# HIGHLIGHTS

For the years ended October 31

(Thousands of U.S. Dollars)

<table>
<thead>
<tr>
<th></th>
<th>1964</th>
<th>1963</th>
<th>1962</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>$44,694</td>
<td>$40,720</td>
<td>$38,236</td>
</tr>
<tr>
<td>Export</td>
<td>47,933</td>
<td>36,433</td>
<td>25,544</td>
</tr>
<tr>
<td>Total</td>
<td>92,627</td>
<td>77,153</td>
<td>63,780</td>
</tr>
<tr>
<td>NET INCOME</td>
<td>$4,083</td>
<td>$2,953</td>
<td>$3,119</td>
</tr>
<tr>
<td>Per American Depositary Share*</td>
<td>75.6¢</td>
<td>56.1¢</td>
<td>61.9¢</td>
</tr>
<tr>
<td>NUMBER OF EMPLOYEES</td>
<td>6,871</td>
<td>6,564</td>
<td>5,651</td>
</tr>
</tbody>
</table>

* Each American Depositary Share represents ten shares of Common Stock. Per share amounts are based on the average number of shares outstanding during each period, adjusted for all stock splits and stock distributions.
TO OUR SHAREHOLDERS:

Sony's consolidated business results for the fiscal year ended October 31, 1964 recorded very good progress, including a 20 percent increase in net sales and a 38 percent increase in net income over the previous year. The increase in sales can be attributed to the success of Sony's market expansion program which commenced two years ago, and to the timely introduction of higher quality products for which there is a growing demand. Export sales increased by a remarkable 32 percent and accounted for 52 percent of total net sales. Sales in Japan showed a 10 percent increase and accounted for 48 percent of total net sales.

The greater percentage increase in net income over that in sales for this year is attributable, in part, to the completion of an amortization of the research and development costs of major products, which increased the profit margin.

Cash dividends amounting to 17.4¢ per ADS were paid to shareholders of record as of October 31, 1964 in respect of the six months of operations ended that date. Total cash dividends of 35.4¢ were paid in respect of each ADS for the past fiscal year.

Sales of tape recorders showed a 39 percent increase over the previous year, and accounted for 34 percent of total net sales. There has been an increasing demand for tape recorders throughout the world. Sony introduced a number of new models, including four recorders in Japan, with completely automatic recording volume control and various stereophonic sets, presently numbering 22 models, in the United States and Europe. These tape recorders were well received and Sony is continuing to step up their production.
Sales of transistor radios showed a 5 percent increase over the previous year, and accounted for 27 percent of the total net sales. Sales of radios had been slowing down, but during this fiscal year, a recovery in amount and unit was recorded reflecting a broader demand for high quality FM sets (at present 24 models). In this connection Sony introduced in this fiscal year a new portable automatic tuning FM set (Model AFM-152) using the famous Sony Esaki Diode and another portable FM set (Model EFM-117) in which the Esaki Diode was used commercially for the first time in the world. Sony also developed and introduced FM stereo adaptors, an indispensable attachment to enjoy true FM multiplex stereophonic sound.

Sales of transistor TV receivers showed a slight increase over the previous year, and accounted for 23 percent of total net sales. The industry is now moving in the direction of transistorized TV sets and the demand for portable and personal transistor TV sets is increasing. Sony marketed in this fiscal year the 4", 5" and 9" models, each equipped for use on integrated UHF channels in the United States, and for use in Japan the 4", 9" and 12" models, in addition to the existing 5" models. Sony's transistor TV receivers are being gradually introduced to other markets. The management believes that Sony's superior technical, engineering and manufacturing know-how and marketing experience as the pioneer of this product give it a distinct advantage in the present trend of transistorizing and personalizing TV sets.

The industrial Video Magnetic Tape Recorder, which was marketed in both Japan and the U.S., has been widely accepted in many other fields. Following the installation by American Airlines for the entertainment of its airline passengers of Sony's PV-100 Video Tape Recorders in their aircraft in combination with Sony's
9" transistor TV receivers, collectively called "Astrovision", Pan American World Airways Inc. recently contracted with Sony to install in all their jet fleet Sony's PV-120AL Video Tape Recorder Model combined with Sony's 12" transistor TV receivers. Their passengers may thus enjoy television shows, motion pictures, news and music. Other airlines and railways are considering or testing similar Sony equipment to provide services to their passengers. Sony's Video Tape Recorders have a promising future in this newly opened field.

In September 1964, Sony demonstrated the Chromatron Color TV Receiver in Japan and in November 1964 demonstrated the "Sony Videocorder 2000", a portable and low-priced home use Video Tape Recorder in Japan. These new epoch-making products are attracting great interest and will be first marketed on and after April of this year in Japan.

The new plant near the Tokyo headquarters, which had been under construction since September 1963, was completed in September 1964. This plant contains 204,000 square feet of manufacturing floor space and is being used for the manufacture of Chromatron Color TV Receivers, portable home use Video Tape Recorders and larger size Transistor TV Receivers.

In January 1965, the Japanese Government licensed Sony and Tektronix, Inc., an outstanding cathode ray oscilloscope manufacturer in Oregon, U.S.A., to organize a joint venture company to be named Sony/Tektronix Corporation, a Japanese Corporation. Sony/Tektronix Corporation will have a capital of 100 million yen (U.S. Dollars 277,777) of which each partner will have a one-half interest. It will manufacture in Japan Tektronix designed products, and will market the products in Japan and Eastern Asia.
In the highly competitive electronic field, Sony's efforts have been steadily and increasingly recognized and acclaimed. The management is determined to exert all its efforts on the rationalization and strengthening of the company's technical, manufacturing and sales force, primarily focusing on the continuous introduction to the market of additional new products of the highest quality.

Sincerely yours,

Masaru Ibuka
President

Akio Morita
Executive Vice President

February 26, 1965
To the Stockholders and Board of Directors of Sony Corporation (Sony Kabushiki Kaisha)

In our opinion, the accompanying consolidated balance sheet and the related consolidated statement of income and retained earnings present fairly the financial position of Sony Corporation (Sony Kabushiki Kaisha) and its consolidated subsidiaries at October 31, 1964 and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.
SONY COR
(Sony Kabushikigaisha)
AND CONSOLIDATE
CONSOLIDATED

CONSOLIDATED

Assets

CURRENT ASSETS:

Cash (Note 5)  ¥3,958 ¥3,181 $10,994 $8,836
Time deposits, available within one year  3,660 3,882 10,167 10,783
Marketable securities, at cost which approximates market  15 1,327 42 3,686
Notes and accounts receivable, trade (Note 5)  8,732 8,053 24,256 22,370
Allowance for doubtful accounts (254) (117) (706) (325)
Inventories (Note 3)  10,091 8,967 28,030 24,908
Prepaid expenses and other current assets  623 488 1,731 1,356
Total current assets  26,825 25,781 74,514 71,614

INVESTMENTS AND ADVANCES, at cost or less:

Associated companies (Note 2)  95 70 264 194
Time deposits pledged as security for payment of commodity tax and for loans  74 94 206 261
Others  1,465 586 4,069 1,628

1,634 750 4,539 2,083

PROPERTY, PLANT AND EQUIPMENT, at cost (Note 4):

Land  2,248 1,734 6,244 4,817
Buildings  6,493 5,348 18,036 14,856
Machinery and equipment  4,498 3,664 12,494 10,177
Construction in progress  1,203 1,309 3,342 3,636

14,442 12,055 40,116 33,486
Less - Accumulated depreciation  3,488 2,719 9,689 7,553

10,954 9,336 30,427 25,933

OTHER ASSETS

¥40,507 ¥36,696 $112,519 $101,933

6
ki Kaisha)

BALANCE SHEET

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>In millions of yen</th>
<th>Translation into thousands of U.S. dollars (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1964</td>
<td>1963</td>
</tr>
<tr>
<td>CURRENT LIABILITIES:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank loans (Note 5)</td>
<td>¥13,724</td>
<td>¥9,950</td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>1,073</td>
<td>1,002</td>
</tr>
<tr>
<td>Notes payable, trade</td>
<td>4,573</td>
<td>6,886</td>
</tr>
<tr>
<td>Accounts payable, trade</td>
<td>1,610</td>
<td>1,472</td>
</tr>
<tr>
<td>Notes payable, construction</td>
<td>648</td>
<td>315</td>
</tr>
<tr>
<td>Notes and accounts payable, associated companies</td>
<td>952</td>
<td>993</td>
</tr>
<tr>
<td>Accrued income and other taxes</td>
<td>780</td>
<td>747</td>
</tr>
<tr>
<td>Other accounts payable and accrued liabilities</td>
<td>1,829</td>
<td>1,510</td>
</tr>
<tr>
<td>Dividends payable</td>
<td>340</td>
<td>340</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>25,529</td>
<td>23,215</td>
</tr>
<tr>
<td>LONG-TERM DEBT (Note 5)</td>
<td>3,211</td>
<td>2,763</td>
</tr>
<tr>
<td>LIABILITY FOR SEVERANCE INDEMNITIES (Note 6)</td>
<td>494</td>
<td>395</td>
</tr>
<tr>
<td>ESTIMATED FUTURE INCOME TAXES (Note 7)</td>
<td>429</td>
<td>274</td>
</tr>
<tr>
<td>STOCKHOLDERS' EQUITY:-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock ¥50 par value:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Authorized - 160,000,000 shares</td>
<td>2,700</td>
<td>2,700</td>
</tr>
<tr>
<td>Issued - 54,000,000 shares</td>
<td>4,527</td>
<td>4,527</td>
</tr>
<tr>
<td>Capital in excess of par value</td>
<td>541</td>
<td>471</td>
</tr>
<tr>
<td>Legal reserve (Note 8)</td>
<td>429</td>
<td>274</td>
</tr>
<tr>
<td>Retained earnings appropriated for special allowances (Note 7)</td>
<td>2,647</td>
<td>2,077</td>
</tr>
<tr>
<td>Retained earnings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>COMMITMENTS AND CONTINGENT LIABILITIES (Note 9)</td>
<td>¥40,507</td>
<td>¥36,696</td>
</tr>
</tbody>
</table>
SONY CORPORATION
(Sony Kabushiki Kaisha)
AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

<table>
<thead>
<tr>
<th>Translation into thousands of U.S. dollars (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>In millions of yen</td>
</tr>
<tr>
<td>Year ended October 31,</td>
</tr>
<tr>
<td>1964 1963 1964 1963</td>
</tr>
</tbody>
</table>

Sales and other income:

<table>
<thead>
<tr>
<th>Net sales:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
</tr>
<tr>
<td>Export</td>
</tr>
<tr>
<td>Miscellaneous income</td>
</tr>
</tbody>
</table>

Costs and expenses:

| Cost of sales                                       |
| Selling, general and administrative                 |
| Interest                                            |
| Other                                               |

Income before income taxes

Taxes on income (Note 7):

| Current                                              |
| Estimated future                                    |

Net income

Retained earnings:

| Balance, beginning of period                         |
| Cash dividends applicable to earnings for the period, |
| at ¥12.5 (3.5%) per share prorated over period      |
| shares outstanding                                  |
| Appropriations for special allowances, net of      |
| estimated future taxes (Note 7)                     |
| Transfer to legal reserve (Note 8)                  |
| Expenses of common stock offering, less related     |
| income taxes                                        |

Balance, end of period

Depreciation included in costs and expenses

<table>
<thead>
<tr>
<th>1964 1963 1964 1963</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥2,647 2,077 $7,353 $5,769</td>
</tr>
<tr>
<td>¥935 989 $2,597 $2,747</td>
</tr>
</tbody>
</table>
1 - U. S. DOLLAR AMOUNTS:

The U. S. dollar amounts are included solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of ¥360 equals U.S.$1, the official parity rate. These translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into, U.S. dollars.

2 - PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of the parent company and its totally held subsidiary companies. The parent company's equity in the net assets of its consolidated subsidiary companies is ¥4 million ($11 thousand) less than its investment therein at October 31, 1964.

The foreign currency accounts of consolidated foreign subsidiary companies were translated into Japanese yen at rates approximating prevailing quoted rates of exchange.

The parent company's equity in the net assets of associated companies, as shown by recent financial statements, exceeded its investment therein by approximately ¥49 million ($136 thousand).

3 - INVENTORIES:

Inventories at October 31, 1964 comprise the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Yen (millions)</th>
<th>Dollars (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finished products</td>
<td>¥5,937</td>
<td>$16,492</td>
</tr>
<tr>
<td>Work in process</td>
<td>¥1,938</td>
<td>5,383</td>
</tr>
<tr>
<td>Raw materials and purchased components</td>
<td>¥2,216</td>
<td>6,155</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>¥10,091</strong></td>
<td><strong>$28,030</strong></td>
</tr>
</tbody>
</table>

Inventories are valued at cost, not in excess of market, generally on a "first-in, first-out" basis except that cost of raw
materials and purchased components is determined on a moving average basis.

4 - PROPERTY, PLANT AND EQUIPMENT:

Depreciation of property, plant and equipment is computed on the declining balance method at rates based on estimated useful lives of the assets according to general class, type of construction and use. It is not practicable, because of the wide varieties of properties within each major class, to list the individual rates used; the overall effective rates for the year ended October 31, 1964 were 6.4% on buildings and 13.6% on machinery and equipment. Revision of estimated lives on fixed assets resulted in a reduction of charge for depreciation during the current year of approximately ¥75 million ($208 thousand).

5 - BANK LOANS AND LONG-TERM DEBT:

Bank loans of ¥13,724 million ($38,122 thousand) are represented by short-term notes, generally 60 to 90 days, and bearing interest, principally at 6.8% to 8% per annum. Certain of these loans are secured by a pledge of notes receivable aggregating ¥2,409 million ($6,692 thousand) and demand bank deposits of ¥37 million ($103 thousand), the latter representing collections on notes previously pledged and pending substitution of additional notes receivable. Short-term notes are generally issued to banks under written basic agreements which provide, with respect to all present or future loans with such banks, that collateral or guarantors will be furnished upon the bank's request and that any collateral furnished, pursuant to such agreements or otherwise, will be applicable to all indebtedness to such banks.

Long-term loans payable at October 31, 1964, representing obligations principally to banks and insurance companies, comprise the following:

<table>
<thead>
<tr>
<th>Secured by mortgages on property, plant and equipment:</th>
<th>Yen (millions)</th>
<th>Dollars (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.1% loans, maturing 1965 - 1969</td>
<td>¥1,572</td>
<td>$ 4,367</td>
</tr>
<tr>
<td>9.5% loans, maturing 1965 - 1969</td>
<td>1,119</td>
<td>3,108</td>
</tr>
<tr>
<td>9.9% loans, maturing 1965 - 1969</td>
<td>550</td>
<td>1,528</td>
</tr>
<tr>
<td>6.5% - 10.6% loans, maturing 1965 - 1998</td>
<td>166</td>
<td>461</td>
</tr>
<tr>
<td>Not secured:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.5% loans, maturing 1965 - 1969</td>
<td>278</td>
<td>772</td>
</tr>
<tr>
<td>9.9% loans, maturing 1965 - 1968</td>
<td>471</td>
<td>1,308</td>
</tr>
<tr>
<td>6.5% - 9.1% loans, maturing 1965 - 1998</td>
<td>128</td>
<td>356</td>
</tr>
<tr>
<td>Less - Portion due within one year</td>
<td>¥3,211</td>
<td>$ 8,919</td>
</tr>
</tbody>
</table>
6 - LIABILITY FOR SEVERANCE INDEMNITIES:

Employees severing their connection with the company are entitled, under most circumstances, to lump-sum indemnities based on current rate of pay and length of service. With few exceptions, the minimum payment is an amount based on voluntary retirement; income tax regulations permit a deduction, generally speaking, equal to only 50% of the periodic accrual for such minimum payments plus actual payments in excess of the allowed provision. In many cases, employees receive significant additional benefits because of conditions such as involuntary retirement, death, etc.

The annual provision for employee's severance indemnities is sufficient to state the liability account at 100% of the amount which would be required if all employees voluntarily retired at the end of such period. The future tax benefit of the non-deductible portion of such accrual is estimated to be sufficient to cover the estimated severance indemnities that will be paid in excess of those based on voluntary retirement.

With respect to directors and officers, the company provides for lump-sum severance indemnities on a basis which is similar to that used for employees. While the company has no legal obligation, it is a customary practice in Japan to make lump-sum payments to a director or officer upon retirement. The company is of the opinion that its annual provision is being made on a reasonable basis and is adequate to make such future payments as may be approved by the shareholders.

The charge to income for severance indemnities was ¥171 million ($475 thousand) for the year ended October 31, 1964 and ¥112 million ($311 thousand) for the year ended October 31, 1963.

7 - INCOME TAX, AND RETAINED EARNINGS APPROPRIATED FOR SPECIAL ALLOWANCES:

The company is subject to a number of different income taxes, which, in the aggregate, indicate an effective tax rate of approximately 50%.

The tax regulations, however, include a limitation on the amount of the deduction for severance indemnities and stipulate various tax credits, one of which is a credit against the corporation tax equal to 10% (12% since April 1, 1964) of dividends paid (as defined) from earnings of the period. Income taxes for the year ending October 31, 1964 were reduced by approximately ¥158 million ($439 thousand) (1963 - ¥298 million; $827 thousand) as a result of export allowances, the benefits of which expired on March 31, 1964.

The company is permitted to deduct for income tax purposes, if recorded on the books, certain special allowances which are not required for financial accounting purposes. As the effect of the special allowances is a deferral of income taxes, the company has provided, as estimated income taxes payable in future periods, an
amount equivalent to the current tax reduction resulting from the deduction of the special allowances. As the special allowances must be recorded in the books of account in full, the remaining portion of such allowances is set forth in the accompanying financial statements as appropriations of retained earnings for special allowances.

8 - LEGAL RESERVE:

The only change in the legal reserve during the year was the appropriation required under the Japanese Commercial Code. No further appropriation (presently a minimum of 10% of dividends paid) is required when the legal reserve equals 25% of capital.

9 - COMMITMENTS AND CONTINGENT LIABILITIES:

Commitments outstanding at October 31, 1964 for the purchase of property, plant and equipment amounted to approximately ¥2,411 million ($6,697 thousand).

Annual rentals on leases expiring more than three years after October 31, 1964 aggregate approximately ¥143 million ($397 thousand).

Contingent liabilities at October 31, 1964 for notes discounted and guarantees given in the ordinary course of business approximate ¥650 million ($1,806 thousand).