Sony financial report

Business, Accounting

Introduction

Sony Corporation (Sony), a leading manufacturer of consumer goods, was founded in May 1946 by Masaru Ibuka and Akio Morita. Originally called Tokyo Tsushin Kogyo (Tokyo Telecommunications Engineering Company), Sony continues to be the one of the most extensive entertainment companies – with interests inmusic, motion pictures, television, computer entertainment, and online businesses.

Headquartered in Tokyo, Japan, Sony has 936 subsidiaries and more than 50 associated companies worldwide. The company is also listed on several stock exchanges, including Tokyo, New York and London. Sony also has operations based in North America, South America, Europe, Asia, Africa and Australia and employs 158, 500 people (as of March 31st 2006 – Sony Corp. Info).

The company engages in the following major operating segments:

1. Electronics – comprises audio, video, televisions, information and communications equipment, semiconductors, components and other products
2. Game – encompasses game console and software businesses which are conducted by Sony Computer Entertainment Inc.
3. Music – comprises business of Sony Music BMG, a joint venture Bertelsmann AG
4. Pictures – encompasses motion pictures, television and other businesses conducted by Sony Pictures Entertainment Inc (SPE)

5. Financial Services – comprises businesses of Sony Life Insurance Co., Ltd., Sony Assurance Inc., Sony Banc Inc. and SonyFinanceInternational Inc.
6. Others – comprises of a variety of other businesses such as network service business, production and marketing of animation products, retail of imported general merchandise from Japan and an integrated circuit (IC) card business.

Focusing on the recent financial year, Sony entered a new stage of development, one that seeks to target opportunities in the upcoming era of broadband networks. A new top-management team made up of CEO Sir Howard Stringer, Director Dr. Ryoji Chubachi, and CFO Mr. Katsumi Ihara was formed to take the lead in this important effort. This is a pivotal year for Sony Corporation, and this new structure will enable the company to streamline its operation, and provide a more cohesive focus for operating its businesses around the world in a proactive and strategic manner.

This Report is an attempt to analyze and review, in depth the financial status, position and a comprehensive reporting of the same to the investors of Sony Corporation.

Financial Highlights

The following table summarizes the comparative financial performance of Sony Corporation for fiscal years 2006 and 2005.

in millions of YENS	Year Ended 31 March 2006	Year Ended 31 March 2005
Income Statement		
Total Revenue	7, 475, 436	7, 159, 616
Gross Profit	2, 324, 039	2, 159, 504
Operating Income	191, 255	113, 919
Net Income	123, 616	163, 838

in millions of YENS	Year Ended 31 March 2006	Year Ended 31 March 2005
Balance Sheet		
Total Current Assets	3, 769, 524	3, 556, 171
Total Assets	10, 607, 753	9, 499, 100
Total Current Liabilities	3, 200, 228	2, 809, 368

in millions of YENS	Year Ended 31 March 2006	Year Ended 31 March 2005
Total Liabilities	7, 366, 800	6, 604, 915
Total Equity	2, 870, 338	3, 203, 852
Cash Flows		
Cash from Operating Activities	399, 858	646, 997
Cash	-871,	-931,

in millions of YENS	Year Ended 31 March 2006	Year Ended 31 March 2005
from Investing Activities	264	172
Cash from Financing Activities	359,864	205,177
Net Change in Cash	-76,005	-70,108

Total revenues for the fiscal year 2006 increased by 4% from the previous fiscal year. Among its business segments, the Game segment posted one of its highest - with a 30% increase in sales hugely contributed by sales of PSP (Play Station Portable). The Financial Services segment also posted more than 30% increase in its revenues as a result of an increase in their gains in investments. However, the company posted a 40 billion decrease or 24% decrease in its net income for 2006. This resulted from a loss in its minority interest in ST Mobile Display Corporation.

The succeeding chart illustrates the contributions of each segment to Sony's total revenues.

Sony's liquidity ratio also decreased in 2006, as evidenced by a 14% increase in its current liabilities as compared to only 6% increase in its current assets. Though the company has shown a diminished ability to settle its current liabilities, a ratio of 1. 18 may still be considered a secure indicator of Sony's capability to settle its liabilities as they become due. Evidently, the company's working capital also decreased in 2006.

Cash inflows from its operating activities also decreased in 2006 by 38% with an over 70% increase in its financing activities.

It is worth mentioning that in the last quarter of 2005, Sony announced their organizational restructuring plans that will be carried out in 2006 until 2007. These plans were expected to answer the challenges identified by the company and henceforth, were developed to provide more focus in their key businesses. One of these plans included a 200billion in yen cost reductions which would entail closure of 11 manufacturing sites, 20% reduction in product model unit and a 10, 000 reduction in their workforce.

Strengths and Areas of Concern

Though the PlayStation still dominates the game machine scene, sales of other electronics (DVD recorders, TVs, and computers) and music have seen a drop. Weak consumer demand, price wars, and increased competition from Apple Computer's iPod, has clobbered Sony's CD and mini disk Walkman products and Samsung's consumer electronics lines, which have cut into Sony's TV sales (its biggest market).

These challenges, along with an increasingly stodgy image that is overshadowing its former reputation as the bleeding edge of consumer electronics manufacturers, as well as charges incurred while streamlining operations in recent years, have significantly hurt Sony's market value. To boost sagging sales, Sony needs to emphasize high definition products for consumers and broadcasters, integrated mobile video, music, and gaming products, and aim at improving product innovation.

Sony went through a major management shake ? up in 2005, bringing Sir Howard Stringer on board as Chairman and CEO in June. Stringer happens to be the first non? Japanese CEO to head the company. After being on the job just a few weeks, Stringer announced plans to implement a plan known as Project Nippon that aims to shake up the electronics business and foster bettercommunicationbetween the company and its divisions. Stringer also announced that he plans to implement a concrete research and development scheme with a greater emphasis on consumer demands and reestablish the brand value.

Stringer's reorganization plans build off Sony's last restructuring effort (termed " Transformation 60"), which began in 2004 and was to reduce the company's headcount by 20, 000, combine operating divisions, and shift component sourcing to low-cost markets such as China. The Stringer's plans call for cutting 10, 000 jobs, shuttering 11 manufacturing plants, and reducing the company's electronics product lines by 20%. Additionally, Stringer has abolished Sony's 'Network Companies' structure in favor of five product focused business groups (TV, video, digital imaging, audio, and VAIO) in order to streamline operations from R; D to distribution to marketing. In words of Koichi Hariya, senior analyst at Mizuho Securities " *One of Sony's strengths is that it has an operation like the game business where, at the peak, it can sell 20 million units per year.*"

Critical Accounting Principles

The preparation of the consolidated financial statements is in conformity with U. S. GAAP requirements for management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, Sony evaluates its estimates on historical experience. Sony considers an accounting policy to be critical if it is important to its financial condition and results, and requires significant judgments and estimates on the part of management in its application. Sony believes that the following represent the recent critical accounting policies, which will influence the company’s reporting standards.

1. Employers’ Disclosures about Pensions and Other Postretirement Benefits:

In December 2003, the FASB revised Statement of Financial Accounting Standards (“ FAS”) No. 132. The new FAS No. 132 revised employers’ disclosures about pension plans and other postretirement benefit plans. While retaining the disclosure requirements, the new FAS No. 132 requires additional disclosures about assets, obligations, cash flows, and net periodic benefit costs of defined benefit plans and other defined benefit postretirement plans. In accordance with the transition provisions of the new FAS No. 132, the disclosure provisions have been adopted in the consolidated financial statements by Sony.

1. Consolidation of Variable Interest Entities:

In January 2003, the FASB issued FIN No. 46, “ Consolidation of Variable Interest Entities — an Interpretation of ARB No. 51”. Under FIN No. 46, any difference between the net amount added to the balance sheet and the amount of any previously recognized interest in the VIE shall be recognized as a cumulative effect of accounting changes. As a result of adopting FIN No. 46, Sony recognized a one-time charge with no tax effect of 2. 1 billion yen as a cumulative effect of accounting change in the consolidated statement of income, and Sony’s assets and liabilities increased by 95. 3 billion yen and 98. 0 billion yen, respectively. These increases were treated as non-cash transactions in the consolidated statements of cash flows. In addition, cash and cash equivalents increased by 1. 5 billion yen.

1. Principal Capital Investments:

Sony invested 175 billion yen in the semiconductor business during the fiscal year ended March 31, 2004. 190 billion yen was invested in the semiconductor business in the fiscal year ending March 31, 2005 (Hoover's Inc.). These were to be disclosed as per the new accounting standard adopted.

Market Data ; Stock price (As per London Stock Exchange)

The Stock price evaluation of Sony Corporation would reflect an era of change and expectations. The Restructuring programme and New management team on board has shown a renewed interest in the investor group and hence a better future overall for the company. As on November 29, 2005, Sony Corporation stood at an all time high of 4450 after a whole year of up's and down's.

Conclusion

The Financial target for the Sony is to achieve consolidated sales of over 8 trillion yen and an operating profit margin of 5% (electronics 4%) by the end of fiscal year 2007. (Sony Group Mid-Term Corporate Strategy FY2005-FY2007---Sep 22, 2005). Though far from realization, it is a target that may be achieved well within timelines. Because of reducing the global headcount by 10, 000 by the end of fiscal year 2007 (headquarters / administrative staff by5, 000, non-administrative staff 5, 000; 4, 000 in Japan, 6, 000 overseas), it will help streamline the operations and enable further efficient operations. The abolishing of existing company system (known as " Network Companies") and introduction of reorganized operational units called Business Groups, for specific product categories has almost revitalized Sony Corporation.

These significant structural changes were designed to eliminate the corporate issues that have been preventing the company from focusing their vast resources on most competitive products and to foster a more coordinated, efficient and rapid decision-making. Resources further need to be focused on HD products, mobile products and the semiconductors/key component devices that can continue to differentiate those products from the competition. Over the next financial year, these changes should echo back on a structural financial backing, better operational profit margin and rocketing share prices.