SONY CORP
Form 6-K
February 07, 2019
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

For the month of February 2019

Commission File Number: 001-06439

SONY CORPORATION

(Translation of registrant s name into English)

1-7-1 KONAN, MINATO-KU, TOKYO, 108-0075, JAPAN

(Address of principal executive offices)

The registrant files annual reports under cover of Form 20-F.

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F,

Form 20-F X Form 40-F__

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934, Yes No X

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82-______

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SONY CORPORATION

(Registrant)

By: /s/ Hiroki Totoki
(Signature)
Hiroki Totoki
Senior Executive Vice President and
Chief Financial Officer

Date: February 7, 2019

Table of Contents

Quarterly Securities Report

For the three months ended December 31, 2018

(TRANSLATION)

Sony Corporation

Table of Contents

CONTENTS

Table of Contents

Note for readers of this English translation

On February 7, 2019, Sony Corporation (the Company or Sony Corporation, and together with its consolidated subsidiaries, Sony or Sony Group) filed its Japanese-language Quarterly Securities Report (Shihanki Houkokusho) for the three months ended December 31, 2018 with the Director-General of the Kanto Local Finance Bureau in Japan pursuant to the Financial Instruments and Exchange Act of Japan. This document is an English translation of the Quarterly Securities Report in its entirety, except for (i) information that had been previously filed with or submitted to the U.S. Securities and Exchange Commission (the SEC) in a Form 20-F, Form 6-K or any other form and (ii) a description of differences between generally accepted accounting principles in the U.S. (U.S. GAAP) and generally accepted accounting principles in Japan (J-GAAP), which are required to be described in the Quarterly Securities Report under the Financial Instruments and Exchange Act of Japan if the Company prepares its financial statements in conformity with accounting principles other than J-GAAP.

Cautionary Statement

Statements made in this release with respect to Sony s current plans, estimates, strategies and beliefs and other statements that are not historical facts are forward-looking statements about the future performance of Sony. Forward-looking statements include, but are not limited to, those statements using words such as believe, expect, plans, strategy, prospects, forecast, estimate, project, anticipate, aim, intend, seek, may, m words of similar meaning in connection with a discussion of future operations, financial performance, events or conditions. From time to time, oral or written forward-looking statements may also be included in other materials released to the public. These statements are based on management s assumptions, judgments and beliefs in light of the information currently available to it. Sony cautions investors that a number of important risks and uncertainties could cause actual results to differ materially from those discussed in the forward-looking statements, and therefore investors should not place undue reliance on them. Investors also should not rely on any obligation of Sony to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Sony disclaims any such obligation. Risks and uncertainties that might affect Sony include, but are not limited to:

(i) Sony s ability to maintain product quality and customer satisfaction with its products and services;
(ii) Sony s ability to continue to design and develop and win acceptance of, as well as achieve sufficient cost reductions for, its products and services, including image sensors, game and network platforms, smartphones and televisions, which are offered in highly competitive markets characterized by severe price competition and continual new product and service introductions, rapid development in technology and subjective and changing customer preferences;
(iii) Sony s ability to implement successful hardware, software, and content integration strategies, and to develop and implement successful sales and distribution strategies in light of new technologies and distribution platforms;
(iv) the effectiveness of Sony s strategies and their execution, including but not limited to the success of Sony s acquisitions, joint ventures, investments, capital expenditures, restructurings and other strategic initiatives;
(v) changes in laws, regulations and government policies in the markets in which Sony and its third-party suppliers, service providers and business partners operate, including those related to taxation, as well as growing consumer focus on corporate social responsibility;
(vi) Sony s continued ability to identify the products, services and market trends with significant growth potential, to devote sufficient resources to research and development, to prioritize investments and capital expenditures correctly and to recoup its investments and capital expenditures, including those required for technology development and product capacity;
(vii) Sony s reliance on external business partners, including for the procurement of parts, components, software and network services for its products or services, the manufacturing, marketing and distribution of its products, and its other business operations;

(viii) the global economic and political environment in which Sony operates and the economic and political conditions in Sony s markets, particularly levels of consumer spending;

(ix) Sony s ability to meet operational and liquidity needs as a result of significant volatility and disruption in the global financial markets or a ratings downgrade;

(x) Sony s ability to forecast demands, manage timely procurement and control inventories;

Table of Contents

(xi) foreign exchange rates, particularly between the yen and the U.S. dollar, the euro and other currencies in which Sony makes significant sales and incurs production costs, or in which Sony s assets, liabilities and operating results are denominated;
(xii) Sony s ability to recruit, retain and maintain productive relations with highly skilled personnel;
(xiii) Sony s ability to prevent unauthorized use or theft of intellectual property rights, to obtain or renew licenses relating to intellectual property rights and to defend itself against claims that its products or services infringe the intellectual property rights owned by others;
(xiv) the impact of changes in interest rates and unfavorable conditions or developments (including market fluctuations or volatility) in the Japanese equity markets on the revenue and operating income of the Financial Services segment;
(xv) shifts in customer demand for financial services such as life insurance and Sony s ability to conduct successful asset liability management in the Financial Services segment;
(xvi) risks related to catastrophic disasters or similar events;
(xvii) the ability of Sony, its third-party service providers or business partners to anticipate and manage cybersecurity risk, including the risk of unauthorized access to Sony s business information and the personally identifiable information of its employees and customers, potential business disruptions or financial losses; and
(xviii) the outcome of pending and/or future legal and/or regulatory proceedings.

Risks and uncertainties also include the impact of any future events with material adverse impact. Important information regarding risks and uncertainties is also set forth in Sony s most recent Form 20-F, which is on file with the SEC.

- 2 -

Table of Contents

I Corporate Information

(1) Selected Consolidated Financial Data

	Yen in millions, Yen per share amounts		
	Nine months ended December 31, 2017	Nine months ended December 31, 2018	Fiscal year ended March 31, 2018
Sales and operating revenue	6,592,961	6,538,189	8,543,982
Operating income	712,676	811,505	734,860
Income before income taxes	690,578	899,014	699,049
Net income attributable to Sony Corporation s stockholders	507,620	828,410	490,794
Comprehensive income	600,028	881,798	553,220
Total equity	3,714,947	4,447,128	3,647,157
Total assets	19,420,676	20,922,140	19,065,538
Net income attributable to Sony Corporation s stockholders per share of common stock, basic (yen)	401.76	653.09	388.32
Net income attributable to Sony Corporation s stockholders per share of common stock, diluted (yen)	393.05	638.89	379.75
Ratio of stockholders equity to total assets (%)	15.7	18.1	15.6
Net cash provided by operating activities	659,357	901,364	1,253,971
Net cash used in investing activities	(567,280)	(1,035,001)	(823,068)
Net cash provided by (used in) financing activities	265,188	(24,174)	246,456
Cash and cash equivalents at end of the period	1,328,925	1,480,816	1,586,329

	Yen in millions, Yen per share amounts	
	Three months ended December 31, 2017	Three months ended December 31, 2018
Sales and operating revenue	2,672,317	2,401,805

Net income attributable to Sony Corporation s stockholders	295,897	428,962
Net income attributable to Sony Corporation s stockholders per share of common stock, basic (yen)	234.08	337.97
Net income attributable to Sony Corporation s stockholders per share of common stock, diluted (yen)	228.91	330.77

Notes:

1. The Company s consolidated financial statements are prepared in conformity with U.S. GAAP.
2. The Company reports equity in net income of affiliated companies as a component of operating income.
3. Certain revisions have been made for the nine months ended December 31, 2017 and the fiscal year ended March 31, 2018 to conform to the presentation for the nine months ended December 31, 2018 due to the adoption of Accounting Standards Update 2016-18 from the fiscal year beginning April 1, 2018. Please refer to IV Financial Statements Notes to Consolidated Financial Statements 1. Summary of significant accounting policies (1) Recently adopted accounting pronouncements .
4. Consumption taxes are not included in sales and operating revenue.
5. Total equity is presented based on U.S. GAAP.
6. Ratio of stockholders equity to total assets is calculated by using total equity attributable to the stockholders of the Company.
7. The Company prepares consolidated financial statements. Therefore parent-only selected financial data is not presented.

Table of Contents

(2) Business Overview

There was no significant change in the business of Sony during the nine months ended December 31, 2018.

As of December 31, 2018, the Company had 1,585 subsidiaries and 142 affiliated companies, of which 1,554 companies are consolidated subsidiaries (including variable interest entities) of the Company. The Company has applied the equity accounting method for 130 affiliated companies.

Table of Contents

II State of Business

(1) Risk Factors

Note for readers of this English translation:

Except for the revised risk factor below, there was no significant change from the information presented in the Risk Factors section of the Annual Report on Form 20-F filed with the Securities and Exchange Commission (the SEC) on June 19, 2018. The changes are indicated by underline below. Any forward-looking statements included in the descriptions below are based on management s current judgment.

URL: The Annual Report on Form 20-F filed with the SEC on June 19, 2018

https://www.sec.gov/Archives/edgar/data/313838/000119312518196263/d556845d20f.htm

Sony s strategic initiatives, including acquisitions, joint ventures, investments, capital expenditures and restructurings, may not be successful in achieving their strategic objectives.

Sony actively engages in acquisitions, joint ventures, capital expenditures and other strategic investments to acquire new technologies, efficiently develop new businesses and enhance its business competitiveness. For example, on November 14, 2018, Sony acquired the entirety of the remaining approximately 60% equity interest in DH Publishing, L.P. (EMI) not already held by Sony, making EMI a wholly-owned subsidiary of Sony.

When making acquisitions, Sony s financial results may be adversely affected by the significant cost of the acquisition and/or integration expenses, failure to achieve synergies, failure to generate expected revenue and cost improvements, loss of key personnel and assumption of liabilities.

When establishing joint ventures and strategic partnerships, Sony s financial and operating results may be adversely affected by strategic or cultural differences with partners, conflicts of interest, failure to achieve synergies, additional funding or debt guarantees required to maintain the joint venture or partnership, requirements to buy out a joint venture partner, sell its shares or dissolve a partnership, insufficient management control including control over cash flow, loss of proprietary technology and know-how, impairment losses and reputational harm from the actions or activities of a joint venture that uses the Sony brand.

Sony invests heavily in production facilities and equipment in its electronics businesses, including fabrication facilities used to make image sensors for smartphones and other products. Sony may not be able to recover these capital expenditures in part or full or in the planned timeframe due to the competitive environment, lower-than-expected consumer demand or changes in the financial condition or business decisions of Sony s major customers. Sony invested 45.0 billion yen and 106.6 billion yen of capital in the fiscal years ended March 31, 2017 and 2018, respectively, mainly for the purpose of increasing image sensor production capacity.

Further, Sony is implementing restructuring and transformation initiatives to enhance profitability, business autonomy and shareholder value and to clearly position each business within the overall business portfolio. For example, Sony transferred its battery business to Murata Manufacturing Co., Ltd. Group in the fiscal year ended March 31, 2018. The expected benefits of these initiatives, including the expected level of profitability, may not be realized due to internal and external impediments or market conditions worsening beyond expectations. If Sony is not successful in achieving its restructuring and transformation initiatives, Sony s operating results, financial condition, reputation, competitiveness or profitability may be adversely affected. Sony incurred restructuring charges in the amount of 38.3 billion yen, 60.2 billion yen and 22.4 billion yen in the fiscal years ended March 31, 2016, 2017 and 2018, respectively.

Table of Contents

(2) Management s Discussion and Analysis of Financial Condition, Results of Operations and Status of Cash Flows

i) Results of Operations

All amounts are presented on the basis of U.S. GAAP. Sales and operating revenue (sales) in each business segment represents sales and operating revenue recorded before intersegment transactions are eliminated. Operating income (loss) in each business segment represents operating income (loss) reported before intersegment transactions are eliminated and excludes unallocated corporate expenses. For details regarding each segment s product categories, please refer to IV Financial Statements Notes to Consolidated Financial Statements 10. Business segment information.

Consolidated Financial Results

	(Billions of yen) Nine months ended December 31	
	2017	**2018**
Sales and operating revenue	¥ 6,593.0	**¥ 6,538.2**
Operating income	712.7	**811.5**
Income before income taxes	690.6	**899.0**
Net income attributable to Sony Corporation s stockholders	507.6	**828.4**

Sales for the nine months ended December 31, 2018 (the current nine months) decreased 54.8 billion yen compared to the same period of the previous fiscal year (year-on-year) to 6 trillion 538.2 billion yen, essentially flat year-on-year. This was primarily due to significant decreases in sales in the Mobile Communications (MC) and Financial Services segments, partially offset by a significant increase in sales in the Game & Network Services (G&NS) segment.

Operating income in the current nine months increased 98.8 billion yen year-on-year to 811.5 billion yen. This increase was primarily due to significant increases in operating income in the Music and G&NS segments.

Operating income for the current nine months included the following:

Impairment charge against long-lived assets: 17.4 billion yen (MC segment)*

Remeasurement gain (116.9 billion yen**) and deterioration of equity in net loss (11.6 billion yen) resulting from Sony s acquisition of the remaining approximately 60% equity interest in EMI as described below (Music segment)

* In light of smartphone sales results in the second quarter ended September 30, 2018, as well as the expectation of continued difficulty in the business environment in the second half of the fiscal year ending March 31, 2019 and beyond, Sony has conducted reviews of the future profitability forecast for the MC segment, which resulted in downward revisions in that forecast. The outcome of these downward revisions were decreases in expected future cash flows, which resulted in the recording of impairment charges against long-lived assets in the smartphone business within the MC segment. These impairment charges were recorded as an operating loss of 16.2 billion yen in the second quarter ended September 30, 2018, and 1.2 billion yen in the third quarter ended December 31, 2018. When it established the new profitability forecast for the smartphone business in October, Sony revised its profitability improvement plan and adopted a new goal of reducing operating costs in the fiscal year ending March 31, 2021 compared with the fiscal year ended March 31, 2018 by 50% compared with its previous goal of 30%.

** For details, please refer to IV Financial Statements Notes to Consolidated Financial Statements 8. Acquisition of EMI Music Publishing.

Operating income for the same period of the previous fiscal year included the following:

A gain resulting from the sale of the entire equity interest in a manufacturing subsidiary in the camera module business: 28.3 billion yen (Semiconductors segment)
Insurance recoveries, mainly for opportunity losses related to the 2016 Kumamoto Earthquakes (the Kumamoto Earthquakes): 6.7 billion yen (Semiconductors segment) and 2.6 billion yen (IP&S segment)
A gain resulting from the sale of manufacturing equipment: 6.7 billion yen (Semiconductors segment)

During the current nine months, restructuring charges, net, increased 4.7 billion yen year-on-year to 11.9 billion yen. Restructuring charges are recorded as an operating expense and are included in operating income.

Table of Contents

Equity in net income (loss) of affiliated companies in the current nine months, recorded within operating income, was a loss of 4.7 billion yen, compared to income of 7.4 billion yen in the same period of the previous fiscal year. This deterioration primarily resulted from the deterioration of 11.6 billion yen, mainly due to expenses relating to warrants and management equity plans in connection with Sony s acquisition of the remaining approximately 60% equity interest in EMI.

The net effect of other income and expenses was income of 87.5 billion yen, compared to an expense of 22.1 billion yen in the same period of the previous fiscal year. This was mainly due to a 92.5 billion yen gain on equity securities, net, recorded in the current nine months as a result of Spotify Technology S.A. s (Spotify) public listing.

Income before income taxes increased 208.4 billion yen year-on-year to 899.0 billion yen.

During the current nine months, Sony recorded 33.8 billion yen of income tax expense, resulting in an effective tax rate of 3.8%, which was lower than the effective tax rate of 20.1% in the same period of the previous fiscal year. This lower effective tax rate was mainly due to not recording income tax expense on the remeasurement gain for the equity interest in EMI, as well as the reversal of valuation allowances against a significant portion of the deferred tax assets in the U.S. consolidated tax group, resulting in a tax benefit of 154.2 billion yen being recorded in the quarter ended December 31, 2018.

Net income attributable to Sony Corporation s stockholders increased 320.8 billion yen year-on-year to 828.4 billion yen.

Operating performance by business segment for the current nine months is as follows:

Game & Network Services (G&NS)

Sales increased 313.5 billion yen year-on-year to 1 trillion 812.8 billion yen, primarily due to an increase in game software sales. Operating income increased 89.3 billion yen year-on-year to 247.2 billion yen, primarily due to the impact of the above-mentioned increase in sales.

Music

On November 14, 2018, Sony acquired the entirety of the approximately 60% equity interest held by the investor consortium led by Mubadala Investment Company in EMI, resulting in EMI becoming a wholly-owned subsidiary of Sony. Financial results of EMI included in the Music segment include Sony s equity earnings (loss) in EMI from April 1 through November 13, 2018 and sales and operating income (loss) of EMI from November 14, 2018 through December 31, 2018, as well as a non-cash gain recorded as a result of the remeasurement to fair value of the approximately 40% equity interest in EMI that Sony owned prior to the acquisition.

The Music segment results include the yen-translated results of Sony Music Entertainment (SME), Sony/ATV Music Publishing (Sony/ATV) and the above-mentioned EMI, all U.S.-based operations which aggregate the results of their worldwide subsidiaries on a U.S. dollar basis, and the results of Sony Music Entertainment (Japan) Inc., a Japan-based music company which aggregates its results in yen.

Sales were 594.7 billion yen, essentially flat year-on-year. This was primarily due to higher sales for Music Publishing resulting from the consolidation of the results of EMI from November 14, 2018 onward, as well as higher streaming revenues, substantially offset by lower Recorded Music sales due to the impact of the new accounting standard regarding revenue from contracts with customers. Operating income increased 113.8 billion yen year-on-year to

210.7 billion yen, primarily due to the above-mentioned recording of a 116.9 billion yen remeasurement gain resulting from the consolidation of EMI and an 11.6 billion yen deterioration of equity in net loss resulting from Sony s acquisition of the remaining approximately 60% equity interest in EMI.

Table of Contents

Pictures

The results presented in Pictures are a yen-translation of the results of Sony Pictures Entertainment Inc. (SPE), a U.S.-based operation that aggregates the results of its worldwide subsidiaries on a U.S. dollar basis. Management analyzes the results of SPE in U.S. dollars, so discussion of certain portions of its results is specified as being on a U.S. dollar basis.

Sales decreased 17.4 billion yen, a 2% decrease year-on-year (an approximate 2% decrease on a U.S. dollar basis), to 692.7 billion yen. The decrease in sales on a U.S. dollar basis was due to lower sales for Television Productions and Media Networks, partially offset by higher sales for Motion Pictures. The decrease in sales for Television Productions was primarily due to lower licensing revenues for U.S. television series, partially offset by higher sales due to the impact of the new accounting standard regarding revenue from contracts with customers. The decrease in sales for Media Networks was primarily due to lower advertising revenues as compared to the same period of the previous fiscal year, which included revenues for the Indian Premier League cricket competition. The increase in sales for Motion Pictures was primarily due to higher television licensing revenues for catalog titles which was due in part to the impact of the above-mentioned new accounting standard.

Operating income increased 18.8 billion yen year-on-year to 27.5 billion yen. This significant increase in operating income was primarily due to an improvement in the profitability of Motion Pictures which benefited in the current nine months primarily from home entertainment and television licensing sales of higher margin titles including *Jumanji: Welcome to the Jungle* and *Peter Rabbit*, as well as the 9.4 billion yen impact of the new accounting standard regarding revenue from contracts with customers, for both Motion Pictures and Television Productions. This increase was partially offset by the impact of 12.4 billion yen in programming write-offs and severance expenses related to a review of the channel portfolio within Media Networks undertaken to streamline the business, as well as the impact of lower sales for Media Networks and Television Productions.

Home Entertainment & Sound (HE&S)

Sales decreased 51.8 billion yen year-on-year to 935.8 billion yen due to a decrease in television unit sales resulting from a strategic decision not to pursue scale in order to focus on profitability, as well as the impact of foreign exchange rates. This decrease was partially offset by an increase in Audio and Video sales resulting from strong sales of headphones. Operating income decreased 3.9 billion yen year-on-year to 89.3 billion yen due to the negative impact of foreign exchange rates as well as the impact of the above-mentioned decrease in sales, partially offset by an improvement in the product mix of televisions reflecting a shift to high value-added models.

Imaging Products & Solutions (IP&S)

Sales increased 22.6 billion yen year-on-year to 516.1 billion yen, mainly due to an improvement in the product mix reflecting a shift to high value-added models, partially offset by a decrease in unit sales. Operating income increased 14.1 billion yen year-on-year to 82.1 billion yen, primarily due to the above-mentioned improvement in product mix as well as reductions in operating costs, partially offset by the decrease in unit sales.

Mobile Communications (MC)

Sales decreased 183.2 billion yen year-on-year to 387.5 billion yen, due to a significant decrease in smartphone unit sales mainly in Europe, Japan and Latin America. An operating loss of 56.1 billion yen was recorded, compared to operating income of 17.0 billion yen recorded in the same period of the previous fiscal year, due to the impact of the decrease in sales as well as the above-mentioned impairment charge against long-lived assets of 17.4 billion yen, partially offset by reductions in operating costs.

Semiconductors

Sales were 687.0 billion yen, essentially flat year-on-year, primarily due to an increase in sales of image sensors for mobile products, substantially offset by a significant decrease in sales in the camera modules business. Operating income decreased 41.8 billion yen year-on-year to 123.6 billion yen, primarily due to the absence in the current nine months of the above-mentioned 28.3 billion yen gain resulting from the sale of the entire equity interest in a manufacturing subsidiary in the camera module business, a 6.7 billion yen gain resulting from the sale of manufacturing equipment and 6.7 billion yen in insurance recoveries related to the Kumamoto Earthquakes, each recorded in the same period of the previous fiscal year, as well as an increase in depreciation and amortization expenses and in research and development expenses. These negative factors were partially offset by the impact of the above-mentioned increase in sales of image sensors for mobile products.

Table of Contents

Financial Services

The Financial Services segment results include Sony Financial Holdings Inc. (SFH) and SFH s consolidated subsidiaries such as Sony Life Insurance Co., Ltd. (Sony Life), Sony Assurance Inc. and Sony Bank Inc. (Sony Bank). The results of SFH and its consolidated subsidiaries discussed in the Financial Services segment differ from the results that these companies disclose separately on a Japanese statutory basis.

Financial Services revenue decreased 103.4 billion yen year-on-year to 852.2 billion yen, mainly due to a decrease in revenue at Sony Life. Revenue at Sony Life decreased 106.3 billion yen year-on-year to 749.4 billion yen, mainly due to a deterioration in investment performance in the separate accounts, partially offset by higher insurance premium revenue reflecting an increase in the policy amount in force. The deterioration in investment performance was mainly due to a decline in the stock market during the current nine months, as compared with a rise in the same period of the previous fiscal year. Operating income decreased 21.5 billion yen year-on-year to 117.6 billion yen, primarily due to a decrease in operating income at Sony Life and Sony Bank. Operating income at Sony Life decreased 17.5 billion yen year-on-year to 106.5 billion yen, mainly due to the absence in the current nine months of a gain on the sale of real estate held for investment purposes in the general account, recorded in the same period of the previous fiscal year. The decrease in operating income at Sony Bank was primarily due to the recording of a loss on the valuation of securities investments.

Operating Performance by Geographic Area

For operating performance by geographic area, please refer to Sales and operating revenue attributed to countries and areas based on location of external customers in IV Financial Statements Notes to Consolidated Financial Statements 10. Business segment information.

* * * * *

- 9 -

Table of Contents

Foreign Exchange Fluctuations and Risk Hedging

Note for readers of this English translation:

Except for the information set forth below, there was no significant change from the information presented in the Foreign Exchange Fluctuations and Risk Hedging section of the Annual Report on Form 20-F filed with the SEC on June 19, 2018. Although foreign exchange rates have fluctuated during the nine-month period ended December 31, 2018, there has been no significant change in Sony s risk hedging policy as described in the Annual Report on Form 20-F.

URL: The Annual Report on Form 20-F filed with the SEC on June 19, 2018

https://www.sec.gov/Archives/edgar/data/313838/000119312518196263/d556845d20f.htm

During the current nine months, the average rates of the yen were 111.2 yen against the U.S. dollar and 129.5 yen against the euro, which were 0.5 yen higher and 1.0 yen lower year-on-year, respectively.

For the current nine months, sales were 6 trillion 538.2 billion yen, essentially flat year-on-year, while on a constant currency basis sales were also essentially flat year-on-year.

Consolidated operating income increased 98.8 billion yen year-on-year to 811.5 billion yen for the current nine months. Most of the foreign exchange rate impact was attributable to the impact of foreign exchange rates in the G&NS, HE&S, IP&S, MC and Semiconductors segments.

The table below indicates the impact of changes in foreign exchange rates on sales and operating results of each of the relevant five segments. Also, please refer to the Results of Operations section, which discusses the impact of foreign exchange rates within segments and categories where foreign exchange rate fluctuations had a significant impact.

(Billions of yen)

		Nine months ended December 31		Impact of changes in foreign exchange rates
		2017	**2018**	
G&NS	Sales	1,499.2	**1,812.8**	-3.3
	Operating income	157.8	**247.2**	-0.3
HE&S	Sales	987.6	**935.8**	-18.0
	Operating income	93.2	**89.3**	-15.1
IP&S	Sales	493.5	**516.1**	-1.6
	Operating income	68.1	**82.1**	-1.5
MC	Sales	570.8	**387.5**	-2.8
	Operating income (loss)	17.0	**(56.1)**	+2.8
Semiconductors	Sales	683.6	**687.0**	-2.3
	Operating income	165.4	**123.6**	-1.9

In addition, sales for the Music segment were 594.7 billion yen, essentially flat year-on-year and as well as essentially flat on a constant currency basis. In the Pictures segment, sales decreased 2% year-on-year to 692.7 billion yen, an approximate 2% decrease on a U.S. dollar basis. As most of the operations in Sony s Financial Services segment are based in Japan, Sony s management analyzes the performance of the Financial Services segment on a yen basis only.

Note:

The descriptions of sales on a constant currency basis reflect sales calculated by applying the yen s monthly average exchange rates from the same period of the previous fiscal year to local currency-denominated monthly sales in the current nine months. For SME and Sony/ATV in the Music segment, the constant currency amounts are calculated by applying the monthly average U.S. dollar / yen exchange rates after aggregation on a U.S. dollar basis.

Table of Contents

Results for the Pictures segment are described on a U.S. dollar basis as the Pictures segment reflects the operations of SPE, a U.S.-based operation that aggregates the results of its worldwide subsidiaries in U.S. dollars.

The impact of foreign exchange rate fluctuations on sales is calculated by applying the change in the yen s periodic weighted average exchange rate for the same period of the previous fiscal year from the current nine months to the major transactional currencies in which the sales are denominated. The impact of foreign exchange rate fluctuations on operating income (loss) is calculated by subtracting from the impact on sales the impact on cost of sales and selling, general and administrative expenses calculated by applying the same major transactional currencies calculation process to cost of sales and selling, general and administrative expenses as for the impact on sales. Additionally, the MC segment enters into its own foreign exchange hedging transactions. The impact of those transactions is included in the impact of foreign exchange rate fluctuations on operating income (loss) for that segment.

This information is not a substitute for Sony s consolidated financial statements measured in accordance with U.S. GAAP. However, Sony believes that these disclosures provide additional useful analytical information to investors regarding the operating performance of Sony.

Status of Cash Flows*

Operating Activities: During the current nine months, there was a net cash inflow of 901.4 billion yen from operating activities, an increase of 242.0 billion yen year-on-year.

For all segments excluding the Financial Services segment, there was a net cash inflow of 605.0 billion yen, an increase of 227.2 billion yen year-on-year. This increase was primarily due to a year-on-year increase in net income after taking into account non-cash adjustments (including depreciation and amortization, other operating (income) expense, net, (gain) loss on securities investments, net, and deferred income taxes), as well as smaller increases in notes, accounts receivable and trade and contract assets.

The Financial Services segment had a net cash inflow of 312.7 billion yen, an increase of 17.1 billion yen year-on-year. This increase was primarily due to a year-on-year increase in net income after taking into account non-cash adjustments such as depreciation and amortization, including amortization of deferred insurance acquisition costs and contract costs.

Investing Activities: During the current nine months, Sony used 1,035.0 billion yen of net cash in investing activities, an increase of 467.7 billion yen year-on-year.

For all segments excluding the Financial Services segment, there was a net cash outflow of 429.4 billion yen, an increase of 287.9 billion yen year-on-year. This increase was mainly due to a payment for the purchase of the approximately 60% equity interest of EMI and payments for fixed asset purchases including semiconductor manufacturing equipment, partially offset by cash inflow from the sale of certain shares of Spotify.

The Financial Services segment used 605.6 billion yen of net cash in investing activities, an increase of 180.8 billion yen year-on-year. This increase was mainly due to a year-on-year increase in payments for investments and advances at Sony Life.

Financing Activities: Net cash outflow by financing activities during the current nine months was 24.2 billion yen, compared to a net cash inflow of 265.2 billion yen in the same period of the previous fiscal year.

For all segments excluding the Financial Services segment, there was a 410.3 billion yen net cash outflow, an increase of 372.2 billion yen year-on-year. This increase was mainly due to the redemption of straight bonds as well as the repayment of long-term debt, partial payment of debt assumed in connection with the consolidation of EMI and a payment for the acquisition of the 25.1% equity interest in Nile Acquisition LLC in the current nine months.

In the Financial Services segment, there was a 369.7 billion yen net cash inflow, an increase of 81.5 billion yen year-on-year. This increase was primarily due to an increase in short-term borrowings at Sony Life and a larger increase in deposits from customers at Sony Bank.

Total Cash and Cash Equivalents: Accounting for the above factors and the effect of fluctuations in foreign exchange rates, the total outstanding balance of cash and cash equivalents at December 31, 2018 was 1,480.8 billion yen. Cash and cash equivalents of all segments excluding the Financial Services segment was 1,010.8 billion yen at December 31, 2018, a decrease of 182.3 billion yen compared with the balance as of March 31, 2018, and an increase of 109.3 billion yen, compared with the balance as of December 31, 2017. Within the Financial Services segment, the outstanding balance of cash and cash equivalents was 467.0 billion yen at December 31, 2018, an increase of 76.8 billion yen compared with the balance as of March 31, 2018, and an increase of 42.6 billion yen compared with the balance as of December 31, 2017.

* Sony s disclosure includes information regarding cash flow for all segments excluding the Financial Services segment. This information is derived from the following condensed statement of cash flows. The condensed statement of cash flows, which includes the above-mentioned cash flow information, is not prepared in accordance with U.S. GAAP, which Sony uses to prepare its consolidated financial statements. However, because the Financial Services segment is different in nature from Sony s other segments, Sony believes that a comparative presentation may be useful in understanding and analyzing Sony s consolidated financial statements. Transactions between the Financial Services segment and Sony without the Financial Services segment, including noncontrolling interests, are included in those respective presentations, but are eliminated in the consolidated figures shown below.

Condensed Statements of Cash Flows

	(Yen in millions)
	Nine months ended December 31
	Financial Services