**HIGHLIGHTS**

For the years ended October 31

(Thousands of U.S. Dollars)

<table>
<thead>
<tr>
<th></th>
<th>1966</th>
<th>1965</th>
<th>1964</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NET SALES:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic</td>
<td>$52,669</td>
<td>$43,303</td>
<td>$44,694</td>
</tr>
<tr>
<td>Export</td>
<td>77,720</td>
<td>59,528</td>
<td>47,933</td>
</tr>
<tr>
<td>Total</td>
<td>130,389</td>
<td>102,831</td>
<td>92,627</td>
</tr>
<tr>
<td><strong>NET INCOME</strong></td>
<td>$7,631</td>
<td>$4,633</td>
<td>$4,083</td>
</tr>
<tr>
<td>Per American Depositary Share*</td>
<td>$1.413</td>
<td>$.858</td>
<td>$.756</td>
</tr>
<tr>
<td><strong>NUMBER OF EMPLOYEES</strong></td>
<td>8,100</td>
<td>7,101</td>
<td>6,871</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 ADS SHAREHOLDERS:

Sony's consolidated net sales and net income for the fiscal year ended October 31, 1966 reached their all-time high during the company's 20 years of operation. Sales reached $130,389,000 compared with $102,831,000 the year before. The net income was $7,631,000 compared with $4,633,000 during the fiscal year 1965. Earnings per ADS were $1.413 compared with $.858 in 1965. Sales in major markets and also by major products were higher than for any prior year.

Net sales for the fiscal 1966 increased 27 percent over the previous fiscal year and net income 65 percent. Export sales increased 31 percent and accounted for 60 percent of net sales. Domestic sales increased 22 percent and showed a prompt recovery from the previous year's drop in sales in the Japanese market.

Sony achieved this favorable showing in net income because of higher sales and also because a sharp improvement in operating efficiency enabled the company to keep the rate of increase of costs and expenses lower than the rate of increase of sales.

Because of these favorable results, Sony increased the amount of cash dividends paid for the 12 months ended October 31 by 20 percent, over the total dividends paid the year before. Cash dividends amounting to 20.8¢ per ADS were paid to ADS holders of record as of October 31, 1966 in respect of the six months of operations ended that date. Thus, total cash dividends of 41.4¢ were paid in respect of each ADS for the fiscal 1966.
Sales of tape recorders increased 26 percent over the previous fiscal year and accounted for 33 percent of net sales. In fiscal 1966, as in recent years this product line was the greatest contributor to the marked growth of Sony, reflecting sales increases in every major market. Because of the competition among the lower-priced tape recorders, Sony is concentrating its efforts on the development and introduction of new models at reasonable and competitive prices and incorporating many new features. In this respect, to develop a new demand for these models, Sony recently started to sell in the Japanese market a compact, battery-powered cassette (magazine) tape recorder with completely automatic recording volume control, and a new model having similar features which also records and plays on a tape with 25 tracks. Plans to strengthen Sony's leadership in the higher quality models are being strongly pursued.

Sales of transistor radios increased 10 percent over the previous fiscal year, accounting for 22 percent of net sales. Although recovery from the low volume bottom of 1963 had been rather slow, the sales of radios for fiscal 1966 surpassed the high volume of the year 1962 resulting in a new sales record. Sony will maintain the policy of developing and introducing higher quality models.

Sales of transistor TV receivers increased 23 percent over the previous fiscal year and accounted for 22 percent of total net sales. The black-faced 7" set found good initial acceptance and enjoyed continued high acceptance thereafter in the U.S. and Japanese markets. Sony currently produces and sells 6 models with different picture sizes and believes it has the most diversified line of transistor TV receivers in the world.
The low-priced video tape recorder (VTR) which Sony had developed and introduced first in the world market in 1965 is steadily finding new customers and it is highly respected by users for its superior quality. More sophisticated units are also marketed and continue to be well received. Sony is working on the creation of a world-wide sales and service network for its video tape recorders and management believes that the company will greatly benefit from these efforts. Sony developed and demonstrated a color VTR unit which is based on the low-priced model. This is the first low-priced VTR color unit demonstrated in the world. Sony also developed and demonstrated in the United States and in Japan a new shoulder type, battery-powered, black and white video tape recorder. Sony is planning to sell these models during 1967.

Along with the development of the low-priced color VTR, Sony has been successful in developing two kinds of video magnetic recording tape for non-professional use --- one for color use and one for black and white use. The latter is being widely sold. The research and development activities for these video magnetic recording tapes have helped the company to improve the quality of audio magnetic recording tape. Management believes that Sony is the biggest manufacturer of magnetic recording tape in Japan.

The Chromatron Color TV receivers which Sony developed and marketed first in the world in Japan in 1965 have been favorably accepted because of the brightness of their picture. The management anticipates that the actual demand for Color TV receivers in Japan will become stronger in the next few years and Sony is now actively working on the further development of the quality of these tubes. It is setting up a sales and service network in Japan in order to meet the growing demand.
Sony announced in September 1966, the completion of a prototype of an Integrated Circuit basis radio (IC radio) and recently tested the sales interest in this IC radio in New York. Sony is now developing various consumer products in which the integrated circuit can be technically applied.

Sony, at present, has established a broad base for the development of new products. The management is firmly determined to exert its best efforts to broaden this base and to develop profitable new products which will assure future growth and expansion.

Sincerely yours,

Masaru Ibuka
President

Akio Morita
Executive Vice President

February 1, 1967
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, 1966 and the results of
their operations for the year then ended, 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.

Price Waterhouse & Co.
### ASSETS

#### CURRENT ASSETS:

- **Cash (Note 5)**
  - 1966: ¥3,770
  - 1965: ¥4,508
  - In millions of yen
  - Translation into thousands of U.S. dollars (Note 1):
    - 1966: $10,472
    - 1965: $12,522

- **Time deposits, available within one year**
  - 1966: ¥5,634
  - 1965: ¥4,333
  - 1966: 15,650
  - 1965: 12,036

- **Marketable securities, at cost which approximates market**
  - 1966: ¥4,306
  - 1965: ¥1,725
  - 1966: 11,961
  - 1965: 4,792

- **Notes and accounts receivable, trade (Note 5)**
  - 1966: ¥9,194
  - 1965: ¥8,202
  - 1966: 25,539
  - 1965: 22,783

- **Allowance for doubtful accounts**
  - 1966: $(399)
  - 1965: $(183)
  - 1966: $(997)
  - 1965: $(508)

- **Inventories (Note 3)**
  - 1966: ¥12,527
  - 1965: ¥10,260
  - 1966: $(34,797)
  - 1965: $(28,500)

- **Prepaid expenses and other current assets**
  - 1966: ¥1,027
  - 1965: ¥711
  - 1966: 2,853
  - 1965: 1,975

#### Total current assets

- 1966: ¥36,099
- 1965: ¥29,556
- 1966: 100,275
- 1965: 82,100

#### INVESTMENTS AND ADVANCES, at cost or less:

- **Associated companies**
  - 1966: ¥180
  - 1965: ¥158
  - 1966: 500
  - 1965: 439

- **Others**
  - 1966: ¥1,438
  - 1965: ¥1,710
  - 1966: 3,994
  - 1965: 4,750

#### Other assets

- 1966: ¥1,546
- 1965: ¥1,095
- 1966: 4,294
- 1965: 3,042

### PROPERTY, PLANT AND EQUIPMENT, at cost (Notes 4 and 5):

- **Land**
  - 1966: ¥3,488
  - 1965: ¥2,327
  - 1966: 9,689
  - 1965: 6,464

- **Buildings**
  - 1966: ¥9,041
  - 1965: ¥6,937
  - 1966: 25,114
  - 1965: 19,269

- **Machinery and equipment**
  - 1966: ¥6,359
  - 1965: ¥5,276
  - 1966: 17,664
  - 1965: 14,656

- **Construction in progress**
  - 1966: ¥707
  - 1965: ¥2,208
  - 1966: 1,964
  - 1965: 6,133

#### Less - Accumulated depreciation

- 1966: ¥14,083
- 1965: ¥180
- 1966: 36,099
- 1965: 28,500

### OTHER ASSETS

- 1966: ¥53,346
- 1965: ¥44,835
- 1966: 148,183
- 1965: 124,542
**Nisshiki Kaisha**

**DATED SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEET**

<table>
<thead>
<tr>
<th></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>1966</td>
<td>1965</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CURRENT LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank loans (Note 5)</td>
<td>¥16,369</td>
<td>¥14,949</td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>1,635</td>
<td>1,493</td>
</tr>
<tr>
<td>Notes payable, trade</td>
<td>6,365</td>
<td>4,358</td>
</tr>
<tr>
<td>Accounts payable, trade</td>
<td>1,975</td>
<td>1,599</td>
</tr>
<tr>
<td>Notes payable, construction</td>
<td>382</td>
<td>298</td>
</tr>
<tr>
<td>Notes and accounts payable, associated companies</td>
<td>2,187</td>
<td>1,621</td>
</tr>
<tr>
<td>Accrued income and other taxes</td>
<td>1,936</td>
<td>1,146</td>
</tr>
<tr>
<td>Other accounts payable and accrued liabilities</td>
<td>3,376</td>
<td>2,264</td>
</tr>
<tr>
<td>Dividends payable</td>
<td>408</td>
<td>340</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>34,633</td>
<td>28,068</td>
</tr>
<tr>
<td><strong>LONG-TERM DEBT (Note 5)</strong></td>
<td>3,180</td>
<td>3,638</td>
</tr>
<tr>
<td><strong>LIABILITY FOR SEVERANCE INDEMNITIES (Note 6)</strong></td>
<td>757</td>
<td>604</td>
</tr>
<tr>
<td><strong>ESTIMATED FUTURE INCOME TAXES (Note 7)</strong></td>
<td>1,002</td>
<td>688</td>
</tr>
<tr>
<td><strong>STOCKHOLDERS' EQUITY:</strong></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></td>
<td></td>
</tr>
<tr>
<td>Issued - 54,000,000 shares</td>
<td>2,700</td>
<td>2,700</td>
</tr>
<tr>
<td>Capital in excess of par value</td>
<td>4,527</td>
<td>4,527</td>
</tr>
<tr>
<td>Legal reserve (Note 8)</td>
<td>691</td>
<td>610</td>
</tr>
<tr>
<td>Retained earnings appropriated for special allowances (Note 7)</td>
<td>1,150</td>
<td>688</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>4,726</td>
<td>3,312</td>
</tr>
<tr>
<td><strong>COMMITMENTS AND CONTINGENT LIABILITIES (Note 9)</strong></td>
<td>13,774</td>
<td>11,837</td>
</tr>
<tr>
<td></td>
<td>¥53,346</td>
<td>¥44,835</td>
</tr>
</tbody>
</table>
Sony Corporation (Sony Kabushiki Kaisha) and Consolidated Subsidiaries

Consolidated Statement of Income and Retained Earnings

<table>
<thead>
<tr>
<th>Year ended</th>
<th>In millions of yen</th>
<th>Translation into thousands of U.S. dollars (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966</td>
<td>1965</td>
<td>October 31</td>
</tr>
</tbody>
</table>

Sales and other income:

Net sales -
  Domestic
  Export
  Operating revenue and miscellaneous income

Cost 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 (per share: 1966 - ¥50.9 or 14.1¢; 1965 - ¥30.9 or 8.6¢)

Retained earnings:

Balance, beginning of period
Cash dividends applicable to earnings for the period, at ¥15 or 4.2¢ per share for 1966 and ¥12.5 or 3.5¢ per share for 1965
Appropriations for special allowances, net of estimated future taxes (Note 7)
Transfer to legal reserve (Note 8)

Balance, end of period
Depreciation included in cost and expenses
SONY CORPORATION
(Sony Kabushiki Kaisha)
AND CONSOLIDATED SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

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 with a minor exception its totally held subsidiary companies. The parent company's equity in the net assets of its consolidated subsidiary companies exceeds its investment therein by ¥798 million ($2,217 thousand) at October 31, 1966.

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

3 - INVENTORIES:

Inventories at October 31, 1966 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>Yen (millions)</th>
<th>Dollars (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finished products</td>
<td>¥ 8,740</td>
<td>$24,278</td>
</tr>
<tr>
<td>Work in process</td>
<td>2,111</td>
<td>5,864</td>
</tr>
<tr>
<td>Raw materials and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>purchased components</td>
<td>1,676</td>
<td>4,655</td>
</tr>
<tr>
<td></td>
<td>¥12,527</td>
<td>$34,797</td>
</tr>
</tbody>
</table>

Inventories are valued at cost, not in excess of market. Finished product costs are determined on a "first-in, first-out" basis and other categories are determined on the basis of average cost.
4 - PROPERTY, PLANT AND EQUIPMENT:

Depreciation of property, plant and equipment is computed by 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, 1966 were 6.7% on buildings and 13.4% on machinery and equipment.

5 - BANK LOANS AND LONG-TERM DEBT:

Bank loans of ¥16,369 million ($45,469 thousand) are represented by short-term notes, generally 60 to 180 days, bearing interest, principally at 4.3% to 7.1% per annum. Certain of these loans are secured by a pledge of notes receivable aggregating ¥627 million ($1,742 thousand) and demand bank deposits of ¥336 million ($933 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 (including sums on deposit with such banks) 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 debt at October 31, 1966, representing obligations principally to banks and insurance companies, comprise the following:

<table>
<thead>
<tr>
<th>Loans payable:</th>
<th>Yen (millions)</th>
<th>Dollars (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secured by mortgages on property, plant and equipment -</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.1% loans, maturing serially 1967 to 1971</td>
<td>¥1,565</td>
<td>$ 4,347</td>
</tr>
<tr>
<td>9.5% loans, maturing serially 1967 to 1970</td>
<td>1,201</td>
<td>3,336</td>
</tr>
<tr>
<td>8.8% loans, maturing serially 1967 to 1972</td>
<td>594</td>
<td>1,650</td>
</tr>
<tr>
<td>7.0% - 8.4% loans, maturing serially 1967 to 1998</td>
<td>390</td>
<td>1,083</td>
</tr>
<tr>
<td>Not secured -</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.5% loans, maturing serially 1967 to 1968</td>
<td></td>
<td>1,200</td>
</tr>
<tr>
<td>6.4% loans, maturing serially 1967 to 1969</td>
<td>288</td>
<td>800</td>
</tr>
<tr>
<td>6.5% - 9.5% loans, maturing serially 1967 to 1998</td>
<td>213</td>
<td>592</td>
</tr>
<tr>
<td></td>
<td>¥4,683</td>
<td>13,008</td>
</tr>
<tr>
<td>Less - Portion due within one year</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>¥1,635</td>
<td>4,542</td>
</tr>
<tr>
<td></td>
<td>3,048</td>
<td>8,466</td>
</tr>
<tr>
<td></td>
<td>132</td>
<td>367</td>
</tr>
<tr>
<td></td>
<td>¥3,180</td>
<td>$ 8,833</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 ¥219 million ($608 thousand) for the year ended October 31, 1966 and ¥152 million ($422 thousand) for the year ended October 31, 1965.

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 47%.

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 9% (11% prior to April 1, 1966) of dividends paid (as defined) from earnings of the period.
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, 1966 for the purchase of property, plant and equipment amounted to approximately ¥1,535 million ($4,264 thousand).

Rental expense aggregated ¥432 million ($1,200 thousand) for the year as compared with ¥286 million ($794 thousand) for the preceding year. A significant portion of such rentals relates to short-term leases, many of which are renewed upon expiration. Obligations under long-term leases are not material in relation to the financial statements of the company.

Contingent liabilities at October 31, 1966 for notes discounted and guarantees given in the ordinary course of business approximate ¥976 million ($2,711 thousand). A tax assessment is pending against a subsidiary company. In the opinion of management, the assessment, which is being contested, is without merit and, if decided adversely, will not involve sums considered material to the consolidated financial position or operating results.
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7-35 Kitashinagawa 6-chome
Shinagawa-ku, Tokyo, Japan

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New York, New York 10017, U.S.A.

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(Printed in Japan)