsche mark, and the pound sterling, respectively, in terms of average rate. If the value of the yen had remained the same as in the previous fiscal year, consolidated sales would have generated an increase estimated at approximately ¥185 billion (\$2,079 million) over the reported figure.

Looking at performance by area, sales declined slightly from the previous fiscal year in the United States, mainly due to the appreciation of the yen against the U.S. dollar and the sales decrease in the Pictures Group, but advanced in Japan, Europe, and Other Areas. Within Other Areas, sales in Asian markets rose sharply.

By segment, sales in the Electronics Business

rose in all Product Groups, comprising Video Equipment, Audio Equipment, Televisions, and Others. Supporting the rise in sales were broadcast- and industrial-use video equipment, led by Digital Betacam VTRs, in Video Equipment; CD players in Audio Equipment; and color TVs and computer displays in Televisions. In Others, healthy sales of semiconductors, electronic components, cellular telephones, and batteries were augmented by Sony's new video game business. Sales in Sony's Entertainment Business fell below those of the previous fiscal year, reflecting the disappointing performances of several films in the Pictures Group, which were compounded by the impact of the appreciation of the yen. Sales in the Music Group, however, were healthy, supported by numerous strong-selling albums.

Subject to shareholders' approval at the Ordinary General Meeting of Shareholders to be held in Tokyo on June 29, 1995, Sony will pay to shareholders of record as of March 31, 1995, a cash dividend of ¥25 (before deduction of withholding taxes) per Depositary Share (each Depositary Share represents one share of Common Stock) for the six-month period ended March 31, 1995. This payment, combined with the ¥25 per Depositary Share paid in December 1994, will bring the total annual cash dividend for the fiscal year ended March 31, 1995, to ¥50 (\$0.56) per Depositary Share, equivalent to that of the previous year.

New Corporate Structure

As of April 1, 1994, Sony eliminated product groups in its Electronics Business and introduced a new corporate structure comprising the following eight independent "companies" targeting specific product categories and customer bases: the Consumer A&V Products Company, the Components Company, the Recording Media & Energy Company,

the Broadcast Products Company, the Business & Industrial Systems Company, the InfoCom Products Company, the Mobile Electronics Company, and the Semiconductor Company. Individual companies are assigned their own management goals as well as clearly defined responsibilities regarding their financial statements. This is intended to accelerate decision making under a streamlined organizational structure.

By revitalizing its organization, Sony aims to introduce appealing products in the market in a timelier fashion while further strengthening cost-competitiveness Companywide.

Revitalization of the Pictures Group

During the second quarter of the year under review, Sony wrote off ¥265 billion (\$2,979 million) in goodwill in its Pictures Group and recorded additional losses of approximately ¥50 billion (\$562 million) resulting from a combination of unusual items, such as abandoning a large number of projects in development and providing for settlement of outstanding lawsuits and contract claims. From the latter part of the year under review, Sony has begun rebuilding and strengthening the Pictures Group and is working to revitalize the three core businesses in the group: motion pictures, television programming and distribution, and theatrical exhibition.

The Pictures Group has been tightening control over movie production and overhead costs in its motion picture operations, and during the fiscal year it integrated the distribution and marketing divisions of its two studios, Columbia Pictures and TriStar Pictures, to streamline its organization and reduce costs. In addition, to minimize financial risks in film production, Sony is strengthening business alliances with independent production companies.

Overseas Production

Since the 1970s, Sony has actively expanded its overseas production capabilities following a basic policy that products should be manufactured in the markets in which they are sold. During the year under review, Sony continued to enhance its overseas production capabilities, with an emphasis on Asia. In particular, Sony laid the foundations for establishing production capabilities in such emerging markets as India and Vietnam. In addition, Sony continued to promote the localization of R&D, design, and materials and parts procurement. In response to the surge in the value of the yen since the beginning of 1995, Sony intends to further expand its overseas production to build a corporate structure less susceptible to the negative impact of foreign exchange rate fluctuations.

New Management

At the Meeting of the Board of Directors convened on November 25, 1994, former Chairman of the Board Akio Morita was appointed Founder and Honorary Chairman and former Founder and Honorary Chairman Masaru Ibuka was appointed Founder and Chief Advisor, effective the same day.

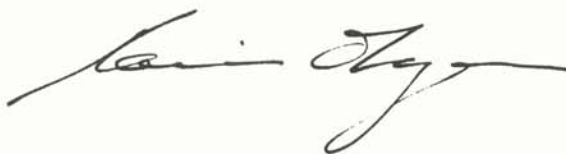
On April 1, 1995, Chief Executive Officer Norio Ohga assumed the office of Chairman of the Board and Nobuyuki Idei assumed the office of President and Chief Operating Officer, marking the start of new management in advance of Sony's 50th anniversary in 1996.

Future Managerial Policies

Sony expects its operating environment to grow increasingly challenging due to such factors as the uncertain direction of the Japanese economy, the extremely high value of the yen in relation to other currencies, and fierce price competition. To meet this challenge, in the Electronics Business, Sony will strive to introduce even-more-appealing

products and develop its capabilities in new business areas by integrating computer and telecommunications innovations with Sony's digital technology. In the Entertainment Business, Sony will aggressively work to rebuild the Pictures Group to recover profitability while strengthening synergies with the Electronics Business by actively developing businesses in both music and filmed entertainment. To contend with the sharp appreciation of the yen, Sony will further enhance its local operations by increasing R&D, design, materials and parts procurement, and production activities conducted outside Japan. Finally, Sony will make every effort to ensure an improvement in overall business performance by continuing such measures as further reducing costs through Companywide streamlining, selecting capital investments even more carefully, and conducting strict inventory control.

May 18, 1995



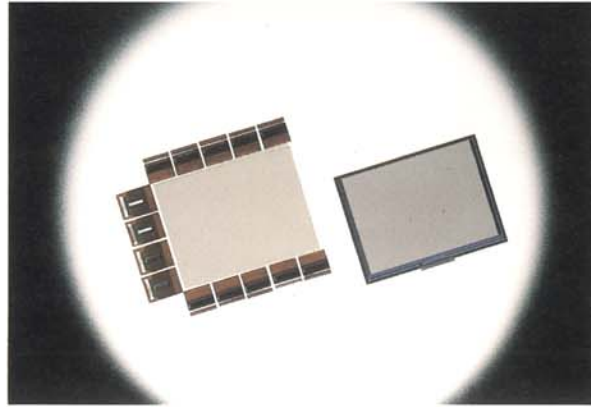
Norio Ohga

Chairman of the Board and Chief Executive Officer



Nobuyuki Idei

President and Chief Operating Officer



Left: A conventional TFT LCD panel with externally mounted driver circuitry

Right: A new polysilicon TFT LCD panel with fully integrated driver circuitry

Determined to be at the leading edge of fast-paced technological advancement, Sony has launched a variety of innovative products thanks to intensive, efficient investment in R&D. In preparation for the dawn of the multimedia age, Sony formed a Research Center in Japan during the year under review by integrating Sony's principal laboratories and has been actively promoting R&D in promising new fields. In line with the establishment of independent companies within its organization, Sony is working to strengthen the R&D departments within these companies to respond even more promptly to market requirements. Together with the Research Center, these departments help create a well-balanced R&D structure at Sony. At the same time, Sony has sought to further globalize its R&D activities by enhancing its R&D facilities in the United States, Europe, and Asia.

MultiMedia CD

Sony and Philips Electronics N.V. have jointly developed the MultiMedia CD, which employs a 12cm optical disc. The companies hope that this technology will generate new business opportunities in the coming multimedia age, and they are now working to develop and commercialize the digital videodisc (DVD) system, one application of the technology. The specifications of this system, which is based on a single-sided, dual-layer disc, emphasize both low-cost production and user-friendliness. Users will be able to enjoy up to four and a half hours of uninterrupted playback of video images and audio signals recorded digitally on a disc the same size as a conventional CD. Offering backward compatibility with conventional CD-ROMs, the MultiMedia CD is also ideal for next-generation computer applications, incorporating high-density optical and signal processing technologies that Sony has accumulated through the R&D of CDs and MiniDiscs as well as newly developed technologies in the areas of sophisticated image compression and single-sided, dual-layer discs. In addition to these accomplishments, Sony is the first company in the world to achieve continuous wave operation of the

blue-emitting semiconductor laser diode at room temperature. Sony intends to apply this technology in the development of ultrahigh-density optical storage discs in the future.

Flat Panel Displays

Augmenting its line of polysilicon thin-film transistors (TFTs) used in compact, high-resolution displays, Sony has developed a low-temperature polysilicon TFT liquid crystal display (LCD) technology suitable for the manufacture of both small and large panels. This technology will allow Sony to commercialize flat panel displays ranging in size from 0.5 inches to the 20-inch class and to integrate driver circuitry, thereby facilitating the development of more simply structured, lower-priced displays. Furthermore, these TFTs operate under strong light with greater stability than conventional amorphous silicon TFTs and may thus be used in large-scale projectors for showing very bright images.

Other Multimedia Technologies

To support R&D for the multimedia age, Sony is encouraging the standardization of technologies and collaborative activities with other organizations.

In the United States, Sony has entered into an agreement to manufacture and market an integrated receiver decoder for DIRECTV, Inc., a company that provides digital satellite broadcasting services on 150 channels. In the highly promising market for video-on-demand, Sony is participating in DAVIC (Digital Audio Visual Council), the industry body for standardizing technologies, and has proposed systems incorporating Sony's proprietary APERTOS operating software. In addition, Sony has launched in the United States a personal intelligent communicator (PIC) based on software developed by General Magic, Inc. Sony is also engaged in codevelopment projects with Microsoft Corporation for an interactive broadband network technology and with Oracle Corporation for a news production support system for use at broadcast stations.



Launched to mark the 15th anniversary of the debut of the Walkman, this model (right) is capable of 12 hours of continuous playback with a single recharging of its nickel-hydrogen battery. The battery may be recharged 300 times—a saving of 900 batteries compared with the first Walkman, which required two alkaline batteries for eight hours of playback—and is thus contributing to resource conservation and waste reduction.

Sony's Environmental Conservation Committees in Japan, North America, Europe, and Asia formulate Environmental Action Plans for their respective regions based on Sony's Global Environmental Policy, which was established in March 1993, and are implementing various environmental conservation and auditing programs. In addition, Sony is responding swiftly to such trends as the international standardization of environmental management, including the adoption of the ISO 14000 series and The Eco-Management and Audit Scheme of the EU. Furthermore, community activities are being directed at promoting environmental conservation in countries around the world. In February 1994, Sony created the Sony Environmental Awards program to honor distinguished achievements related to environmental conservation within the Sony Group. The first award was presented in June 1994 in recognition of excellent results in technological and product development and activities related to manufacturing and office work.

In Japan, to respond to international environmental auditing standards, Sony, nine other Japanese electronics companies, and two industry associations jointly established the Japan Audit and Certification Organization in November 1994. In addition, Sony is striving to apply its technologies to environmental conservation through such activities as making available for public use Styrofoam recycling technologies developed at Sony's Center for Environmental Technology. Also, in response to the March 1995 revision of the Waste Disposal Law, Sony provided recycling technologies for used TVs that it has been developing and is offering its full support to the recycling efforts of the electronics industry.

In the United States, Sony Electronics Inc. (SEL) is working to reduce energy consumption in its U.S. operations and was selected as a charter member of the U.S. Environmental Protection Agency's (EPA's) Energy Star Buildings Program, which aims to enhance energy efficiency in all offices, manufacturing centers, and other facilities. This

selection reflects the recognition of SEL's success in significantly reducing energy used in the company's office lighting as part of the EPA's Green Lights Program. In addition, SEL began collecting used nickel-cadmium rechargeable batteries in 1992 and has expanded such activities to include the collection of lead-acid, lithium-ion, and all other types of rechargeable batteries. Furthermore, since 1994 all computer displays manufactured by SEL meet the EPA's Energy Star energy efficiency standards for office automation equipment. Sony Pictures Entertainment (SPE) was presented with the National Environmental Sustainability Award by the organization Renew America. The award recognized SPE's success in a wide array of environmental conservation activities under the SPE Environmental Leadership Program, which was established in 1992.

In Europe, together with U.S. and European companies, Sony is producing an ECO design suppliers' manual for manufacturers in accordance with the United Nations Environment Program. Sony Europa Stuttgart Technology Center is participating in environmental projects led by EUREKA European Research Coordination Action, such as EUROENVIRON CARE VISION 2000 and the Operational System of Life Cycle Assessment for Electronic Products. Also, the TV design activities of Sony Television Europe in the United Kingdom and Germany have emphasized the development of energy-saving models and the further reduction of plastic materials used.

In Asia, the Sony Group companies in Singapore, with the cooperation of local citizens, implemented a collection and recycling campaign for a substantial quantity of old newspapers. Sony matched the proceeds from the campaign dollar-for-dollar, and these were donated to Singapore's National Kidney Foundation.

In December 1994, Sony published the *Environmental Report*, which outlines Sony's Global Environmental Policy and environmental conservation activities worldwide. Sony intends to publish this report at various intervals.



The performances of Professor Claudio Nazar (right), recipient of the Sony Chile Music Scholarship, and students learning music through the Suzuki Method delighted the audience at the Sony Center in Santiago, Chile.

Promoting Educational Activities

Sony Foundation of Science Education honors primary and junior high schools in Japan that are taking new approaches to education. The foundation provides educational funding to these schools, while Sony Corporation donates audiovisual equipment. In November 1994, Sony established a scholarship program for 100 students at 10 universities in Beijing, China. In May 1994, to commemorate the 10th anniversary of its establishment, Toyo Audio Co. (M) Sdn. Bhd., a Sony Group company, donated TVs and VTRs to 10 schools in Penang. Sony Corporation of Panama, S.A., is sponsoring a scholarship program for young athletes. For the past five years, SEL, of the United States, has been rewarding high school students who excel at mathematics and science with an all-expenses-paid educational visit to Japan.

Supporting Arts and Culture

In Japan, Sony Music Foundation sponsors various musical events, including the Japan Red Cross Blood Center Fund Charity Concert and The International Oboe Competition of Tokyo. In the United States, Sony Corporation of America and Sony Music Entertainment Inc. (SMEI) support various artistic programs of the Lincoln Center in New York. To deepen understanding of the Suzuki Method, a music education method developed in Japan, each year Sony Chile Ltda. provides

Participating in Local Communities

At the annual Community Chest Awards ceremony in Singapore, the Sony Group companies in Singapore were presented with the 1993 Corporate Gold Award in September 1994 by President Ong Teng Cheong in recognition of the Group's donation of 100,000 Singapore dollars to the Community Chest. SPE supports Living Literature/Colors United, a nonprofit, multiethnic organization headquartered in Los Angeles that strives to motivate inner-city youths through education-based performing and visual arts.

Advancing Social Welfare and Medicine

In the United States, SMEI continued its support of the T.J. Martell Foundation, which conducts research into leukemia, cancer, and AIDS. Sony Deutschland G.m.b.H. made a donation to Friedensdorf (Peace Village) International, an organization that provides medical treatment to children in areas around the world plagued by war or disasters. Sony France S.A. contributed to Benjamins Media, an association that provides children's literature to visually impaired youngsters between the ages of three and seven. The books written in braille and the accompanying audiocassettes with sound atmospheres help the children understand the text in a fuller surrounding.

Backing Earthquake Relief Efforts

Sony Group companies and their employees worldwide supported the relief efforts to aid victims of the Great Hanshin Earthquake of January 1995. In addition to donations of money and products, Sony Corporation established a volunteer program for employees. Under this program, approximately 150 employees participated in the rescue efforts in Kobe of nongovernmental organizations.



Sony France is supporting the activities of Benjamins Media, a unique association that provides literature for visually impaired children. Shown here are an ordinary picture book (left) and a braille picture book and audiocassettes produced by Benjamins Media.

one musician with the opportunity for a year's study in Japan or the United States.

Video Equipment

Video Equipment sales for the fiscal year ended March 31, 1995, rose 3.4%, to ¥691 billion (\$7,765 million), representing 17.3% of consolidated sales. Among broadcast- and industrial-use video equipment, Sony's Digital Betacam VTRs, which have posted impressive sales gains since their launch in mid-1993, and Betacam SP VTRs recorded brisk sales and made a strong contribution to the sales increase in this category. In addition, unit sales of VHS and other home-use video decks were up, primarily in Europe and Asia.



Sales in Video Equipment
(Billion ¥)

Comprises 8mm, VHS, and Beta-format VTRs, laserdisc players, broadcast- and industrial-use video equipment, Hi-Vision-related equipment, and videotapes.

Electronics
Audio Equipment

Audio Equipment sales for the year increased 6.9%, to ¥899 billion (\$10,096 million), representing 22.6% of consolidated sales. In this category, sales of car stereos expanded, centering on CD autochangers. In addition, unit sales of CD players rose sharply, mainly due to sales of portable Discman models and CD players incorporated into radio-cassette stereos, while unit sales of Walkman models also showed an increase.



Sales in Audio Equipment
(Billion ¥)

Encompasses CD players, MiniDisc (MD) system, headphone stereos, personal component stereos, hi-fi components, digital audio tape (DAT) recorders/players, radio-cassette tape recorders, tape recorders, radios, car stereos, car navigation systems, professional-use audio equipment, audiotapes, and blank MDs.

Televisions

Sales in Televisions for the year advanced 14.7%, to ¥709 billion (\$7,962 million), representing 17.8% of consolidated sales. Unit sales of Sony's color TVs rose worldwide, while in Japan sales of wide-screen TVs continued to rise steadily, supported by an expanded lineup of units ranging from 16-inch to 32-inch models. Furthermore, sales of computer displays were up sharply, reflecting healthy conditions in the global personal computer market.



Sales in Televisions
(Billion ¥)

Includes color TVs, Hi-Vision TVs, computer displays, professional-use monitors, satellite broadcast reception systems, projector systems, and large color video display systems.

Others

Sales in Others rose 11.2% during the year, to ¥909 billion (\$10,209 million), representing 22.8% of consolidated sales. Semiconductors and electronic components registered strong sales, and sales of cellular telephones and lithium-ion batteries, which are enjoying rapid market expansion, increased. In addition, Sony's PlayStation 32-bit home video game system has recorded important gains since its launch in Japan in December 1994 and contributed to the sales increase in this category.



Consists of semiconductors, electronic components, cathode ray tubes (CRTs), telephone and telecommunications equipment, computers, computer peripherals, including floppydisk systems and CD-ROM systems, home video game system, batteries, and FA systems.

Entertainment

Music Group

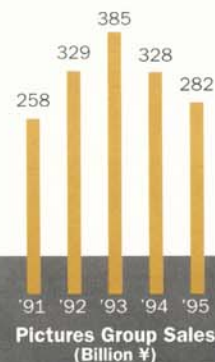
During the year, Music Group sales increased 7.2%, to ¥495 billion (\$5,561 million), representing 12.4% of consolidated sales. Best-selling releases by Mariah Carey, Pearl Jam, Bruce Springsteen, Celine Dion, Pink Floyd, Sade, Roberto Carlos, Gloria Estefan, and Luther Vandross and the *Forrest Gump* and *Philadelphia* soundtracks achieved exceptional sales around the world. In Japan, major hit artists included TUBE and Kome Kome Club.



Sony Music Entertainment Inc. (SMEI) includes Columbia Records Group (Columbia, The WORK Group); Epic Records Group (Epic, Epic Associated, Epic Soundtrax, Sony 550 Music, Okeh); TriStar Music Group (TriStar Music, Relativity Records); Sony Music International; Sony Classical; Sony Classical Film & Video; Sony Wonder (SMEI's children's and family entertainment music and video lines); and associated labels as well as Sony Music Entertainment (Japan) Inc.

Pictures Group

Pictures Group sales for the year fell 14.1%, to ¥282 billion (\$3,165 million), representing 7.1% of consolidated sales. These results reflect the impact of the appreciation of the yen and the disappointing performances of several films released during the fiscal year. Revenues in calendar 1995 were off to a strong start due to such successful films as *Legends of the Fall*, *Little Women*, and *Bad Boys*. In addition, the Pictures Group's television programming and distribution and theatrical exhibition businesses continued to yield positive results.



Sony Pictures Entertainment includes the Columbia TriStar Motion Picture Companies (Columbia Pictures, TriStar Pictures, Sony Pictures Classics, Triumph Films, Sony Pictures Releasing, Columbia TriStar Film Distributors International); Sony Television Entertainment (Columbia TriStar Television, Columbia TriStar Television Distribution, Columbia TriStar International Television); Columbia TriStar Home Video; and Sony Pictures Studios and The Culver Studios. Sony Retail Entertainment includes Sony Theatres.

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

Video Equipment

ELECTRONICS



Sony has launched two new types of camcorders with built-in color LCDs: a model with a monitor built into the rear of the unit for easy viewing (left) and a compact, lightweight, easy-to-use model with the monitor housed in the side of the unit.



8mm Video Products

In January 1995, Sony marked the 10th anniversary of the debut of its 8mm video products, which are renowned for their compact size and high picture and sound quality. Camcorders, in particular, have been well received, and personal video shooting has become an established way to capture and save precious memories. In markets worldwide, Sony has endeavored to carefully tailor

these products to regional needs and has consolidated its position as the global leader in this field.

During the year under review, Sony launched to a positive reception in Japan compact, lightweight camcorders in the high-resolution Hi8 format with such enhanced functions as bright viewfinders and high-performance stereo microphones. Sony also strengthened its lineup of camcorders with built-in color liquid crystal displays (LCDs), releasing new models in spring 1995 that joined compact, lightweight units already on the market.

This Double Video deck incorporates Hi8 8mm and VHS formats as well as a built-in satellite tuner. The unit simplifies the editing of videotapes recorded using 8mm camcorders.

Video Decks

Sony's Double Video models featuring both 8mm and VHS formats in the same deck have become key products in Sony's VTR lineup in Japan, and Sony is working to expand and enrich its offerings in this area. Double Video decks provide new avenues to enjoying video entertainment, such as the opportunity to watch videos while recording TV programs and to duplicate videos at the touch of a button.



This Hi-Vision laserdisc player offers even higher resolution and sound quality than its predecessor as well as such user-friendly features as high-speed reversing playback and a quick access mechanism.



Laserdisc Players

In November 1994, Sony introduced a new Hi-Vision (Japanese high-definition TV standard) laserdisc player in the Japanese market. This unit offers the industry's highest levels of resolution and sound quality in a home-use laserdisc player, which may be used not only for Hi-Vision but also as a conventional laserdisc player.

Broadcast- and Industrial-Use Video Equipment

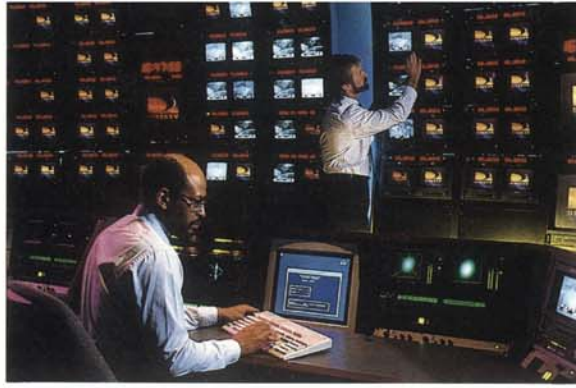
During the year under review, Sony remained the leader in the market for broadcast- and industrial-use video equipment, buoyed by the continued sales success of Sony's Betacam SP and Digital Betacam VTRs.

Sony has been responding to the trend toward the digitization of broadcast-use video equipment by providing products and systems that meet specific customer requirements. For example, Sony played a pivotal role in developing a digital broadcasting system built around Digital Betacam VTRs for the broadcast center of the U.S. company DIRECTV, Inc., which initiated digital satellite broadcasting services in the United States in spring 1994. In addition, in fall 1994, Sony introduced a Digital Betacam camcorder, thus enabling all-digital operations, including



Made with highly integrated components and equipped with a compact, lightweight, and high-capacity lithium-ion battery, this Digital Betacam camcorder offers size, weight, and continuous operation time comparable to those of the current Sony analog Betacam SP camcorders.

Video Equipment



For the broadcast center of DIRECTV, Sony has designed a system providing the integrated management of programs broadcast on 150 channels by linking Sony's Digital Betacam VTRs and other equipment through the Serial Digital Interface, which allows audio and video signals to be communicated through a single coaxial cable.

shooting as well as editing and transmitting. Furthermore, Sony expects to introduce a portable VTR based on the Digital Betacam format in fall 1995.

Incorporating such recording media as hard disks to permit instantaneous access to data and computer control and processing for fast and efficient image editing, nonlinear editing systems are attracting attention as products in tune with the broadcasting industry's shift to digital systems. In this evolving field, Sony has proposed hybrid systems that fully exploit the advantages of both disks and videotapes for editing use. In April 1995, at the National Association of



At the 1995 NAB Show, Sony displayed to critical acclaim an all-digital broadcasting operation system, encompassing everything from news gathering and nonlinear editing systems to a sophisticated and highly automated program transmission room.

Broadcasters (NAB) Show in Las Vegas, Sony displayed its new operation system for broadcast stations to a positive response. This system has as its core the AV server, which uses a magneto-optical disk or a hard disk to store massive amounts of video and audio data and digitally inte-

grates nonlinear editing systems using computers with other broadcast-use production and transmission systems. In February 1995, Sony announced that it had entered into an agreement with Oracle Corporation, of the United States, to jointly develop a news production support system for use by journalists.

Sony's Betacam SP VTRs and camcorders have met with an enthusiastic response not only from the broadcast-use market but also from schools and such industrial-use markets as companies. In the future, Sony intends to enter several new markets, including those for VTRs and editing equipment for computer graphics.

In addition to offering sharp video and sound quality, these Digital Betacam videocassettes have tape surfaces that are protected by a newly developed lubricant to provide a high level of durability and reliability even with repeated playback and editing.

Videotapes

The superior reliability and durability of Sony's videotapes have won critical acclaim in the broadcast- and industrial-use markets as well as in the home-use market. Reflecting this recognition, sales of Betacam SP and Digital Betacam videocassettes were brisk during the year under review.



Audio Equipment ELECTRONICS



Reductions in the number of parts used compared with previous models and cost-cutting in the production of such key components as semiconductors and optical pickups have enabled Sony to significantly lower the price of this playback-only MD Walkman.

CD Players

Since it was introduced in 1982, Sony's CD player business has continued to enjoy steady expansion. During the year under review, Sony's diverse range of offerings—including hi-fi CD players, portable models, and units incorporated into compact stereo systems and radio-cassette tape recorders as well as car CD players—posted significant unit sales growth.

In March 1995, Sony launched the CD-ROM Discman, a compact, lightweight portable CD-ROM player, in the United States. In addition to being ideal for use with notebook computers, the unit works as an audio CD player, allowing the enjoyment of music as well.

MiniDisc (MD) System

The MD system is an audio system that uses an easy-to-carry magneto-optical disc only 64mm in diameter for digital recording. Offering the same random-access capability as CDs, MD systems are also equipped with a function to prevent skipping due to shock. The MD system market has grown favorably, supported by the popularity of portable models. In addition, the number of MD software titles continues to rise worldwide.

Introduced in Japan in late 1993 and subsequently worldwide, both recording/playback and playback-only portable MD Walkman models generated a healthy volume of sales during the year under review, and attractively priced hi-fi audio units with fewer components released in Japan in late 1994 met with a positive market response.

This personal component MD system features both MD and CD decks, allowing users to digitally record and edit from CDs to MDs with ease.





The size of a cassette tape case, this portable radio can receive shortwave broadcasts from around the world in addition to FM stereo, long-wave, and medium-wave signals.

In spring 1995, Sony launched a new playback-only MD Walkman and a personal component MD system equipped with a CD player. Furthermore, Sony will introduce in Japan a new recording/playback MD Walkman in June 1995 and the industry's first portable MD model with a built-in microphone and speaker, allowing up to 148 minutes of monaural recording, in summer 1995.

Headphone Stereo Walkman

In July 1994, Sony launched in Japan a new Walkman model commemorating the 15th anniversary of the debut of the Walkman. Enjoying brisk sales in Japan, the model was also introduced around the world. Sony's Walkman business continued to grow worldwide during the year under review, solidifying Sony's position as the global leader in the headphone stereo market.

Personal Component Stereos

In fall 1994, Sony introduced in Japan a personal component stereo incorporating a five-disc CD changer, for continuous listening pleasure, and offering sophisticated recording and editing capabilities. Sound quality has also been improved through a speaker system that faithfully reproduces both delicate high and powerful bass ranges.



Released to celebrate the 15th anniversary of the introduction of the Walkman, this commemorative model offers such user-friendly features as the ability to operate on both alkaline and rechargeable batteries for 36 hours of continuous playback and to fast-forward and rewind at 25 times the playback speed.





In this CD player, with the optical head being fixed, the disc itself moves when its data is being read. This method allows signals to be read more reliably and reduces servo currents that can affect audio quality.

Hi-Fi Components

Fall 1994 marked the debut in Japan of nine high-end audio components, including CD players, pre-main amplifiers, a tuner, and cassette tape decks. The components are designed with a focus on comprehensive improvements in audio quality through the use of enhanced digital circuitry and newly developed chassis structures and mechanisms, which form the core of the equipment. Some of these components have been introduced in overseas markets from spring 1995.

Car stereo components shown here are a CD player with a built-in tuner and an improved controller function for MDs and other equipment (top) and an MD player with a changer mechanism sized for in-dash installation that can readily play back from a four-disc magazine.

Car Stereos

Sony is one of the industry leaders in car CD players and has expanded its car stereo sales by marketing CD autochangers and cassette tape decks with changer controllers in sets. In addition, Sony aims to further expand the market for car



MD players by offering a diverse lineup of systems, including changer-type models.

Car Navigation Systems

The market in Japan for car navigation systems using the Global Positioning System (GPS), which employs satellite signals to calculate location, continued to show brisk growth during the year under review, with a succession of new companies entering the market. Sony launched to a favorable reception units that inform

the driver of the vehicle's location and direction through voice signals as well as systems that combine GPS with the dead-reckoning method, which uses the vehicle's velocity and direction to determine its location. This permits the accurate determination of a vehicle's location even in areas that are difficult for satellite signals to reach. These products have firmly established Sony as one of the market leaders.

Furthermore, in fall 1994 Sony began marketing car navigation systems in California, and it intends to introduce models in other parts of the United States and in Europe as well.

Launched in Japan in April 1995, this car navigation system can display on the monitor such information as the location of traffic jams, obtained through cellular telephones. The red lines indicate traffic jams and the pink lines show relatively congested roads.



Televisions

ELECTRONICS



Incorporating a VHS VTR, this wide-screen TV allows users to readily enjoy wide-screen video software and has features that facilitate the playing of home video games. The simulated picture is a scene from TriStar's *Philadelphia*.



This color TV features a flat-surface screen incorporating a Super Trinitron CRT that displays sharp images through advanced circuitry that reduces image distortion and flickering to provide superior resolution.

Situated within Sony's TV plant in Wales, in the United Kingdom, this test facility is capable of taking a variety of precise measurements of radiation and is making an important contribution to the design of TVs in Europe.



Color TVs

In June 1994, Sony produced its 100-millionth Trinitron cathode ray tube (CRT) since the start of production in 1968. During the years since then, Sony has successfully built fully integrated local

manufacturing systems, from design and materials and parts procurement to CRT production and the assembly of such finished products

as color TVs and displays, in Japan, the United States, Europe, and Asia. These systems allow Sony to respond swiftly to region-specific demand while minimizing the negative impact of foreign exchange rate fluctuations.

In October 1994, Sony's San Diego Manufacturing Center was recognized by *Industry Week* magazine—a leading journal of the U.S. manufacturing sector—as one of the 10 best plants in the United States.

In the home-use color TV area, the Japanese market for wide-screen TVs has been buoyed by surging consumer demand. Also expected to accelerate the shift to wide-screen TVs is the terrestrial broadcasting of Extended Definition Television II (EDTV II) scheduled to begin during 1995 on screens with a 16:9 aspect ratio. Sony offers a full lineup of wide-screen TVs, comprising five screen sizes ranging from the industry's first 16-inch units to large-screen 32-inch sets. Sony has also introduced 16-inch and 20-inch wide-screen models with built-in VHS VTRs. Sony launched its wide-screen TVs in European and Asian markets during the year under review.

A newly developed MUSE (multiple subnyquist sampling encoding) decoder has reduced noise in this 32-inch Hi-Vision TV and allowed excellent color reproduction and high resolution. On the screen is a simulated picture from *Emile Gallé*, a Hi-Vision laserdisc title produced by Sony.



Hi-Vision TVs

Since Hi-Vision test broadcasting began in Japan in 1991, broadcasting has been extended to 11 hours daily, from April 1995, and program lineups are expected to be strengthened leading up to the start of full-scale Hi-Vision broadcasting in 1997. In addition, the number of Hi-Vision laserdisc titles has been steadily increasing. As one facet of its commitment to supporting the popularization of Hi-Vision, Sony launched a new 32-inch Hi-Vision TV model to a positive response during the year under review.

Computer Displays and Professional-Use Monitors

The superior picture quality and resolution of Trinitron CRTs have won them a strong reputation not only as home-use TVs but also as displays for personal computers and workstations and as professional-use monitors.

Equipped with a high-resolution CRT originally developed for Hi-Vision TVs, this TV beautifully reproduces highly detailed images. In addition, a split screen function allows viewers to enjoy two programs at the same time. Shown in the simulated pictures are a scene from a motocross race and a scene from TriStar's *Sleepless In Seattle*.



Televisions

Right: 15-inch and 17-inch multi-scan computer displays

Far right: Sony uses this logo on its high-resolution Trinitron CRT displays for computers.



During the year under review, the worldwide personal computer boom underpinned brisk sales of Sony's computer displays. In summer 1994, Sony introduced to a favorable market reception a 15-inch multiscan computer display equipped with a newly developed Trinitron CRT boasting higher picture quality and a flatter screen than previous models.

The superior functionality and reliability of Sony's professional-use monitors have made them the equipment of choice among broadcast stations and production companies as well as in an expanding array of other markets, including educational and medical institutions.

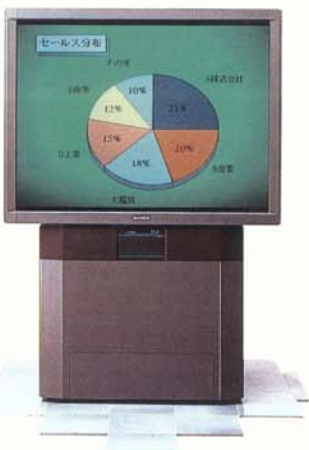
Projectors

The introduction of models providing high resolution and brightness has established Sony as one of the leaders in the projector market. As one facet of its efforts to strengthen its lineup of multiscan projectors—which are capable of displaying images from various input sources, including video, Hi-Vision TV, and a range of computer signals—Sony launched a new 60-inch rear projector in June 1994 that provides brighter and more-vivid images than its predecessors. Furthermore, in February 1995 Sony introduced an LCD projector that uses a polysilicon LCD panel, facilitating the home viewing of large-screen Hi-Vision pictures.

Large Color Video Display Systems

Used to display live broadcasts, commercials, and other programming in dynamic, sharp color, 220 screens of Sony's Jumbotron large color video display system have been installed worldwide, including in athletics stadiums, concert arenas, and convention centers. In March 1995, a Jumbotron was installed in Ellis Park Stadium, in the Republic of South Africa, the site of the 1995 Rugby World Cup.

A newly developed CRT has enabled this projector to produce bright, sharply defined images, making it ideal for presentations at business meetings and demonstrations at exhibitions.



Others

ELECTRONICS

Semiconductors

Sony is continuing to promote its semiconductor business, focusing on computer memory devices and bipolar ICs and metal-oxide semiconductor ICs (MOS ICs) for home-use audiovisual (AV) equipment as well as charge-coupled devices (CCDs) used in 8mm camcorders and broadcast- and industrial-use video cameras. Sony produces semiconductors for use in its own products while also selling over 50% of its output to other manufacturers.

In response to the increasing digitization of AV equipment, Sony is strengthening its business in semiconductors used in this field. Applying design capabilities accumulated through the development of semiconductors for analog AV equipment, Sony is making important strides in the development of semiconductors for digital AV products.

In February 1995, Sony established a semiconductor design center at Sony International (Singapore) Ltd., thereby completing the establishment of local semiconductor design and development facilities in Japan, the United States, Europe, and Asia capable of accurately responding to market needs.

Electronic Components

As with semiconductors, Sony's development of electronic components continues to underpin the creation of advanced products at Sony. For example, the development of the PlayStation 32-bit home video game system owes much to optical pickup and mechadeck technologies acquired during the development of CD and MD players.

Sony has also actively promoted outside sales of electronic components, centering on optical pickups, with aggregate sales of optical pickups to other manufacturers reaching 100 million units in October 1994. In fact, at present, over half the CD players in the world use Sony's optical pickups.

Telephones and Telecommunications Equipment

Sony has been responding to the growth in cellular telephone markets worldwide by developing its business in step with local needs. In Japan, in addition to



Top: Using original polysilicon thin-film-transistor (TFT) technology, Sony has created a 1.3-inch 310,000-dot LCD with the industry's highest optical transmittance for computer data and video signals.

Bottom left: A timely response to the increasing sophistication of personal computers, this application-specific IC (ASIC) combines high-capacity memory and logic functions on a single chip.

Bottom right: The low power consumption of Sony's IC for video decoders meets the MPEG2 international standard for moving picture compression technology.

Specially developed through sophisticated processing and assembly technologies on the submicron scale, this drum makes possible the superior picture quality and faithful recording and playback found in Digital Betacam VTRs.



Others



The compact size and light weight of Sony's PlayStation video game system were made possible through an optical pickup that combines optical components in a single chip, thereby greatly reducing the number of components used, and a newly designed thin mechadeck.

offering cellular telephones in both analog and digital formats, Sony is aggressively developing areas other than hardware in the fast-growing telecommunications industry, initiating cellular service business as an agent for cellular service operators. In the United States, a Sony joint venture with QUALCOMM Inc. is developing CDMA (Code Division Multiple Access) format digital cellular telephones, with the first unit scheduled for U.S. release in fall 1995. In Europe, in addition to winning a solid reputation in the analog cellular telephone market, Sony is marketing digital cellular telephones based on the GSM (Global System for Mobile Communications) format, the European standard.

In September 1994, Sony launched in the United States the Magic Link personal intelligent communicator (PIC), based on the Magic Cap™ operating software and Telescript™ technology developed by General Magic, Inc. The market for this product is expected to grow in tandem with improvements in telecommunications services.

To satisfy the burgeoning demand for digital cellular telephones in Japan, Sony is offering models with large, easy-to-read LCDs and superior audio quality.



Computers and Computer Peripherals

Sony's 32-bit NEWS workstation has earned acclaim among users in such fields as software development and electronic publishing. Furthermore, thanks to its high performance and large capacity, this workstation is expected to play a key role as a server for video-on-demand systems, which transmit motion pictures on command to multiple terminals.

Widely recognized for its floppydisk, magneto-optical disk, and CD-ROM systems, Sony is a front-runner in the global market for computer memory devices. Addressing demand for increasingly fast data access, Sony won praise for its quadruple-speed CD-ROM drive introduced in early 1995, supplementing its lineup of double-speed models.

Home Video Game System

In December 1994, Sony Computer Entertainment Inc. (SCE) launched its PlayStation 32-bit CD-ROM-based home video game system in Japan. The PlayStation's stunning 3D computer graphics capabilities, which give users an exceptionally realistic game-playing experience, have driven the system's immense popularity and generated brisk sales since its debut. In addition to SCE-produced software, such game titles for the PlayStation as *Ridge Racer* from Namco Limited and *Toshinden* from Takara Co., Ltd., have become hits in Japan.

Equipped with sophisticated telecommunications capabilities, Sony's Magic Link PIC can be connected via telephone lines to AT&T's PersonaLinkSM Services and other networks to allow users on the move easy access to electronic mail and other modes of data communication.



Shown here is a selection of Sony's lithium-ion battery packs, which are intended for use in (rear) Digital Betacam camcorders and (front row, from left) 8mm video camcorders, recording/playback MD Walkman models, and playback-only MD Walkman models. Also shown is an image of individual cells as found in a battery pack.



In overseas markets, Sony established operating bases for its video game business in North America and Europe during the year under review. Sony has also entered into licensing agreements with a number of North American and European video game software developers. The PlayStation is slated for release in North America and Europe in fall 1995.

Lithium-Ion Batteries

The compact size, light weight, and large capacity of lithium-ion batteries make them an ideal power source for a variety of portable equipment, including camcorders, notebook computers, and cellular telephones. Because of their availability in a wide range of configurations for various applications, Sony's lithium-ion batteries have been adopted worldwide by such users as personal computer and cellular telephone manufacturers. During the year under review, Sony substantially expanded its production capacity to meet surging demand and maintained a significant share of the market.

SCE is actively developing software for its PlayStation video game system. Displayed on the screen is a simulated picture from SCE's newly produced software *Arc The Lad*.



Music Group ENTERTAINMENT

Pearl Jam's three albums have each sold more than 7 million units worldwide, establishing the group as one of the top bands in the world.



Sony Music Entertainment Inc. (SMEI), together with Sony Pictures Entertainment's Columbia Pictures, finalized an exclusive, long-term agreement with Children's Television Workshop to develop, produce, and distribute *Sesame Street* audio, film, and home video titles.

Sony Music Video and MTV: Music Television launched a new line of home video and audio product based on popular MTV programming as well as original titles.

SMEI established an Internet site and a New Technologies & Business Development Department, which released its first CD-ROM title and announced a new product line based on the enhanced music CD format CD Plus, which combines normal CD audio tracks with CD-ROM data in one disc.

Columbia Records Group launched a new label, The WORK Group, based at SMEI's West Coast headquarters in Santa Monica, California.

Sony Music Entertainment Inc.

SMEI realized all-time-high revenues and profits in the fiscal year ended March 31, 1995. Columbia Records Group and Epic Records Group each bettered their previous year's results, and SMEI artists and recordings received 22 Grammy Awards, more than any other competitor.

Mariah Carey's *Music Box* album sold an additional 11 million units during the fiscal year, with aggregate sales exceeding 20 million units worldwide. Her *Merry Christmas* album and Pearl Jam's *Vitalogy* album each sold 7 million units worldwide, the two-CD *Forrest Gump* soundtrack sold nearly 6 million units, and Bruce Springsteen's *Greatest Hits* sold over 4 million units. *The Best of Sade*, Celine Dion's *The Colour of My Love*, Pink Floyd's *The Division Bell*, and Luther Vandross's *Songs* each sold more than 3 million units. New releases by Gloria Estefan, Julio Iglesias, Cyndi Lauper, and Roberto Carlos, as well as the *Philadelphia* soundtrack, each sold 2 million or more units during the fiscal year.

Two debut artists, Da Brat and Patra, were named *Billboard* magazine's Top Rap Artist and Top Reggae Artist, respectively, of 1994. Debut releases by



The Colour of My Love was Celine Dion's breakthrough album, elevating her to superstar status around the world.

Greatest Hits highlights Bruce Springsteen's career, which reached new peaks after he won Grammy and Academy Awards for his song "Streets of Philadelphia."





Yo-Yo Ma's recording of Stephen Albert's Cello Concerto was recognized with two Grammy Awards.

Da Brat, Oasis, and Rage Against the Machine, as well as second albums by Jamiroquai and Des'ree, each sold a million or more units, while debut albums by MC Eiht, Patra, and Brownstone sold over 500,000 units each. Releases by Barbra Streisand, Babyface, Mary Chapin Carpenter, Gipsy Kings, Harry Connick, Jr., Spin Doctors, Joe Diffie, Vicente Fernandez, Francis Cabrel, and ZeZe di Camargo & Luciano each sold more than a million units.

A new management team lifted Sony Music Nashville to record success. Multiple Grammy Award winner Mary Chapin Carpenter, Joe Diffie, Grammy Award nominee Patty Loveless, and Collin Raye sparked growing sales, and such new artists as Ken Mellons, Rick Trevino, Ty Herndon, and Wade Hayes, whose debut single sold over 500,000 units, were positioned to break through in 1995.

Sony Music International's (SMI's) best-ever revenues and profits were led by the worldwide success of albums by Mariah Carey and Pearl Jam and the *Forrest Gump* soundtrack. International best-sellers contributing to record results included releases by Sade, Celine Dion, Cyndi Lauper, Roberto Carlos, ZeZe di Camargo & Luciano, Vicente Fernandez, Julio Iglesias, Gipsy Kings, Ricardo Arjona, Jamiroquai, Francis Cabrel, and Ana Gabriel. Broadening its local Artist and Repertoire activities, SMI acquired music companies in Germany and Denmark and moved its Asian regional headquarters from Singapore to Hong Kong concurrent with its acquisition of Sony Music Hong Kong, now a wholly owned subsidiary.



Mary Chapin Carpenter is the only artist ever to have won the Grammy Award for Best Country Vocal Performance, Female, for four consecutive years.

Music Box became the best-selling album by a female artist in the 1990s, and *Merry Christmas* became SMEJ's best-selling album of all time by a non-Japanese artist.



Music Group

Forrest
Gump
The
Soundtrack

The *Forrest Gump* soundtrack became Epic Records' biggest-selling soundtrack of all time and garnered Grammy and Academy Award nominations.

Sony Classical's accomplishment with traditional and contemporary repertoire was recognized with three Grammy Awards. The *Immortal Beloved* soundtrack complemented the Columbia film and sold half a million units. Other best-selling releases included *Christmas in Vienna II*, *Christmas in Vienna*, and *All-Star Tenors Salute The World*. The Infinity Digital series generated sales of over 2 million units worldwide. A partnership venture label exploring spiritually inspired music, Arc of Light, and a new label, St. Petersburg Classics, probing a variety of repertoire performed by leading Soviet artists, were launched. A CD-ROM musical adventure, *Music Magician*, was produced and included with initial U.S. shipments of Sony's CD-ROM Discman.

Sony Classical Film & Video produced *Marsalis on Music*, an original music education series to be broadcast by the BBC and PBS during 1995, with Wynton Marsalis as author and host and featuring a companion book and CD-ROM.

Sony Music Entertainment (Japan) Inc. (SMEJ)

SMEJ enjoyed a sharp rise in sales in its non-Japanese repertoire category, buoyed by Mariah Carey's *Merry Christmas* album and other hit titles, while releases from such Japanese artists as TUBE, Kome Kome Club, and Dreams Come True made a strong contribution to sales.

The perennially popular group TUBE's album *Owaranai Natsu Ni* has sold over 1.3 million copies.



DECADE



K 2 C

DECADE, an album released in honor of the 10th anniversary of Kome Kome Club's debut, became a million-selling hit.

Pictures Group ENTERTAINMENT

Columbia's action hit *Bad Boys* helped propel SPE's rejuvenated motion picture business to a fast start at the U.S. box office in 1995.



Columbia's *Little Women*, based on the classic Louisa May Alcott novel, was a critically acclaimed 1994 holiday hit.

With the goodwill write-off and additional losses recorded in the second quarter of the fiscal year, Sony Pictures Entertainment (SPE) took significant steps to restructure and revitalize its motion picture business. During the year, SPE also extended its leadership in the television, home video, and theatrical exhibition businesses, positioning the company for long-term success.

Motion Picture Business

During the year, SPE's motion picture companies launched initiatives to restructure their marketing and distribution operations, reduce overhead, increase production starts, and revitalize their development pipelines. As part of SPE's continuing efforts to reduce costs and enhance distribution clout, Sony Pictures Releasing was formed in September 1994 to distribute all films from Columbia Pictures, TriStar Pictures, and Triumph Films. The motion picture companies also continued efforts to manage financial risks by strengthening business alliances with independent production companies.

SPE's motion picture companies put 11 films into production during the fourth quarter as part of their ongoing strategy to release 35 to 40 motion pictures a year. These films—including TriStar's *Jumanji*, starring Robin Williams, and Columbia's *Money Train*, teaming Woody Harrelson and Wesley Snipes, and *The Juror*, starring Demi Moore and Alec Baldwin—represent a wide range of motion pictures in many genres based on SPE's strong relationships with the top creative talent in the filmed entertainment community. In addition, Triumph has assembled its first full slate of releases, and Sony Pictures Classics continues its leadership in the prestigious specialized film arena.

TriStar's *Legends of the Fall* was number one at the U.S. box office for four consecutive weeks in January and February 1995.



Pictures Group



Sony Pictures Classics won its third consecutive Academy Award for Best Foreign Language Film with Russia's *Burnt by the Sun*.

After several disappointing quarters, SPE's motion picture business achieved increased momentum during late 1994 and early 1995, resulting in a string of critical and commercial hits, including Columbia's action hit *Bad Boys*, *Little Women*, and *Higher Learning* and TriStar's epic *Legends of the Fall*.

SPE's motion picture business also achieved several strong performances in the international marketplace, including TriStar's blockbuster *Philadelphia*, which had grossed more than \$200 million worldwide by mid-1994. TriStar's *Legends of the Fall* and Columbia's *Bad Boys* are on their way to becoming worldwide hits.

Television Business

Sony Television Entertainment (STE), which was recently restructured to encompass Columbia TriStar Television, Columbia TriStar Television Distribution, and Columbia TriStar International Television, expanded into a wide range of new programming formats and key territories throughout the global marketplace while maintaining its strength within its traditional core businesses. Many of the television business's initiatives were designed to position SPE for leadership in the electronic distribution arena of the future.

As part of SPE's global strategy, STE continued to make numerous channel investments and forge other pay television alliances throughout the international arena, including HBO Ole in Latin America, VIVA Television in Germany, Galaxy/Australis in Australia, TV1000 in Scandinavia, Star TV and HBO Asia in the Far East, Sony Entertainment Television in Latin America, and CityTV in Canada. In addition, STE launched the Game Show Network, a unique, interactive, 24-hour basic cable service.

SPE's television business maintained its leadership in daytime programming with the top-ranked soap operas *Days of Our Lives* and *The Young and the Restless*, while its top two game shows, *Wheel of Fortune* and *Jeopardy!*, were renewed through the end of the decade.



TriStar Television's *Mad About You* was cowinner of the 1994 Golden Globe Award for Best Comedy Series.

STE has formed a series of key alliances as part of SPE's strategic plan to position itself at the forefront of electronic distribution worldwide.





Columbia TriStar Television Distribution's (CTTD's) *Ricki Lake* charted new ground as the fastest-growing talk show in television history. Television's highest-rated and most popular network series, *Seinfeld*, also distributed by CTTD, is one of the industry's most eagerly anticipated off-network syndication launches and will be seen six days a week beginning in the Fall 1995 season. CTTD began plans for its next off-network syndication sale, TriStar Television's hit comedy series *Mad About You*.

Columbia TriStar Home Video (CTHV) was named the Top Video Rental Manufacturer for 1994, the third straight year it has earned this distinction. CTHV titles achieved the top three home video rental spots in the United States in 1994 with TriStar's *Sleepless In Seattle* and *Philadelphia* and Columbia/Castle Rock's *In the Line of Fire*.

Theatrical Exhibition

Sony Theatres has now been integrated into the newly created Sony Retail Entertainment division to capitalize on emerging opportunities in location-based entertainment technology. The highly successful chain recently opened five new theatre locations, including its flagship 12-screen, state-of-the-art theatrical exhibition complex in New York City—Sony Theatres Lincoln Square, featuring an IMAX™ theatre fully equipped with 3D video and advanced sound. Sony Theatres now operates 170 locations with 945 screens in 15 states. In March 1995, Sony Theatres announced the proposed construction of a second IMAX™ theatre in San Francisco.

Studio Facilities/Technology

Following the completion of its Culver City world headquarters, SPE continued to develop new in-house technologies to enhance the efficiency and excitement of its filmed entertainment products and to catalyze business opportunities throughout the Sony Group. Sony Pictures Imageworks, which specializes in motion picture special effects and production planning through previzualization sequences, achieved acclaim for its work on TriStar's *Hideaway* and Fox's blockbuster *Speed*. This technology group is positioned to serve as the foundation for a broad array of opportunities in many entertainment markets.

Sony Theatres Lincoln Square is the home of one of New York City's most popular new landmarks, the 600-seat IMAX™ theatre.

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Standing Statutory Auditors

Eijiro Oki

Akihisa Ohnishi

Yoshisuke Mohri

Statutory Auditor

Tsunehiko Ishizuka

(As of April 1, 1995)

Analysis of Operations

Sony's **sales and operating revenue** (herein referred to as "sales") during the fiscal year ended March 31, 1995, amounted to ¥3,983.4 billion (\$44,758 million), a 6.7% increase from the previous fiscal year.

The Japanese economy remained lackluster, reflecting the unprecedented appreciation of the yen and sluggish stock markets, although there were temporary signs of recovery in personal consumption. Sony's sales in Japan rose 7.3% from the previous year, to ¥1,098.4 billion (\$12,342 million), supported by a strong performance in Televisions and the introduction of the PlayStation 32-bit video game system.

Overseas, the U.S. economy continued to expand and the European economies headed toward recovery. Furthermore, the Asian economies saw high growth. Sony's sales in the United States fell 0.2%, to ¥1,152.1 billion (\$12,945 million), due to the appreciation of the yen and a decline in Pictures Group sales. In Europe, sales advanced 8.7%, to ¥905.4 billion (\$10,173 million). This advance was supported by growth in overall Electronics Business sales, led by strong sales in Televisions, and a favorable performance in the Music Group. In Other Areas, sales rose 14.5%, to ¥827.5 billion (\$9,298 million), due to the continuing exceptionally healthy expansion of Electronics Business in Asia.

Impact of foreign exchange trends

During the year under review, overseas sales were denominated approximately 61% in U.S. dollars, 8% in deutsche mark, 6% in Singapore dollars, and 5% in pounds sterling. In total, approximately 97% of overseas sales were denominated in foreign currencies. In terms of average rate, the yen rose

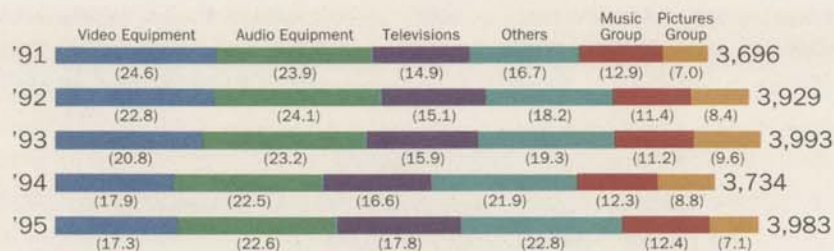
approximately 9% against the U.S. dollar, 1% against the deutsche mark, and 5% against the pound sterling. If the value of the yen had remained the same as in the previous fiscal year, consolidated sales would have generated an increase estimated at approximately ¥185 billion (\$2,079 million) over the reported figure. On a local currency basis, sales in the United States rose approximately 12% in the Electronics Business and 15% in the Music Group and fell 9% in the Pictures Group. On the same basis, in Europe, sales in the Electronics Business rose approximately 13%, and those in Other Areas increased 23%.

To minimize the adverse effects of foreign exchange fluctuations on its financial results, Sony promotes the localization of its operations, from R&D to design, materials and parts procurement, and manufacturing. During the year under review, approximately 42% of total manufacturing in Sony's Electronics Business was conducted outside Japan, and the percentage is expected to rise in the future. Foreign exchange forward contracts and foreign currency options are employed to hedge foreign exchange risks in export and import transactions of Sony Corporation and its consolidated subsidiaries. In addition, currency swap agreements are arranged for certain foreign currency denominated borrowings and debt.

Write-off of goodwill

During the second quarter of the fiscal year ended March 31, 1995, Sony decided to make an important change in its method of accounting for assessing the carrying value of its investments in acquired businesses, including goodwill. The effect of this accounting change was to reduce the goodwill associated with the acquisition of Columbia Pictures Entertainment,

Sales by Product Group (Percent of Consolidated Sales)
(Billion ¥, %)



Sales by Area (Percent of Consolidated Sales)
(Billion ¥, %)



now named Sony Pictures Entertainment (SPE), by ¥265.2 billion (\$2,979 million) (refer to Note 3 of Notes to Consolidated Financial Statements).

Since Sony acquired SPE in 1989, SPE had grown to become one of the top-tier companies in the motion picture industry, achieving top-level U.S. box office revenues for three consecutive years until 1993. After this, however, SPE's performance began to deteriorate, and the company recorded a significant operating loss during the fiscal year ended March 31, 1994. In light of Sony's substantial investment, SPE had not provided adequate returns. In conjunction with the resignation of SPE's top management, Sony reevaluated its investment strategy in the Pictures Group. As a result, Sony concluded that additional funding would be necessary. Based on this decision, Sony reevaluated its method of assessing the carrying value of its investments in acquired businesses and wrote off a portion of goodwill in the Pictures Group representing the unrecoverable amount of its investment. This write-off of goodwill did not have any impact on cash flows.

Also during the second quarter of the year under review, additional losses amounting to approximately ¥50 billion (\$562 million) were incurred in the Pictures Group, arising from a combination of unusual items, such as abandoning a large number of projects in development and providing for settlement of outstanding lawsuits and contract claims.

From the latter part of the year under review, Sony has begun rebuilding and strengthening the Pictures Group and is working to revitalize the three core businesses in the group: motion pictures, television programming and distribution, and theatrical exhibition. In an intensive effort to streamline operations and raise efficiency in its motion picture operations, the Pictures Group has been tightening control over movie production and overhead costs, and during the year it integrated the distribution and marketing divisions of its two studios to simplify its organization and reduce costs. In addition, to create more opportunities to generate new revenue, the Pictures Group has increased production starts while

minimizing financial risks in film production by strengthening business alliances with independent production companies.

Cost of sales rose 5.8%, to ¥2,916.5 billion (\$32,769 million), and the ratio of cost of sales to consolidated sales improved 0.6 percentage point, to 73.2%. Despite additional losses in the Pictures Group, the improvement in the cost of sales ratio is indicative of Companywide efforts to reduce costs in the Electronics Business and a decrease in depreciation and amortization expenses resulting from efforts to limit capital expenditures during the past three fiscal years.

Research and development expenses rose 4.0% from the previous year, to ¥239.2 billion (\$2,687 million), but as a percentage of consolidated sales edged down 0.2 percentage point, to 6.0%. Sony believes that R&D activities are critical to its medium- and long-term growth and expects that R&D expenses for the fiscal year ending March 31, 1996, will be maintained at approximately the same level as in the year under review.

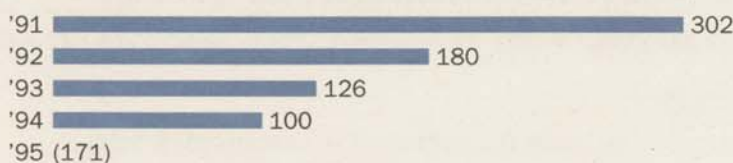
Selling, general and administrative expenses increased 10.7%, to ¥972.4 billion (\$10,926 million), reflecting an increase in expenses for sales promotions and additional losses in the Pictures Group. These expenses as a percentage of consolidated sales increased 0.9 percentage point, to 24.4%. As a result of the write-off of goodwill in the Pictures Group (mentioned previously under "Write-off of goodwill"), amortization of goodwill for the Pictures Group included in selling, general and administrative expenses declined approximately ¥4.7 billion (\$53 million).

Due to the write-off of goodwill and additional losses in the Pictures Group, Sony posted an **operating loss** of ¥170.6 billion (\$1,917 million), compared with operating income of ¥99.7 billion (\$1,120 million) in the previous year.

Other income fell 25.8%, to ¥89.2 billion (\$1,002 million), due chiefly to a decline in foreign exchange gain, net, and a decrease in interest income accompanying lower interest rates in Japan.

Other expenses were up 18.5%, to ¥139.5 billion (\$1,567

Operating Income (Loss) (Billion ¥)



R&D Expenses (Percent of Consolidated Sales) (Billion ¥, %)



million), reflecting an increase in loss on disposal and sales of fixed assets accompanying the merging and streamlining of certain manufacturing subsidiaries.

Among other income and expenses, the balance of interest and dividend income less interest expenses resulted in net interest payments of ¥35.3 billion (\$397 million), a deterioration of ¥4.5 billion (\$51 million) from the previous year.

As a result of the aforementioned factors, Sony recorded a **loss before income taxes** of ¥220.9 billion (\$2,483 million) and a **net loss** of ¥293.4 billion (\$3,296 million), compared with income before income taxes of ¥102.2 billion (\$1,148 million) and net income of ¥15.3 billion (\$172 million) in the previous year. Sony registered a **net loss per Depositary Share** (each Depositary Share represents one share of Common Stock) of ¥696.9 (\$7.83), compared with net income per Depositary Share of ¥42.1 (\$0.47) in the previous year.

Segment Information

The following discussion is based on segment information (refer to Note 17 of Notes to Consolidated Financial Statements) and differs from the breakdown of sales described previously (refer to Note 2 of Composition of Sales and Operating Revenue by Area and Product Group).

By industry segment, sales in the Electronics Business rose 9.0% and operating income surged 36.2%, reflecting the rise in sales and cost-cutting efforts, including companywide streamlining and expansion of overseas production. Operating income as a percentage of sales in the Electronics Business thus rose from 3.1% to 3.8%.

In the Entertainment Business, however, sales fell 1.6% and an operating loss of ¥273.3 billion (\$3,070 million) was recorded due to the write-off of goodwill and additional losses in the Pictures Group. However, in the second half of the year under review, the Pictures Group returned to profitability, compared with an operating loss for the same period of the previous year. This was a result of several successful films

released during the fourth quarter, such as *Legends of the Fall* and *Little Women*, efforts to rebuild the group's business, and decreased amortization charges following the write-off of goodwill. Operating income in the Music Group fell below the previous year's level due primarily to the appreciation of the yen.

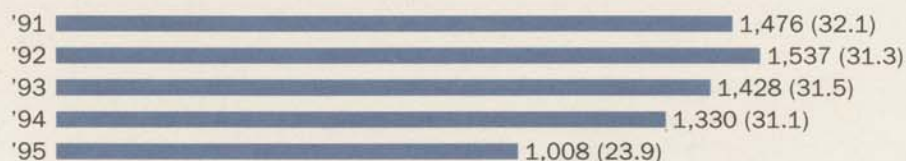
By geographic area, sales fell 4.0% in the United States due to the appreciation of the yen and the decline in Pictures Group sales, but sales in Japan, Europe, and Other Areas rose 14.7%, 9.5%, and 27.9%, respectively. Due to the write-off of goodwill and additional losses recorded in the Pictures Group, an operating loss was recorded in the United States. However, substantial gains in operating income of 31.6%, 18.3%, and 30.1%, respectively, were recorded in Japan, Europe, and Other Areas, corresponding to operating income as a percentage of net sales of 2.7%, 5.9%, and 4.6%, all higher than the previous year's figures. The growth in sales and operating income in Japan was attributable to an increase in the export sales of Sony Corporation resulting from the readjustment of certain business operations related to the manufacture of products and their export to the United States and Europe that had previously been entrusted to subsidiaries in Southeast Asia. The rise in sales and operating income in Other Areas reflected market expansion and increased production in Asia.

Financial Position and Liquidity

At March 31, 1995, **total assets** of Sony and its consolidated subsidiaries amounted to ¥4,223.9 billion (\$47,460 million), a 1.1% decrease from the ¥4,269.9 billion (\$47,976 million) recorded at the previous fiscal year-end. The decline in total assets was primarily due to a ¥303.1 billion (\$3,406 million) decrease in goodwill resulting from the write-off of goodwill, which offset a ¥170.3 billion (\$1,913 million) increase in securities investments and other due to the adoption of Statement of Financial Accounting Standards No. 115 (refer to Note 8 of Notes to Consolidated Financial Statements).

During the year under review, Sony Corporation increased

Stockholders' Equity (Percent of Total Assets)
(Billion ¥, %)



Stockholders' Equity Per Depositary Share
(¥)



equity capital of its subsidiary Sony Corporation of America by approximately ¥350 billion (\$3,933 million) to improve the financial condition of its U.S. operations, including the Pictures Group. To generate a portion of the necessary funds, Sony Corporation issued commercial paper and took out short-term bank loans in Japan. As a result, among liabilities, although long-term debt decreased, short-term borrowings rose ¥152.7 billion (\$1,715 million) from the previous year-end, and total borrowings and debt increased ¥20.7 billion (\$232 million).

Stockholders' equity fell ¥321.8 billion (\$3,615 million), to ¥1,007.8 billion (\$11,324 million), due to a sharp drop in retained earnings associated with the losses resulting from the write-off of goodwill and additional losses in the Pictures Group. The ratio of stockholders' equity to total assets thus decreased substantially, from 31.1% to 23.9%. Based on the number of shares outstanding at March 31, 1995, **stockholders' equity per Depositary Share** decreased to ¥2,695.31 (\$30.28), compared with ¥3,557.57 (\$39.97) at the previous year-end.

Cash Flows

Among **cash flows from operating activities**, depreciation and amortization fell 8.1%, to ¥219.8 billion (\$2,470 million). This amount includes the amortization of goodwill and intangibles arising from the acquisition of the Sony Music Entertainment group and SPE but does not include the ¥265.2 billion (\$2,979 million) write-off of goodwill in the Pictures Group. The decrease in depreciation and amortization reflects efforts to limit capital expenditures during the past three fiscal years and the decrease in amortization of goodwill associated with the write-off of goodwill in the Pictures Group. Net cash provided by operating activities amounted to ¥181.9 billion (\$2,044 million) after additions to and subtractions from net loss of

those items that are charged or credited to income not requiring funds, such as the write-off of goodwill in the Pictures Group and depreciation and amortization, and those items that arise as a result of operations, such as changes in notes and accounts receivable and inventories.

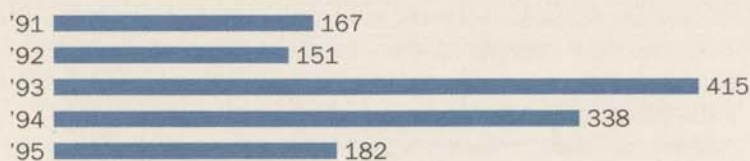
In **cash flows from investing activities**, net cash used in investing activities amounted to ¥277.9 billion (\$3,123 million), up from ¥216.3 billion (\$2,431 million) in the previous fiscal year, reflecting an increase in payments for purchases of marketable securities and a decline in proceeds from sales of investment securities and collections of advances.

In **cash flows from financing activities**, net cash provided by financing activities was ¥93.1 billion (\$1,046 million), reflecting a substantial increase in short-term borrowings accompanying Sony's issuance of commercial paper and taking out of bank loans, despite lower proceeds from issuance of long-term debt compared with the previous year.

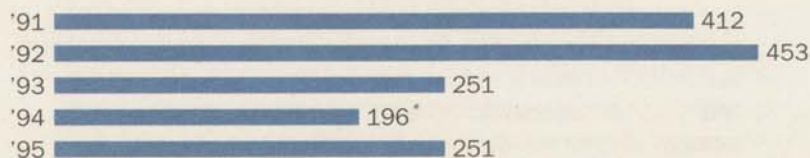
As a consequence of the previously mentioned activities, the **net decrease in cash and cash equivalents**, including the effect of exchange rate changes on cash and cash equivalents, amounted to ¥8.7 billion (\$97 million), and cash and cash equivalents at end of year totaled ¥475.6 billion (\$5,343 million).

Capital expenditures during the year under review increased 27.9%, to ¥250.7 billion (\$2,817 million). The largest single item included was approximately ¥40.0 billion (\$449 million) for expanding semiconductor facilities. In the fiscal year ending March 31, 1996, Sony intends to further increase its capital expenditures. In overseas markets, Sony will expand its overall production capabilities, primarily for audio equipment and color televisions in Asia and computer displays in the United States. In Japan, expenditures for expanding manufacturing facilities for semiconductors, lithium-ion batteries, and CRTs will be increased.

Net Cash Provided by Operating Activities (Billion ¥)



Capital Expenditures (Billion ¥)



QUARTERLY FINANCIAL AND STOCK INFORMATION

Sony Corporation and Consolidated Subsidiaries

(Unaudited)

Year ended March 31

Dollars in millions
except per share
amounts

	Yen in billions except per share amounts								except per share amounts
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		4th Quarter
	1994	1995	1994	1995	1994	1995	1994	1995	1995
Sales and operating revenue.....	¥828.7	¥864.5	¥938.4	¥ 972.8	¥1,067.0	¥1,143.4	¥899.6	¥1,002.7	\$11,266.6
Cost of sales.....	598.4	613.9	705.5	738.7	766.8	821.5	685.1	742.3	8,340.5
Selling, general and administrative expenses.....	205.0	218.8	220.7	264.5	230.0	251.0	222.5	238.2	2,676.1
Operating income (loss).....	25.3	31.8	12.2	(295.6)	70.2	70.9	(8.0)	22.3	250.0
Interest income (expense), net	(7.8)	(8.4)	(7.7)	(9.8)	(8.4)	(9.4)	(6.9)	(7.7)	(86.2)
Foreign exchange gain (loss), net.....	20.4	7.5	12.0	6.7	(0.1)	2.9	3.2	5.7	64.2
Income (loss) before income taxes.....	38.6	23.6	18.0	(303.5)	56.5	59.2	(10.9)	(0.1)	(1.6)
Income taxes.....	29.2	17.7	13.6	8.8	36.3	31.0	(0.4)	7.7	86.5
Net income (loss).....	7.7	3.9	2.3	(313.5)	16.8	25.3	(11.5)	(9.1)	(101.7)
Net income (loss) per Depositary Share	¥ 19.8	¥ 10.7	¥ 6.8	¥(749.0)	¥ 41.6	¥ 61.8	¥ (26.2)	¥ (20.3)	\$ (0.23)
Depreciation and amortization	¥ 56.8	¥ 50.8	¥ 57.6	¥ 55.9*	¥ 59.1	¥ 54.6	¥ 65.7	¥ 58.6	\$ 657.9
Capital expenditures (additions to fixed assets)	51.6	41.8	44.8	56.7	34.4	50.1	65.2	102.1	1,147.1
R&D expenses.....	52.1	52.5	65.3	60.7	63.0	59.2	49.5	66.7	749.5
Tokyo Stock Exchange price per share of Common Stock:									
High.....	¥5,100	¥6,440	¥4,720	¥ 6,310	¥ 5,570	¥ 6,010	¥6,460	¥ 5,720	\$ 64.27
Low.....	4,240	5,590	4,250	5,640	4,420	5,000	5,490	3,990	44.83
New York Stock Exchange price per American Depositary Share:									
High.....	\$45	\$61 ³ / ₈	\$ 44 ³ / ₄	\$ 63 ¹ / ₄	\$ 50 ⁵ / ₈	\$ 60 ⁷ / ₈	\$ 61 ³ / ₄	\$ 56 ¹ / ₈	
Low.....	38 ¹ / ₄	54 ¹ / ₄	39 ³ / ₈	57 ¹ / ₄	41 ⁷ / ₈	50 ³ / ₈	49 ³ / ₈	42 ¹ / ₂	

*Excluding write-off of goodwill in the second quarter of the fiscal year ended March 31, 1995

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥89=U.S.\$1, the approximate Tokyo foreign exchange market rate as of March 31, 1995.

- Net income (loss) per Depositary Share is computed based on the average number of common shares outstanding during each period after consideration of the dilutive effect of common stock equivalents.
- The consolidated results for the second quarter of the fiscal year ended March 31, 1995 reflect the write-off of goodwill of ¥265 billion (\$2,979 million) in the Pictures Group (refer to Note 3 of Notes to Consolidated Financial Statements) and second-quarter losses in the Pictures Group of approximately ¥50 billion (\$562 million) arising from a combination of unusual items, such as abandoning a large number of projects in development and providing for settlement of outstanding lawsuits and contract claims.
- Effective April 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 115 (FAS 115), Accounting for Certain Investments in Debt and Equity Securities. As a result of applying the provisions of FAS 115, unrealized holding gains on available-for-sale securities have been recognized and presented as a separate component of stockholders' equity on a net-of-tax basis. This accounting change had no material effect on retained earnings at April 1, 1994 and net loss for the year ended March 31, 1995.
- Effective April 1, 1993, the Company adopted Statements of Financial Accounting Standards No. 106 (FAS 106), Employers' Accounting for Postretirement Benefits Other Than Pensions, and No. 109 (FAS 109), Accounting for Income Taxes. The Company elected to immediately recognize the cumulative effect of adoption of FAS 106 and FAS 109 as of April 1, 1993 as a one-time adjustment. The cumulative effect of the accounting changes to FAS 106 and FAS 109 was immaterial.

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Sony Corporation and Consolidated Subsidiaries

Year ended March 31

	Yen in millions except per share amounts					Dollars in thousands except per share amounts
	1991	1992	1993	1994	1995	1995
FOR THE YEAR						
Sales and operating revenue	¥3,695,508	¥3,928,667	¥3,992,918	¥3,733,721	¥3,983,438	\$44,757,730
Operating income (loss).....	302,181	179,549	126,460	99,668	(170,621)	(1,917,090)
Income (loss) before income taxes..	270,697	216,139	92,561	102,162	(220,948)	(2,482,562)
Income taxes.....	152,398	90,327	49,794	78,612	65,173	732,281
Net income (loss)	116,925	120,121	36,260	15,298	(293,356)	(3,296,135)
Per Depositary Share:						
Net income (loss)	¥ 285.9	¥ 293.1	¥ 92.2	¥ 42.1	(696.9)	\$ (7.83)
Cash dividends	50.0	50.0	50.0	50.0	50.0	0.56
Depreciation and amortization	¥ 214,116	¥ 265,208	¥ 274,477	¥ 239,126	¥ 219,836*	\$ 2,470,067*
Capital expenditures						
(additions to fixed assets)	411,652	453,115	251,117	195,937	250,678	2,816,607
R&D expenses.....	205,787	240,591	232,150	229,877	239,164	2,687,236
AT YEAR-END						
Net working capital	¥ 129,904	¥ 306,553	¥ 367,009	¥ 616,089	¥ 537,739	\$ 6,042,011
Stockholders' equity	1,476,414	1,536,795	1,428,219	1,329,565	1,007,808	11,323,685
Stockholders' equity per Depositary						
Share.....	¥ 3,964.04	¥ 4,119.23	¥ 3,827.39	¥ 3,557.57	¥ 2,695.31	\$ 30.28
Total assets	¥4,602,495	¥4,911,129	¥4,529,830	¥4,269,885	¥4,223,920	\$47,459,775
Average number of shares						
outstanding during the year						
(thousands of shares)	417,202	417,599	417,687	417,454	417,665	
Number of shares issued at						
year-end (thousands of shares).....	338,593	373,078	373,158	373,728	373,911	

*Excluding write-off of goodwill in the second quarter of the fiscal year ended March 31, 1995

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥89=U.S.\$1, the approximate Tokyo foreign exchange market rate as of March 31, 1995.

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

3. The consolidated results for the fiscal year ended March 31, 1995 reflect the write-off of goodwill of ¥265 billion (\$2,979 million) in the second quarter in the Pictures Group (refer to Note 3 of Notes to Consolidated Financial Statements) and second-quarter losses in the Pictures Group of approximately ¥50 billion (\$562 million) arising from a combination of unusual items, such as abandoning a large number of projects in development and providing for settlement of outstanding lawsuits and contract claims.

4. Effective April 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 115 (FAS 115), Accounting for Certain Investments in Debt and Equity Securities. As a result of applying the provisions of FAS 115, unrealized holding gains on available-for-sale securities have been recognized and presented as a separate component of stockholders' equity on a net-of-tax basis. This accounting change had no material effect on retained earnings at April 1, 1994 and net loss for the year ended March 31, 1995.

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

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

COMPOSITION OF SALES AND OPERATING REVENUE BY AREA AND PRODUCT GROUP

Sony Corporation and Consolidated Subsidiaries
Year ended March 31

	Yen in millions					Dollars in thousands
	1991	1992	1993	1994	1995	1995
SALES AND OPERATING REVENUE BY AREA						
Japan	¥1,024,484	¥1,057,648	¥1,028,207	¥1,023,692	¥1,098,394	\$12,341,506
	27.7%	26.9%	25.8%	27.4%	27.6%	
United States	1,055,448	1,119,174	1,215,954	1,154,454	1,152,081	12,944,730
	28.6	28.5	30.4	30.9	28.9	
Europe	1,017,804	1,080,005	1,039,802	832,751	905,416	10,173,213
	27.5	27.5	26.0	22.3	22.7	
Other Areas	597,772	671,840	708,955	722,824	827,547	9,298,281
	16.2	17.1	17.8	19.4	20.8	
Sales and operating revenue.....	¥3,695,508	¥3,928,667	¥3,992,918	¥3,733,721	¥3,983,438	\$44,757,730
SALES AND OPERATING REVENUE BY PRODUCT GROUP						
Video Equipment.....	¥ 908,399	¥ 896,379	¥ 828,366	¥ 668,537	¥ 691,116	\$ 7,765,348
	24.6%	22.8%	20.8%	17.9%	17.3%	
Audio Equipment.....	881,777	947,770	928,010	840,723	898,507	10,095,584
	23.9	24.1	23.2	22.5	22.6	
Televisions	552,464	592,616	633,723	617,901	708,574	7,961,506
	14.9	15.1	15.9	16.6	17.8	
Others.....	619,269	713,082	771,779	817,060	908,633	10,209,360
	16.7	18.2	19.3	21.9	22.8	
Total Electronics Business.....	2,961,909	3,149,847	3,161,878	2,944,221	3,206,830	36,031,798
	80.1	80.2	79.2	78.9	80.5	
Music Group	476,057	449,601	446,506	461,752	494,931	5,561,022
	12.9	11.4	11.2	12.3	12.4	
Pictures Group	257,542	329,219	384,534	327,748	281,677	3,164,910
	7.0	8.4	9.6	8.8	7.1	
Total Entertainment Business ...	733,599	778,820	831,040	789,500	776,608	8,725,932
	19.9	19.8	20.8	21.1	19.5	
Sales and operating revenue.....	¥3,695,508	¥3,928,667	¥3,992,918	¥3,733,721	¥3,983,438	\$44,757,730

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥89=U.S.\$1, the approximate Tokyo foreign exchange market rate as of March 31, 1995.

2. The above sales classification shows sales and operating revenue recognized by geographic location of the buyer and product group and does not include intersegment transactions. Therefore, it is different from business segment information in Note 17 of Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

Sony Corporation and Consolidated Subsidiaries

March 31

	Yen in millions		Dollars in thousands (Note 2)
	1994	1995	1995
ASSETS			
Current assets:			
Cash and cash equivalents (Notes 5 and 10).....	¥ 484,231	¥ 475,555	\$ 5,343,315
Time deposits (Note 10).....	45,095	16,173	181,719
Marketable securities (Note 8).....	35,756	66,617	748,506
Notes and accounts receivable, trade (Notes 7 and 10).....	592,774	675,111	7,585,516
Allowance for doubtful accounts and sales returns	(45,485)	(48,185)	(541,404)
Inventories (Note 6)	671,992	723,383	8,127,899
Deferred income taxes (Note 12)	70,968	77,883	875,089
Prepaid expenses and other current assets	168,397	160,161	1,799,562
Total current assets	2,023,728	2,146,698	24,120,202
 Noncurrent inventories—film (Note 6)	 168,133	 141,651	 1,591,584
 Investments and advances:			
Affiliated companies	23,189	39,313	441,719
Securities investments and other (Note 8)	275,288	445,539	5,006,056
	298,477	484,852	5,447,775
 Property, plant and equipment (Notes 9 and 15):			
Land	155,897	153,347	1,723,000
Buildings	617,752	638,282	7,171,708
Machinery and equipment	1,449,980	1,481,053	16,641,045
Construction in progress	55,681	65,312	733,843
	2,279,310	2,337,994	26,269,596
Less—Accumulated depreciation	1,229,888	1,308,693	14,704,416
	1,049,422	1,029,301	11,565,180
 Other assets:			
Intangibles (Note 4)	100,994	82,555	927,584
Goodwill (Notes 3 and 4)	424,482	121,383	1,363,854
Other (Note 12)	204,649	217,480	2,443,596
	730,125	421,418	4,735,034
	¥4,269,885	¥4,223,920	\$47,459,775

The accompanying notes are an integral part of these statements.

	Yen in millions		Dollars in thousands (Note 2)
	1994	1995	1995
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings (Notes 9 and 10)	¥ 256,284	¥ 408,943	\$ 4,594,865
Current portion of long-term debt (Notes 9, 10 and 15).....	109,960	55,204	620,270
Notes and accounts payable, trade (Notes 7 and 10)	552,593	624,932	7,021,708
Notes payable, construction	7,303	11,878	133,460
Dividends payable.....	9,528	9,539	107,180
Accrued income and other taxes	67,808	73,686	827,933
Other accounts payable and accrued liabilities (Notes 11 and 12).....	404,163	424,777	4,772,775
Total current liabilities.....	1,407,639	1,608,959	18,078,191
Long-term liabilities:			
Long-term debt (Notes 9, 10 and 15)	983,712	906,486	10,185,236
Accrued pension and severance costs (Note 11)	97,412	109,888	1,234,697
Deferred income taxes (Note 12)	65,418	125,448	1,409,528
Other long-term liabilities.....	290,019	366,191	4,114,505
	1,436,561	1,508,013	16,943,966
Minority interest in consolidated subsidiaries	96,120	99,140	1,113,933
Stockholders' equity (Note 13):			
Common stock, ¥50 par value—			
Authorized: 1,350,000,000 shares			
Issued: 1994—373,728,323 shares	299,194		
1995—373,911,490 shares		299,589	3,366,169
Additional paid-in capital.....	440,845	441,241	4,957,764
Legal reserve.....	23,382	27,620	310,337
Unrealized gain on securities (Note 8)	—	64,972	730,022
Retained earnings appropriated for special allowances	18,071	16,169	181,674
Retained earnings.....	883,776	569,384	6,397,573
Cumulative translation adjustment	(335,703)	(411,167)	(4,619,854)
	1,329,565	1,007,808	11,323,685
Commitments and contingent liabilities (Note 16)			
	¥4,269,885	¥4,223,920	\$47,459,775

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Sony Corporation and Consolidated Subsidiaries

Year ended March 31

	Yen in millions			Dollars in thousands (Note 2)
	1993	1994	1995	1995
Sales and operating revenue:				
Net sales (Note 7)	¥3,879,427	¥3,609,873	¥3,826,693	\$42,996,550
Operating revenue	113,491	123,848	156,745	1,761,180
	3,992,918	3,733,721	3,983,438	44,757,730
Costs and expenses:				
Cost of sales (Note 14)	2,928,912	2,755,840	2,916,475	32,769,382
Selling, general and administrative	937,546	878,213	972,417	10,926,034
Goodwill write-off (Note 3)	—	—	265,167	2,979,404
	3,866,458	3,634,053	4,154,059	46,674,820
Operating income (loss)	126,460	99,668	(170,621)	(1,917,090)
Other income:				
Interest and dividends	46,086	38,395	33,965	381,629
Foreign exchange gain, net	22,432	35,435	22,789	256,056
Other	43,660	46,318	32,396	364,000
	112,178	120,148	89,150	1,001,685
Other expenses:				
Interest	91,361	69,217	69,283	778,461
Other	54,716	48,437	70,194	788,696
	146,077	117,654	139,477	1,567,157
Income (loss) before income taxes	92,561	102,162	(220,948)	(2,482,562)
Income taxes (Note 12):				
Current	83,322	59,869	84,108	945,034
Deferred	(33,528)	18,743	(18,935)	(212,753)
	49,794	78,612	65,173	732,281
Income (loss) before minority interest	42,767	23,550	(286,121)	(3,214,843)
Minority interest in consolidated subsidiaries	6,507	8,252	7,235	81,292
Net income (loss)	36,260	15,298	(293,356)	(3,296,135)
Retained earnings:				
Balance, beginning of year	861,227	887,788	883,776	9,930,067
Common stock issue costs, net of tax	(17)	(11)	(8)	(90)
Cash dividends	(18,656)	(18,673)	(18,692)	(210,022)
Transfer to legal reserve	(2,043)	(2,221)	(4,238)	(47,618)
Reversal of special allowances, net of taxes	11,017	1,595	1,902	21,371
Balance, end of year	¥ 887,788	¥ 883,776	¥ 569,384	\$ 6,397,573
	Yen			Dollars (Note 2)
Per common share:				
Net income (loss)	¥92.2	¥42.1	¥(696.9)	\$(7.83)
Cash dividends	50.0	50.0	50.0	0.56

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Sony Corporation and Consolidated Subsidiaries

Year ended March 31

	Yen in millions			Dollars in thousands (Note 2)
	1993	1994	1995	1995
Cash flows from operating activities:				
Net income (loss)	¥ 36,260	¥ 15,298	¥(293,356)	\$(3,296,135)
Adjustments to reconcile net income (loss) to net cash provided by operating activities—				
Depreciation and amortization	274,477	239,126	219,836	2,470,067
Goodwill write-off	—	—	265,167	2,979,404
Accrual for pension and severance costs, less payments	9,205	11,566	15,364	172,629
Loss on disposal of fixed assets	1,870	3,758	17,838	200,427
Deferred income taxes	(33,528)	18,743	(18,935)	(212,753)
Changes in assets and liabilities:				
(Increase) decrease in notes and accounts receivable	43,197	(2,849)	(116,093)	(1,304,415)
(Increase) decrease in inventories	68,722	13,019	(86,740)	(974,606)
(Increase) decrease in other current assets	8,016	(11,151)	(4,385)	(49,270)
Increase (decrease) in notes and accounts payable	(48,702)	37,149	64,161	720,910
Increase (decrease) in accrued income and other taxes	8,441	(18,051)	10,528	118,292
Increase (decrease) in other current liabilities	(19,267)	(2,303)	49,260	553,483
Other	66,784	33,506	59,294	666,225
Net cash provided by operating activities	415,475	337,811	181,939	2,044,258
Cash flows from investing activities:				
Payments for purchases of fixed assets	(267,855)	(198,132)	(222,861)	(2,504,056)
Proceeds from sales of fixed assets	6,308	8,931	6,637	74,573
Payments for investments and advances	(317,657)	(387,876)	(326,684)	(3,670,607)
Proceeds from sales of investment securities and collections of advances	268,093	346,835	273,919	3,077,741
Payments for purchases of marketable securities	(166,881)	(64,316)	(115,244)	(1,294,876)
Proceeds from sales of marketable securities	170,606	55,990	81,432	914,967
Decrease in time deposits	64,174	20,840	27,595	310,056
Other	(985)	1,398	(2,727)	(30,640)
Net cash used in investing activities	(244,197)	(216,330)	(277,933)	(3,122,842)
Cash flows from financing activities:				
Proceeds from issuance of long-term debt	228,695	287,389	29,853	335,427
Payments of long-term debt	(37,176)	(193,867)	(69,039)	(775,719)
Increase (decrease) in short-term borrowings	(257,409)	(193,970)	153,515	1,724,887
Dividends paid	(18,611)	(18,641)	(18,681)	(209,899)
Other	(14,010)	105	(2,595)	(29,157)
Net cash provided by (used in) financing activities	(98,511)	(118,984)	93,053	1,045,539
Effect of exchange rate changes on cash and cash equivalents	(1,893)	(7,503)	(5,735)	(64,438)
Net increase (decrease) in cash and cash equivalents	70,874	(5,006)	(8,676)	(97,483)
Cash and cash equivalents at beginning of year	418,363	489,237	484,231	5,440,798
Cash and cash equivalents at end of year	¥489,237	¥484,231	¥ 475,555	\$ 5,343,315

The accompanying notes are an integral part of these statements.

1. Summary of significant accounting policies

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

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

Basis of consolidation and accounting for investments in affiliated companies

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

On occasion, a subsidiary or affiliated company accounted for by the equity method may issue its shares to third parties as either a public offering or upon conversion of convertible debt to common stock at amounts per share in excess of or less than the company's average per share carrying value. With respect to such transactions, the resulting gains or losses arising from change in interest are recorded in income for the year the change in interest transaction occurs.

The excess of the cost over the underlying net equity of investments in subsidiaries and affiliated companies accounted for on an equity basis is allocated to identifiable assets based on fair values at the date of acquisition. The unassigned residual value of the excess of the cost over the underlying net equity is recognized as goodwill.

During the year ended March 31, 1995, the company changed its method of accounting for assessing the carrying value of its investments in acquired businesses including goodwill (see Note 3).

Translation of foreign currencies

All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at appropriate year-end current rates and all income and expense accounts are translated at rates prevailing at the time of the transactions. The resulting translation adjustments are accumulated as a component of stockholders' equity.

Foreign currency receivables and payables are translated at appropriate year-end current rates and the resulting translation gains or losses are taken into income currently.

Revenue recognition

Revenues from sales are recognized when products are shipped to customers.

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

Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

Debt and equity securities

Effective April 1, 1994, the company adopted Statement of Financial Accounting Standards No. 115 (FAS 115), Accounting for Certain Investments in Debt and Equity Securities. As a result of the company adopting this standard, unrealized gains and losses on debt securities and equity securities classified as available-for-sale, whose fair values are readily determinable, are reported in a separate component of stockholders' equity, net of tax. Debt securities that are expected to be held to maturity are reported at amortized cost. Previously, debt and equity securities were carried at the lower of aggregate cost or market value.

Inventories

Inventories in electronics and music entertainment are valued at cost, not in excess of market, cost being determined on the "average cost" basis except for the cost of finished products carried by certain subsidiary companies which is determined on the "first-in, first-out" basis.

Film costs include production, print, certain advertising costs and allocated overhead. Film costs are amortized in the proportion that revenue for a period relates to management's estimate of ultimate revenues. Unamortized film costs are compared with estimated net realizable value on an individual film basis and write-downs are recorded when indicated. Film costs for motion pictures and television programs that are expected to be amortized against revenues from primary markets are classified as current assets. Primary markets for motion pictures include theatrical, home videocassette and pay television. Primary markets for television programs include network and first-run syndication. All other film costs are classified as noncurrent.

Property, plant and equipment and depreciation

Property, plant and equipment is stated at cost. Depreciation of property, plant and equipment is computed on the declining-balance method for the parent company and Japanese subsidiaries and on the straight-line method for foreign subsidiary companies at rates based on estimated useful lives of the assets according to general class, type of construction and use. Significant renewals and additions are capitalized at cost. Maintenance and repairs and minor renewals and betterments are charged to income as incurred.

Intangibles and goodwill

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

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

Postretirement benefits other than pensions

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

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

Postemployment benefits

Effective April 1, 1994, the company adopted Statement of Financial Accounting Standards No. 112, Employers' Accounting for Postemployment Benefits, which establishes standards for employers who provide benefits to former or inactive employees after employment but before retirement. The cumulative effect of this adoption was immaterial.

Income taxes and retained earnings appropriated for special allowances

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

Effective April 1, 1993, the company adopted Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, which requires an asset and liability approach for financial accounting and reporting for income taxes. The cumulative effect of this accounting change was immaterial.

Derivative financial instruments

In October 1994, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 119, Disclosure About Derivative Financial Instruments and Fair Value of Financial Instruments. This statement requires disclosures about amounts, nature and terms of derivative financial instruments. It also requires that a distinction be made between financial instruments held or issued for purposes other than trading.

Derivative financial instruments are used in the company's management of foreign currency and interest rate risk exposures of its financial assets and liabilities. Gains and losses on derivative financial instruments used as hedges to manage existing financial assets and liabilities are recognized as those arising from the related assets and liabilities. Gains and losses related to future transactions designated as qualifying hedges are deferred and included in the measurement of the related transactions when the transactions occur.

Net income (loss) per common share

Net income (loss) per common share is computed based on the average number of common stock outstanding during each period after consideration of the dilutive effect of common stock equivalents.

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

Distribution of common stock

On occasion, the company may make a free distribution of common stock which is accounted for either by a transfer of the applicable par value from the additional paid-in capital to the common stock account or with no entry if free shares are distributed from the portion of previously issued shares accounted for as excess of par value in the common stock

account. Under the Japanese Commercial Code, a stock dividend can be effected by an appropriation of retained earnings to the common stock account by resolution of the general stockholders' meeting and the free share distribution with respect to the amount as appropriated by resolution of the Board of Directors' Meeting.

Common stock issue costs

Common stock issue costs are directly charged to retained earnings, net of tax, in the accompanying consolidated financial statements as the Japanese Commercial Code prohibits charging such stock issue costs to capital accounts which is the prevailing practice in the United States of America.

2. U.S. dollar amounts

U.S. dollar amounts are included solely for convenience. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into U.S. dollars. As the amounts shown in U.S. dollars are for convenience only, the rate of

¥89=U.S.\$1, the approximate current rate at March 31, 1995, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

3. Investments in acquired businesses including goodwill

During the second quarter of the fiscal year ended March 31, 1995, the company changed its method of accounting for assessing the carrying value of its investments in acquired businesses including goodwill. Previously, the company assessed the carrying value of its investments in acquired businesses including goodwill on the basis of projections of undiscounted future operating cash flows plus an amount for an anticipated residual value. Operating cash flows for this purpose are all cash flows expected to be generated by business, net of taxes and after capital investment, but exclusive of financing activity (interest and principal).

Under the new method adopted in the second quarter, the company applies a discount factor to those projected cash flows. The company believes that the new method provides a better measurement of the recoverability of its investments because the discounted cash flows method recognizes the effect of the substantial cost of capital employed to carry the investments.

The effect of this accounting change was to reduce the goodwill of the Entertainment segment associated with the Pictures Group by ¥265,167 million (\$2,979,404 thousand). This new accounting methodology was also applied to unrelated acquisitions and it was determined that the book value

of these investments was recoverable from future operating cash flows of those businesses over the forecast period. Accordingly, no additional write-offs were necessary.

Since its acquisition in November 1989, there had been slower than expected growth of the businesses of the Pictures Group, higher than expected levels of operating costs and expenses and higher than anticipated capital investment requirements. The deterioration experienced in the year ended March 31, 1994 gave rise to a thorough internal review. Similar results experienced in the first half of the fiscal year, together with the resignation of the Pictures Group top management, caused the company to conclude that additional funding would be needed to attain acceptable levels of profitability. In light of the level of investments and likelihood of additional funding requirements, the company determined in the second quarter of the fiscal year that a discounted cash flows method provided a preferable measurement of the recoverability of its investments in acquired businesses because this method recognizes the effect of the cost of capital. The discounted future results of the Pictures Group, based on the company's forecasts, were not sufficient to justify the carrying value as of the end of the second quarter.

In formulating the financial forecasts, the company considered historical performance and the medium-term plans as well as the longer-term economic outlook. These forecasts took into consideration market conditions during the second quarter of the fiscal year as well as foreseeable opportunities for future growth in existing lines of business. Although the company believed it could fund the Pictures Group over the entire forecast period, it had not determined whether additional investments would be made in areas other than the existing lines of business.

The operating cash flows were based upon the short-term plans in effect in the second quarter of the fiscal year that called for a substantial improvement in earnings through recovered market share and cost reductions. For the longer term, it was assumed that the low levels of inflation during the second quarter would continue and that the industry would grow at a slightly better rate than the economy as a whole. At the end of the forecast period a residual was included based on an appropriate multiple of the final year's results.

The company believes that the forecast results, based on the historical financial trends and market conditions during the second quarter, were the best estimate of the company's future performance.

In arriving at the discounted net present value, the company used a discount rate of 9% reflecting its weighted average cost of funds, including a factor for equity allocated to the Pictures Group commensurate with the risk associated with that business as indicated by reference to comparable industry statistics.

Over the entire forecast period, after giving effect to significant additional investment required to complete the investment program contemplated during the second quarter of the fiscal year, the company forecast total operating cash flows of ¥4,166,374 million (\$46,813,191 thousand). Based on such forecasts, the cumulative results of the Pictures Group's operating cash flows on a discounted net present value basis of ¥309,005 million (\$3,471,966 thousand) as of September 30, 1994 were insufficient to recover a significant portion of the investment. The amount of the resultant shortfall reduced the goodwill balance arising from the Pictures Group to ¥85,197 million (\$957,270 thousand) as of September 30, 1994.

The changes in the company's goodwill during the fiscal year ended March 31, 1995 are summarized as follows:

	Yen in millions	Dollars in thousands
Balance at March 31, 1994	¥424,482	\$4,769,460
Amortization of goodwill	(8,037)	(90,303)
Goodwill write-off	(265,167)	(2,979,404)
Translation adjustment and other	(29,895)	(335,899)
Balance at March 31, 1995	¥121,383	\$1,363,854

4. Accumulated amortization of intangibles and goodwill

Accumulated amortization of intangibles and goodwill, excluding the goodwill write-off described in Note 3, amounted to ¥119,189 million and ¥117,149 million (\$1,316,281 thousand) at March 31, 1994 and 1995, respectively.

5. Cash flow information

Cash payments for income taxes were ¥76,216 million, ¥77,535 million and ¥80,499 million (\$904,483 thousand) for the years ended March 31, 1993, 1994 and 1995, respectively; in these respective years, interest payments were ¥92,972 million, ¥67,828 million and ¥70,464 million (\$791,730 thousand).

Capital lease obligations of ¥549 million, ¥1,971 million and ¥6,557 million (\$73,674 thousand) were incurred during the years ended March 31, 1993, 1994 and 1995, respectively.

Conversions of convertible debt into common stock and additional paid-in capital were ¥225 million, ¥2,435 million and ¥791 million (\$8,887 thousand) for the years ended March 31, 1993, 1994 and 1995, respectively.

6. Inventories

Inventories comprise the following:

	Yen in millions		Dollars in thousands
	March 31		March 31,
	1994	1995	1995
Current:			
Finished products	¥407,570	¥451,575	\$5,073,877
Work in process	99,086	109,615	1,231,629
Raw materials, purchased components and supplies	98,857	112,204	1,260,719
Film—released	57,673	37,649	423,022
—in process	8,806	12,340	138,652
	¥671,992	¥723,383	\$8,127,899

Noncurrent:

Film—released	¥106,856	¥ 85,720	\$ 963,146
—in process	61,277	55,931	628,438
	¥168,133	¥141,651	\$1,591,584

7. Account balances and transactions with affiliated companies

Account balances and transactions with affiliated companies are presented below:

	Yen in millions		Dollars in thousands
	March 31		March 31,
	1994	1995	1995
Accounts receivable, trade	¥34,362	¥31,240	\$351,011
Accounts payable, trade	353	464	5,213

	Yen in millions			Dollars in thousands
	Year ended March 31			Year ended March 31,
	1993	1994	1995	1995
Sales	¥274,942	¥209,525	¥226,237	\$2,541,989
Purchases	2,631	1,853	3,338	37,506

8. Marketable securities and securities investments

Marketable securities and securities investments and other include debt and equity securities of which the aggregate fair value, gross unrealized gains and losses and cost pertaining to available-for-sale securities are as follows:

Yen in millions								
March 31, 1994				March 31, 1995				
Cost	Gross unrealized gains	Gross unrealized losses	Fair value	Cost	Gross unrealized gains	Gross unrealized losses	Fair value	
Available for sale:								
Debt securities	¥194,997	¥ 4,484	¥ 849	¥198,632	¥241,430	¥ 4,995	¥1,365	¥245,060
Equity securities	33,340	151,208	1,628	182,920	65,097	130,765	906	194,956
Total	¥228,337	¥155,692	¥2,477	¥381,552	¥306,527	¥135,760	¥2,271	¥440,016

Dollars in thousands				
March 31, 1995				
Cost	Gross unrealized gains	Gross unrealized losses	Fair value	
Available for sale:				
Debt securities	\$2,712,697	\$ 56,123	\$15,337	\$2,753,483
Equity securities	731,427	1,469,270	10,180	2,190,517
Total	\$3,444,124	\$1,525,393	\$25,517	\$4,944,000

At March 31, 1995, debt securities mainly consist of Japanese government and municipal bonds and corporate debt securities due within 1 to 15 years.

Under FAS 115, which the company adopted effective April 1, 1994, marketable equity securities and debt securities available for sale are carried at fair value with unrealized gains and losses reported in a separate component of stockholders' equity, net of applicable taxes. These securities were previously carried at the lower of aggregate cost or market value. In connection with the adoption of FAS 115, at April 1, 1994, the company recorded ¥73,000 million (\$820,225 thousand) of unrealized gains on available-for-sale securities as a separate component of stockholders' equity on a net-of-tax basis.

During the year ended March 31, 1995, the net unrealized gains on available-for-sale securities included in the separate component of stockholders' equity, net of applicable taxes, decreased by ¥8,028 million (\$90,202 thousand).

Proceeds from sales of available-for-sale securities on a specifically identified average cost basis were ¥417,866 million, ¥315,619 million and ¥299,727 million (\$3,367,719 thousand) for the years ended March 31, 1993, 1994 and 1995, respectively. On those sales, gross realized gains were ¥493 million, ¥6,326 million and ¥3,440 million (\$38,652 thousand) and gross realized losses were ¥716 million, ¥278 million and ¥1,863 million (\$20,933 thousand), respectively.

The change in net unrealized gain or loss on trading securities that has been included in earnings during the years ended March 31, 1993, 1994 and 1995 was insignificant.

In the ordinary course of business, the company maintains long-term investment securities, included in securities investments and other, issued by a number of nonpublic companies. The aggregate carrying amounts of the investments in nonpublic companies were ¥12,653 million and ¥21,659 million (\$243,360 thousand) at March 31, 1994 and 1995, respectively. The corresponding fair values at those dates were not computed as such estimation was not readily determinable.

9. Short-term borrowings and long-term debt

Short-term borrowings at March 31, 1995 comprise the following:

	Yen in millions	Dollars in thousands
Loans, principally from banks, with interest ranging from 1.44% to 11.30% per annum	¥247,603	\$2,782,056
Commercial paper with interest ranging from 2.20% to 6.50% per annum	161,340	1,812,809
	¥408,943	\$4,594,865

Long-term debt at March 31, 1995 comprises the following:

	Yen in millions	Dollars in thousands
Unsecured loans, representing obligations principally to banks, due 1995 to 2012 with interest ranging from 2.0% to 9.25% per annum	¥176,107	\$ 1,978,730
Secured loans, representing obligations principally to insurance companies and banks, due 1996 to 2002 with interest ranging from 4.0% to 10.5%.....	2,821	31,697
Medium-term notes of consolidated subsidiaries due 1995 to 2003 with interest ranging from 2.0% to 10.5% per annum	214,402	2,409,011
Unsecured 6.0% convertible debentures due 1997, convertible currently at ¥3,200.2 (\$12.49 calculated at ¥256.30=\$1) for one common share, redeemable before due date.....	34	382
Unsecured 2.0% convertible bonds due 2000, convertible currently at ¥4,159.9 (\$46.74) for one common share, redeemable before due date	467	5,247
Unsecured 1.5% convertible bonds due 2002, convertible currently at ¥4,387.9 (\$49.30) for one common share, redeemable before due date	2,138	24,023
Unsecured 1.4% convertible bonds due 2003, convertible currently at ¥5,415.5 (\$60.85) for one common share, redeemable before due date	31,741	356,641
Unsecured 1.4% convertible bonds due 2005, convertible currently at ¥7,990.9 (\$89.79) for one common share, redeemable before due date	298,559	3,354,596
Unsecured 0.125% convertible bonds of a consolidated subsidiary, due 1998, convertible currently at ¥1,815 (\$20.39) for one common share	400	4,494
Unsecured 6.875% bonds due 2000.....	50,398	566,270
Unsecured 4.4% bonds due 2001.....	80,000	898,876
Unsecured 9 ⁷ / ₈ % senior subordinated notes of a consolidated subsidiary, due 1998.....	29,480	331,236
Unsecured fixed coupon notes linked to the Yen/U.S. dollar rate of a consolidated subsidiary, due 2001	581	6,528
Unsecured Nikkei-linked coupon notes of a consolidated subsidiary, due 1997	4,771	53,607
Unsecured 7.0% notes linked to the Yen/Deutsche Mark currency rate of a consolidated subsidiary, due 1995, redeemable before due date.....	2,078	23,348
Unsecured 5.7% notes of a consolidated subsidiary, due 1997, redeemable before due date ...	3,561	40,011
Unsecured 7 ¹ / ₂ % bonds of a consolidated subsidiary, due 1996	1,571	17,652
Unsecured 6.0% notes of a consolidated subsidiary, due 1997	9,047	101,652
Unsecured floating rate notes of a consolidated subsidiary, due 1997	10,677	119,966
Unsecured floating rate notes of a consolidated subsidiary, due 1996	13,994	157,236
Secured 5.0% bonds of a consolidated subsidiary, due 1996, redeemable before due date.....	2,000	22,472
Secured 5.3% bonds of a consolidated subsidiary, due 1996, redeemable before due date.....	1,000	11,236
Secured 3.8% bonds of a consolidated subsidiary, due 2001, redeemable before due date.....	3,000	33,708
Long-term capital lease obligations, 1.63% to 23.80%, due 1995 to 2006	17,234	193,640
Guarantee deposits received	5,629	63,247
	961,690	10,805,506
Less—Portion due within one year	55,204	620,270
	¥906,486	\$10,185,236

At March 31, 1995, property, plant and equipment with a book value of ¥5,784 million (\$64,989 thousand) is mortgaged as security for loans and bonds issued by consolidated subsidiaries.

The aggregate amounts of annual maturities of long-term debt during the next five years are as follows:

Year ending March 31	Yen in millions	Dollars in thousands
1996	¥ 55,204	\$ 620,270
1997	137,525	1,545,225
1998	167,279	1,879,539
1999	38,852	436,539
2000	67,376	757,034

The basic agreements with certain banks in Japan include provisions that collateral (including sums on deposit with such banks) or guarantors will be furnished upon the banks'

request and that any collateral furnished, pursuant to such agreements or otherwise, will be applicable to all present or future indebtedness to such banks.

10. Financial instruments

The company has certain financial instruments including financial assets and liabilities and off-balance-sheet financial instruments incurred in the normal course of business. In applying a consistent risk management strategy, the company manages its exposure to market rate movements of its financial assets and liabilities through the use of derivative financial instruments which include currency forward exchange and option contracts and interest rate currency swap agreements designated as hedges. These instruments are executed with creditworthy financial institutions, and virtually all foreign currency contracts are denominated in U.S. dollars, Deutsche Mark and other currencies of major industrialized countries. Although the company may be exposed to losses in the event of nonperformance by counterparties or interest and currency rate movements, it does not anticipate significant losses due to the nature of its counterparties or the hedging arrangements.

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

Cash and cash equivalents, time deposits and notes and accounts receivable, trade

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

Notes and accounts payable, trade

In the normal course of business, substantially all notes and accounts payable, trade, are to be paid currently and their carrying amounts approximate fair value.

Short-term borrowings and long-term debt

The fair values of short-term borrowings and total long-term debt including the current portion were estimated based on the discounted amounts of future cash flows using the company's current incremental borrowing rates for similar liabilities.

Derivative financial instruments

The company enters into various currency forward exchange contracts, interest rate swap and interest rate currency swap agreements and foreign currency purchased and written options as a normal part of its risk management efforts. It does not engage in speculation nor trading. Such off-balance-sheet activities comprise the following:

Foreign exchange forward contracts, the majority of which mature within six months, are used to hedge the risk of changes in foreign currency exchange rates substantially associated with accounts receivable and payable and commitments on future trade transactions denominated in foreign currencies. As foreign exchange forward contracts are utilized for hedging purposes, such resulting gains or losses are effectively offset against foreign exchange gains or losses on the underlying hedged assets and liabilities by recognizing them in the same period, or in the case of future transactions deferred until the transaction is consummated. The purpose of the company's foreign currency hedging activities is to protect the company from the risk that the eventual Yen net cash inflows resulting from the sale of products to foreign customers will be adversely affected by changes in exchange rates. The contracted amounts outstanding at March 31, 1994 and 1995 were ¥836,584 million and ¥1,287,491 million (\$14,466,191 thousand), respectively. The fair values of

these contracts were estimated based on the market quotes.

Interest rate swap and interest rate currency swap agreements mature during 1995 to 2003 and the related differentials to be paid or received are recognized in interest expense over the terms of the agreements. Currency swap portions of the interest rate currency swap agreements are marked to market at the end of each period and the foreign exchange gain or loss recognized on the swap offsets the foreign exchange gain or loss recorded on the foreign-denominated debt. These agreements were arranged to lower funding costs and to diversify sources of funding and to limit the company's exposure to loss in relation to underlying debt instruments resulting from adverse fluctuations in foreign currency exchange and interest rates. At March 31, 1994 and 1995, the aggregate notional principal amounts of the interest rate swap agreements were ¥191,378 million and ¥155,672 million (\$1,749,124 thousand), respectively, and those of the interest rate currency swap agreements were ¥277,100 million and ¥228,524 million (\$2,567,685 thousand), respectively. The fair values of such agreements were estimated based on the discounted amounts of net future cash flows.

The company entered into foreign currency option purchased contracts in the notional amounts of ¥38,681 million and ¥84,498 million (\$949,416 thousand) at March 31, 1994 and 1995, respectively. These contracts, the majority of which expire within three months of the balance sheet dates, are used in conjunction with the forward exchange contracts to hedge foreign currency exposure arising from accounts receivable and commitments on future trade transactions denominated in foreign currencies. The company also

entered into foreign currency option written contracts in the notional amounts of ¥54,382 million and ¥105,869 million (\$1,189,539 thousand) at March 31, 1994 and 1995, respectively. The majority of these contracts are part of range forward contract arrangements and expire in the same month with the corresponding currency option contracts purchased shown above and are limited to those which lower the premiums paid and create a hedging position as a package. The option premiums paid, which are offset against the corresponding premiums received, are recognized over the terms of the contracts. The fair values of such foreign currency options were estimated based on the values quoted by brokers.

Outstanding forward exchange contracts and foreign currency option contracts at March 31, 1994 and 1995 were in a net unrealized positive cash flow position of approximately ¥5,229 million and ¥35,185 million (\$395,337 thousand), respectively.

A consolidated financing subsidiary entered into government bond option written contracts as an integral part of short-term investing activities in order to fix the yields from bonds on hand to certain ranges. All of these contracts expire within two months of the balance sheet date and their notional principal amount was ¥76,693 million (\$861,719 thousand) at March 31, 1995. An unrealized loss of ¥1,663 million (\$18,685 thousand) was deferred in order to recognize it in the same accounting period as an unrealized gain arising on the bonds on hand. The fair values of such bond option written contracts were estimated based on the values quoted by brokers.

The estimated fair values of the company's financial instruments excluding debt and equity securities, both on and off the balance sheets, are summarized as follows:

	Yen in millions	
	Carrying amount	Estimated fair value
At March 31, 1994		
Cash and cash equivalents	¥ 484,231	¥ 484,231
Time deposits	45,095	45,095
Notes and accounts receivable, trade	592,774	592,774
Short-term borrowings	(256,284)	(256,284)
Notes and accounts payable, trade	(552,593)	(552,593)
Long-term debt including the current portion	(1,093,672)	(1,027,598)
Forward exchange contracts	(3,354)	132
Interest rate and currency swap agreements	—	8,696
Option contracts purchased	809	1,684
Option contracts written	(517)	(25)

	Yen in millions	
	Carrying amount	Estimated fair value
At March 31, 1995		
Cash and cash equivalents	¥475,555	¥475,555
Time deposits	16,173	16,173
Notes and accounts receivable, trade	675,111	675,111
Short-term borrowings	(408,943)	(408,943)
Notes and accounts payable, trade	(624,932)	(624,932)
Long-term debt including the current portion	(961,690)	(929,704)
Forward exchange contracts	19,285	48,742
Interest rate and currency swap agreements	—	5,778
Option contracts purchased	652	7,386
Option contracts written	(351)	(677)
Bond option contracts written	(307)	(1,818)

	Dollars in thousands	
	Carrying amount	Estimated fair value
At March 31, 1995		
Cash and cash equivalents	\$ 5,343,315	\$ 5,343,315
Time deposits	181,719	181,719
Notes and accounts receivable, trade	7,585,516	7,585,516
Short-term borrowings	(4,594,865)	(4,594,865)
Notes and accounts payable, trade	(7,021,708)	(7,021,708)
Long-term debt including the current portion	(10,805,506)	(10,446,112)
Forward exchange contracts	216,685	547,663
Interest rate and currency swap agreements	—	64,921
Option contracts purchased	7,326	82,989
Option contracts written	(3,944)	(7,607)
Bond option contracts written	(3,449)	(20,427)

11. 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 rates of pay and lengths of service. Under normal circumstances, the minimum payment prior to retirement age is an amount based on voluntary retirement. Employees receive additional benefits on involuntary retirement, including retirement at age limit. With respect to directors' resignations, lump-sum severance indemnities calculated by using a similar formula are normally paid subject to approval of the stockholders.

The parent company and most subsidiaries in Japan have contributory funded defined benefit pension plans, which are pursuant to the Japanese Welfare Pension Insurance Law.

The contributory pension plans cover a portion of the governmental welfare pension program, under which the contributions are made by the companies and their employees, and an additional portion representing the substituted noncontributory pension plans. The defined benefits under the noncontributory portion of the plans, in general, cover 60% of the indemnities under the existing regulations to employees. The remaining portion of the indemnities is covered by severance payments by the companies. The pension benefits are determined based on years of service and the compensation amounts as stipulated in the aforementioned regulations, and are payable, at the option of the retiring employee, as a monthly pension or in a lump-sum amount. The contributions to the plans are funded with several financial institutions in

accordance with the applicable laws and regulations.

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

primarily on current rate of pay and lengths of service.

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

Japanese plans:

	Yen in millions			Dollars in thousands
	Year ended March 31			Year ended March 31,
	1993	1994	1995	1995
Net pension and severance cost (credit):				
Service cost—benefits earned during the year.....	¥19,533	¥24,212	¥23,987	\$269,517
Interest cost on projected benefit obligation.....	9,450	10,670	11,024	123,865
Actual return on plan assets	(3,273)	(5,326)	(3,672)	(41,258)
Net amortization and deferral.....	99	1,183	2,828	31,775
Actuarial net pension and severance cost for the year	25,809	30,739	34,167	383,899
Employee contributions	(1,919)	(3,333)	(3,614)	(40,607)
Net pension and severance cost for the year.....	¥23,890	¥27,406	¥30,553	\$343,292

Foreign plans:

	Yen in millions			Dollars in thousands
	Year ended March 31			Year ended March 31,
	1993	1994	1995	1995
Net pension and severance cost (credit):				
Service cost—benefits earned during the year.....	¥ 9,983	¥ 9,882	¥10,198	\$114,584
Interest cost on projected benefit obligation.....	2,694	2,653	2,839	31,899
Actual return on plan assets	(1,393)	(2,449)	68	764
Net amortization and deferral.....	(829)	890	(1,016)	(11,416)
Net pension and severance cost for the year.....	¥10,455	¥10,976	¥12,089	\$135,831

Pension plans' funded status:

	Japanese plans			Foreign plans		
	Yen in millions		Dollars in thousands	Yen in millions		Dollars in thousands
	March 31		March 31,	March 31		March 31,
	1994	1995	1995	1994	1995	1995
Actuarial present value of obligations—						
Vested benefit	¥128,429	¥167,810	\$1,885,506	¥27,520	¥25,141	\$282,483
Nonvested benefit.....	30,221	37,698	423,573	3,074	2,504	28,135
Accumulated benefit obligation	158,650	205,508	2,309,079	30,594	27,645	310,618
Additional benefits related to projected salary increase	54,775	53,106	596,696	14,511	12,780	143,595
Projected benefit obligation.....	213,425	258,614	2,905,775	45,105	40,425	454,213
Plan assets at fair value	120,845	142,330	1,599,213	22,039	20,755	233,202
Excess of projected benefit obligation over plan assets	92,580	116,284	1,306,562	23,066	19,670	221,011
Unrecognized net loss	(205)	(14,754)	(165,775)	(4,926)	(2,117)	(23,786)
Unrecognized net transition asset	4,372	3,854	43,303	(122)	(144)	(1,618)
Unrecognized prior service cost.....	(12,703)	(11,752)	(132,045)	—	—	—
Net pension liability recognized in the balance sheet.....	¥ 84,044	¥ 93,632	\$1,052,045	¥18,018	¥17,409	\$195,607

Assumptions used in developing the projected benefit obligation as of March 31:

Discount rate	5.5%	4.5%	6.0—8.5%	7.0—	8.5%
Long-term rate of salary increase	4.5%	3.5%	3.0—8.5%	3.0—	8.5%
Long-term rate of return on funded assets	5.0%	4.0%	6.0—9.5%	7.0—	10.0%

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

12. Income taxes

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

in calculating the future expected tax effects of significant temporary differences for the years ended March 31, 1994 and 1995.

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

	Year ended March 31		
	1993	1994	1995
Statutory tax rate	52.0%	52.0%	(51.0)%
Increase (reduction) in taxes resulting from:			
Income tax credit	(2.1)	(2.3)	(2.0)
Nondeductible goodwill write-off	—	—	61.2
Current operating losses of subsidiaries, excluding nondeductible goodwill write-off.....	12.6	25.2	17.6
Reversal of tax on undistributed earnings	(10.5)	—	—
Other	1.8	2.0	3.7
Effective income tax rate	53.8%	76.9%	29.5 %

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

	Yen in millions		Dollars in thousands
	March 31		March 31,
	1994	1995	1995
Deferred tax assets:			
Operating loss carryforwards for tax purposes.....	¥ 39,141	¥ 50,433	\$ 566,663
Inventory—intercompany profits and write-down	38,782	37,984	426,787
Accrued pension and severance costs.....	27,218	33,269	373,809
Warranty reserve and accrued expenses.....	24,229	26,158	293,910
Other accrued employees' compensation	10,743	11,944	134,202
Depreciation	4,893	5,129	57,629
Bad debts reserve	5,081	4,617	51,876
Other	45,666	65,816	739,506
Gross deferred tax assets	195,753	235,350	2,644,382
Less—Valuation allowance.....	(80,918)	(90,182)	(1,013,281)
Total deferred tax assets	114,835	145,168	1,631,101
Deferred tax liabilities:			
Unrealized gain on securities.....	—	(66,784)	(750,382)
Insurance acquisition costs.....	(26,569)	(36,082)	(405,416)
Undistributed earnings of foreign subsidiaries	(20,512)	(27,480)	(308,764)
Depreciation	(22,254)	(18,963)	(213,067)
Deferred expenses	(5,088)	(4,507)	(50,641)
Other	(26,364)	(27,023)	(303,629)
Gross deferred tax liabilities.....	(100,787)	(180,839)	(2,031,899)
Net deferred tax assets (liabilities)	¥ 14,048	¥ (35,671)	\$ (400,798)

The valuation allowance mainly relates to deferred tax assets of the consolidated subsidiaries with operating loss carryforwards for tax purposes that are not expected to be realized. The net changes in the total valuation allowance for the years ended March 31, 1994 and 1995 were both

increases of ¥26,516 million and ¥9,264 million (\$104,090 thousand), respectively.

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

	Yen in millions		Dollars in thousands
	March 31		March 31,
	1994	1995	1995
Deferred income taxes (Current assets).....	¥70,968	¥ 77,883	\$ 875,089
Other assets—other	10,102	14,538	163,349
Other accounts payable and accrued liabilities	(1,604)	(2,644)	(29,708)
Deferred income taxes (Long-term liabilities).....	(65,418)	(125,448)	(1,409,528)
Net deferred tax assets (liabilities).....	¥14,048	¥ (35,671)	\$ (400,798)

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

At March 31, 1995, no deferred income taxes have been provided on undistributed earnings of foreign subsidiaries not expected to be remitted in the foreseeable future totaling ¥203,888 million (\$2,290,876 thousand), and on the gain on a subsidiary's sale of stock of ¥61,544 million (\$691,506 thousand) arising from the issuance of common stock of Sony Music Entertainment (Japan) Inc. in a public offering to third parties in November 1991, as the company does

not anticipate any significant tax consequences on possible future disposition of its remaining investment based on its tax planning strategies. The unrecognized deferred tax liabilities as of March 31, 1995 for such temporary differences amounted to ¥84,333 million (\$947,562 thousand).

Operating loss carryforwards for tax purposes of consolidated subsidiaries at March 31, 1995 amounted to approximately ¥139,883 million (\$1,571,719 thousand) and are available as an offset against future taxable income of such subsidiaries. These carryforwards expire at various dates up to 15 years.

13. Stockholders' equity

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

	Number of shares	Yen in millions	
		Common stock	Additional paid-in capital
Balance at March 31, 1992.....	373,077,895	¥297,949	¥439,430
Conversion of convertible debt.....	79,961	36	189
Balance at March 31, 1993.....	373,157,856	297,985	439,619
Conversion of convertible debt.....	570,467	1,209	1,226
Balance at March 31, 1994.....	373,728,323	299,194	440,845
Conversion of convertible debt.....	183,167	395	396
Balance at March 31, 1995.....	373,911,490	¥299,589	¥441,241

	Dollars in thousands	
	Common stock	Additional paid-in capital
Balance at March 31, 1994.....	\$3,361,731	\$4,953,315
Conversion of convertible debt.....	4,438	4,449
Balance at March 31, 1995.....	\$3,366,169	\$4,957,764

On November 20, 1991, the company made a free share distribution of 33,908,621 shares for which no accounting entry is required in Japan. Had the distribution been accounted for in the manner adopted by companies in the United States of America, ¥201,078 million (\$2,259,303 thousand) would have been transferred from retained earnings to the appropriate capital accounts.

Conversions of convertible debt into common stock are accounted for in accordance with the provisions of the Japanese Commercial Code by crediting approximately one-half of the conversion proceeds to the common stock account and the remainder to the additional paid-in capital account.

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

The appropriations of retained earnings for the year ended March 31, 1995, which have been incorporated in the accompanying consolidated financial statements, will be proposed for approval at the general stockholders' meeting to be held on June 29, 1995 and will be recorded in the statutory books of account, in accordance with the Japanese Commercial Code, after stockholders' approval.

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

	Yen in millions			Dollars in thousands
	Year ended March 31			Year ended March 31,
	1993	1994	1995	1995
Balance, beginning of year	¥(111,612)	¥(238,000)	¥(335,703)	\$(3,771,944)
Aggregate translation adjustment for the year.....	(126,716)	(96,725)	(75,354)	(846,674)
Income taxes for the year allocated to translation adjustment.....	328	(978)	(110)	(1,236)
Balance, end of year.....	¥(238,000)	¥(335,703)	¥(411,167)	\$(4,619,854)

14. Research and development expenses

Research and development expenses charged to cost of sales for the years ended March 31, 1993, 1994 and 1995

were ¥232,150 million, ¥229,877 million and ¥239,164 million (\$2,687,236 thousand), respectively.

15. Leased assets

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

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

Class of property	Yen in millions		Dollars in thousands
	March 31		March 31,
	1994	1995	1995
Land.....	¥ 482	¥ 1,744	\$ 19,595
Buildings	18,597	19,205	215,786
Machinery and equipment	4,552	4,181	46,978
Accumulated amortization	(6,063)	(6,324)	(71,056)
	¥17,568	¥18,806	\$211,303

The following is a schedule by year of the future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of March 31, 1995:

Year ending March 31	Yen in millions	Dollars in thousands
1996.....	¥ 3,446	\$ 38,719
1997.....	2,858	32,112
1998.....	2,811	31,584
1999.....	2,744	30,832
2000.....	2,335	26,236
Later years	10,491	117,876
Total minimum lease payments	24,685	277,359
Less—Amount representing interest	7,451	83,719
Present value of net minimum lease payments	17,234	193,640
Less—Current obligations	2,367	26,595
Long-term capital lease obligations	¥14,867	\$167,045

Rental expenses under operating leases for the years ended March 31, 1993, 1994 and 1995 were ¥83,829 million, ¥83,536 million and ¥79,295 million (\$890,955 thousand), respectively. The minimum rental payments required

under operating leases that have initial or remaining non-cancelable lease terms in excess of one year at March 31, 1995 are as follows:

Year ending March 31	Yen in millions	Dollars in thousands
1996.....	¥ 25,986	\$ 291,977
1997.....	22,177	249,180
1998.....	17,129	192,461
1999.....	13,588	152,674
2000.....	11,756	132,090
Later years	90,601	1,017,989
Total minimum future rentals	¥181,237	\$2,036,371

16. Commitments and contingent liabilities

Commitments outstanding at March 31, 1995 for the purchase of property, plant and equipment and other assets approximated ¥44,672 million (\$501,933 thousand).

Contingent liabilities for notes discounted and guarantees given in the ordinary course of business and for employee loans amounted to approximately ¥104,394 million (\$1,172,966 thousand) at March 31, 1995.

The company has entered into agreements with financial institutions whereby the company can sell up to ¥44,500 million (\$500,000 thousand) of specifically identified accounts receivable and future receivables with limited recourse. For the year ended March 31, 1995, the company did not sell any specifically identified accounts receivable or future receivables. For the years ended March 31, 1993 and 1994, the company sold specifically identified accounts receivable and future receivables of ¥30,740 million and ¥15,141 million, respectively. As of March 31, 1994 and 1995, the outstanding balance of all receivables sold amounted to ¥41,818 million and ¥16,554 million (\$186,000 thousand), respectively.

The company has also entered into agreements with financial institutions whereby the company can sell up to ¥84,550

million (\$950,000 thousand) of undivided interests in a pool of eligible receivables with limited recourse. The maximum pool of eligible receivables sold outstanding at any one time during the years ended March 31, 1994 and 1995 amounted to ¥86,829 million and ¥72,535 million (\$815,000 thousand), respectively. As of March 31, 1994 and 1995, the outstanding balance of all receivables sold amounted to ¥71,791 million and ¥22,250 million (\$250,000 thousand), respectively.

Under the terms of each of the receivable sale agreements, the company has retained substantially the same risk of credit loss as if the receivables had not been sold. The company has fully reserved for these potential credit losses. The company pays fees which approximate the purchasers' costs of issuing commercial paper and are included in other expense.

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

17. Business segment information

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

The following tables present certain information regarding the company's industry segments and operations by geographic areas at March 31, 1993, 1994 and 1995 and for the years then ended:

Industry segments:

	Yen in millions			Dollars in thousands
	Year ended March 31			Year ended March 31, 1995
	1993	1994	1995	
Sales and operating revenue:				
Electronics—				
Customers.....	¥3,161,878	¥2,942,728	¥3,206,830	\$36,031,798
Intersegment	11,537	9,559	10,090	113,370
Total	3,173,415	2,952,287	3,216,920	36,145,168
Entertainment—				
Customers.....	831,040	790,993	776,608	8,725,932
Intersegment	3,990	3,400	4,959	55,720
Total	835,030	794,393	781,567	8,781,652
Elimination	(15,527)	(12,959)	(15,049)	(169,090)
Consolidated	¥3,992,918	¥3,733,721	¥3,983,438	\$44,757,730
Operating income (loss):				
Electronics	¥ 80,140	¥90,755	¥ 123,592	\$ 1,388,674
Entertainment*	60,027	25,075	(273,270)	(3,070,449)
Corporate and elimination.....	(13,707)	(16,162)	(20,943)	(235,315)
Consolidated	¥126,460	¥99,668	¥(170,621)	\$(1,917,090)
Identifiable assets:				
Electronics	¥2,673,625	¥2,638,906	¥2,950,888	\$33,156,045
Entertainment	1,539,974	1,379,697	1,007,596	11,321,303
Corporate assets and elimination.....	316,231	251,282	265,436	2,982,427
Consolidated	¥4,529,830	¥4,269,885	¥4,223,920	\$47,459,775
Depreciation and amortization:				
Electronics	¥227,683	¥193,419	¥178,432	\$2,004,854
Entertainment**	44,857	43,224	37,886	425,685
Corporate	1,937	2,483	3,518	39,528
Consolidated	¥274,477	¥239,126	¥219,836	\$2,470,067
Capital expenditures:				
Electronics	¥194,920	¥154,533	¥188,258	\$2,115,258
Entertainment.....	51,922	34,601	58,828	660,989
Corporate	4,275	6,803	3,592	40,360
Consolidated	¥251,117	¥195,937	¥250,678	\$2,816,607

* Including write-off of goodwill in the second quarter of the fiscal year ended March 31, 1995

** Excluding write-off of goodwill in the second quarter of the fiscal year ended March 31, 1995

Geographic areas:

	Yen in millions			Dollars in thousands
	Year ended March 31			Year ended March 31, 1995
	1993	1994	1995	
Sales and operating revenue:				
Japan—				
Customers	¥1,453,215	¥1,369,868	¥1,472,432	\$16,544,180
Intersegment	984,496	938,640	1,175,446	13,207,258
Total	2,437,711	2,308,508	2,647,878	29,751,438
U.S.A.—				
Customers	1,058,788	1,206,585	1,153,550	12,961,236
Intersegment	33,743	49,470	51,637	580,191
Total	1,092,531	1,256,055	1,205,187	13,541,427
Europe—				
Customers	1,006,859	712,246	778,465	8,746,798
Intersegment	6,196	9,665	11,994	134,764
Total	1,013,055	721,911	790,459	8,881,562
Other—				
Customers	474,056	472,005	578,991	6,505,517
Intersegment	291,858	336,008	454,854	5,110,719
Total	765,914	808,013	1,033,845	11,616,236
Elimination	(1,316,293)	(1,360,766)	(1,693,931)	(19,032,933)
Consolidated	¥3,992,918	¥3,733,721	¥3,983,438	\$44,757,730
Operating income (loss):				
Japan	¥ 55,243	¥54,946	¥ 72,284	\$ 812,180
U.S.A.*	35,098	(4,361)	(296,417)	(3,330,528)
Europe	60,129	39,696	46,959	527,629
Other	26,185	36,483	47,475	533,427
Corporate and elimination	(50,195)	(27,096)	(40,922)	(459,798)
Consolidated	¥126,460	¥99,668	¥(170,621)	\$(1,917,090)
Identifiable assets:				
Japan	¥2,114,956	¥2,050,302	¥2,282,291	\$25,643,719
U.S.A.	1,481,193	1,303,763	931,884	10,470,607
Europe	464,852	428,228	498,259	5,598,416
Other	301,694	341,876	395,517	4,444,011
Corporate assets and elimination	167,135	145,716	115,969	1,303,022
Consolidated	¥4,529,830	¥4,269,885	¥4,223,920	\$47,459,775
Export sales and operating revenue:				
To U.S.A.	¥113,336	¥ 99,380	¥110,645	\$1,243,202
To Europe	73,085	72,179	85,589	961,674
To Other	243,423	191,800	193,818	2,177,731
Total	¥429,844	¥363,359	¥390,052	\$4,382,607

* Including write-off of goodwill in the second quarter of the fiscal year ended March 31, 1995

Transfers between industry or geographic segments are made at arms-length prices. Operating income (loss) is sales and operating revenue less costs and operating expenses. Corporate expenses of the geographic segments include certain research and development expenses unallocable to the

segments. Identifiable assets are those assets used in the operations of each industry or geographic segment. Unallocated corporate assets consist primarily of cash and cash equivalents and marketable securities maintained for general corporate purposes.

REPORT OF INDEPENDENT ACCOUNTANTS

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

Telephone 03-5424-8100

Price Waterhouse



May 18, 1995

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and retained earnings and of cash flows present fairly, in all material respects, the financial position of Sony Corporation and its consolidated subsidiaries at March 31, 1994 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1995, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Notes 1 and 3 to the consolidated financial statements, the company changed its methods of accounting for assessing the carrying values of its investments in acquired businesses including goodwill and for investments in debt and equity securities in the year ended March 31, 1995.

Price Waterhouse

Corporate Offices

Sony Corporation

7-35, Kitashinagawa 6-chome, Shinagawa-ku,
Tokyo 141, Japan
Phone: (03) 5448-2111
Facsimile: (03) 5448-2244
Telex: 22262 (SONYCOP J22262)
Cable: SONYCOP TOKYO

Information

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

JAPAN

Sony Corporation

Investor Relations
7-35, Kitashinagawa 6-chome, Shinagawa-ku, Tokyo 141
Phone: (03) 5448-2180
Facsimile: (03) 5448-2183

U.S.A.

Sony Corporation of America

Investor Relations
550 Madison Avenue, 33rd Floor, New York,
NY 10022-3211
Phone: (212) 833-6849
Facsimile: (212) 833-6938

To receive financial information by facsimile,
phone 1-800-865-7465.

U.K.

Sony Europe Finance PLC

Investor Relations
15th Floor, Commercial Union Tower,
St. Helens, 1 Undershaft, London EC3P 3DQ
Phone: (0171) 626-3162
Facsimile: (0171) 626-3173

Ordinary General Meeting of Shareholders

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

Independent Accountants

Price Waterhouse
Tokyo, Japan

Depository, Transfer Agent, and Registrar for American Depositary Receipts

Morgan Guaranty Trust Company of New York
Shareholder Relations
P.O. Box 8205, Boston, MA 02266-8205, U.S.A.
Phone: 1-800-360-4522

Co-Transfer and Co-Registrar Agent

R-M Trust Company
393 University Avenue, 5th Floor,
Toronto, Ontario, Canada M5G 2M7
Phone: (416) 813-4600

Transfer Agent of Common Shares Handling Office

The Toyo Trust and Banking Co., Ltd.
Corporate Agency Department
10-11, Higashisuna 7-chome, Koto-ku, Tokyo 137-81, Japan
Phone: (03) 5683-5111

Overseas Stock Exchange Listings

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

Japanese Stock Exchange Listings

Tokyo, Osaka, Nagoya, Fukuoka, and Sapporo stock exchanges

Number of Shareholders

(As of March 31, 1995)
256,172



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Sony Corporation