6. In September 2006, the FASB issued FAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," an amendment to FASB Statements No. 87, 88, 106 and 132(R). FAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit pension and other postretirement benefit plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through other comprehensive income. FAS No. 158 was adopted by Sony in the financial statements for the year ended March 31, 2007. FAS No. 158 also requires companies to measure the funded status of the plan as of the date of its fiscal year-end, effective for years ending after December 15, 2008. Sony expects to adopt the measurement provisions of FAS No. 158 effective March 31, 2009. The impact of adopting FAS 158 was a 9,508 million yen reduction in accumulated other comprehensive income. Refer to Note 14 to the Consolidated Financial Statements, "Pension and severance plans," for further details.
7. Effective April 1, 2006, Sony reclassified royalty income as a component of sales and operating revenue, rather than as a component of other income as previously recorded. In connection with this reclassification, sales and operating revenue, operating income and other income for the fiscal years ended March 31, 2003, 2004, 2005 and 2006 have been reclassified to conform with the presentation of these items for the fiscal year ended March 31, 2007. The amounts of royalty income reclassified from other income to sales and operating revenue for the fiscal years ended March 31, 2003, 2004, 2005 and 2006 were 32,375, 34,244, 31,709, and 35,161 million yen, respectively. In addition to the above, certain reclassifications of the financial statements for the fiscal years ended March 31, 2003, 2004, 2005 and 2006 have been made to conform to the presentation for the fiscal year ended March 31, 2007.

Capitalization and Indebtedness

Not Applicable

Reasons for the Offer and Use of Proceeds

Not Applicable

Risk Factors

This section contains forward-looking statements that are subject to the Cautionary Statement appearing on page 2 of this annual report. Risks to Sony are also discussed elsewhere in this annual report, including without limitation in the other sections of this annual report referred to in the Cautionary Statement.

Sony must overcome increasingly intense pricing competition, especially in the Electronics and Game segments.

Sony's Electronics segment produces consumer products that compete against products sold by an increasing number of competitors on the basis of several factors including price. In order to produce products that appeal to changing and increasingly diverse consumer preferences, and to overcome the fact that a relatively high percentage of consumers already possess products similar to those that Sony offers, Sony's Electronics and Game segments must develop superior technology, anticipate consumer tastes and rapidly develop attractive products. In the Electronics segment, Sony faces increasingly intense pricing pressure in a variety of consumer product areas. Sony's sales and operating income depend on Sony's ability to continue to develop and offer Electronics and Game products at competitive prices that meet changing and increasingly diverse consumer preferences.

Sony is subject to competition from firms that may be more specialized or have greater resources.

Sony's businesses, primarily within the Electronics segment, face a broad range of competitors, from large international companies to an increasing number of relatively small, rapidly growing, and highly specialized organizations. Sony has a portfolio of businesses in different industries while many of its competitors specialize in one or more of these business areas. As a result, Sony may not fund or invest in certain of its businesses to the same degree that its competitors do, and these competitors may have greater financial, technical, and marketing resources available to them than the businesses of Sony against which they compete. The Financial Services segment faces increasing competition in Japan due to ongoing deregulation that is eliminating barriers among the insurance, banking and securities industries. In addition, Sony's financial services businesses may not be able to compete effectively, especially against established competitors with greater financial, marketing and other resources.

Sony may not be able to recover its increasingly diverse and increasingly expensive investments in technology development and production capacity.

Sony's businesses, particularly the Electronics and Game segments, compete in intensely competitive markets characterized by changing consumer preferences and rapid technological innovation. In order to be profitable in such markets, Sony is continuing to invest heavily in research and development and semiconductor fabrication equipment. Recent examples of such expenditures include research and development investment in 65 nanometer semiconductor process technology and related capital expenditures with IBM Corporation and Toshiba Corporation for production of the Cell Broadband EngineTM ("Cell/B.E.") within the Electronics segment for sale primarily to the Game segment, and an investment in a joint venture, S-LCD Corporation ("S-LCD"), with Samsung Electronics Co., Ltd. ("Samsung") to produce 7th generation amorphous thin film transistor ("TFT") liquid crystal display ("LCD") panels. In addition, by the end of the fiscal year ending March 31, 2008, Sony and Samsung are scheduled to complete the investment in S-LCD regarding the manufacture of 8th generation TFT LCD panels at S-LCD. The total amount of the investment for the 8th generation panels is expected to be approximately 200 billion yen (approximately 50 percent of which will be contributed by Sony). Sony may not be able to recover these investments, in part or in full, or the recovery of these investments may take longer than expected. As a result, the carrying value of the related assets may be subject to an impairment charge, which could adversely affect Sony's mid-term profitability. (Refer to "Trend Information" in "Item 5. *Operating and Financial Review and Prospects."*)

Sony's business reorganization efforts are costly and may not attain their objectives.

Sony has engaged in significant reorganization initiatives in an effort to allocate managerial resources into core areas and improve operating efficiency and profitability. These efforts have included the concentration of resources into profitable, growth businesses by withdrawing from or downsizing selected businesses. Other efforts include the execution of a plan to reduce costs including a reduction in the number of Sony's employees around the world.

On September 22, 2005, Sony announced its mid-term corporate strategy for the three fiscal years ending March 31, 2006 through March 31, 2008. This mid-term corporate strategy includes restructuring initiatives focused on the reduction in the number of business categories and the number of product models, the rationalization of manufacturing sites, the streamlining of administrative and headquarter functions, as well as the sale of non-core assets.

In association with these restructuring initiatives, 138.7 billion yen and 38.8 billion yen of restructuring charges were recorded for the fiscal years ended March 31, 2006 and 2007, respectively. Sony anticipates the recording of approximately 35 billion yen in restructuring charges for the fiscal year ending March 31, 2008.

Restructuring charges are recorded in cost of sales, selling, general and administrative expenses and loss on sale, disposal or impairment of assets, net and thus decrease Sony's consolidated operating and net income. Moreover, due to internal or external factors, the improved efficiencies and cost savings projected may not be realized as scheduled and, even if those benefits are realized, Sony may not be able to achieve the level of profitability expected due to a worsening of market conditions beyond expectations. Such possible internal factors could include, for example, a decision to implement new restructuring initiatives not already planned or a decision to increase research and development outlays or other expenditures beyond currently projected levels, either of which might increase total costs. Possible external factors could include, for example, increased burdens from regional labor regulations and labor union agreements that could prevent Sony from executing its restructuring initiatives as planned. Therefore, such reorganizations may not result in improved efficiency, increased ability to respond to market changes or reallocation of resources to more profitable activities. The inability to fully and successfully implement restructuring programs may cause Sony to have insufficient financial resources to carry out its research and development plans and to invest in targeted growth business areas.

Foreign exchange rate fluctuations can affect financial results because a large portion of Sony's sales and assets are denominated in currencies other than the yen.

Sony's consolidated statements of income are prepared from the local currency-denominated financial results of each of Sony Corporation's subsidiaries around the world which are translated into yen at the monthly average currency exchange rate. Sony's consolidated balance sheets are prepared using local currency-denominated assets and liabilities of each of Sony Corporation's subsidiaries around the world, which are translated into yen at the market exchange rate at the end of each financial period. A large proportion of Sony's consolidated financial results, assets and liabilities is accounted for in currencies other than the Japanese yen. For example, only 25.6 percent of Sony's sales and operating revenue in the fiscal year ended March 31, 2007 were originally recorded in Japan. Accordingly, Sony's consolidated financial results, assets and liabilities in Sony's businesses that operate internationally, principally in its Electronics, Game and Pictures segments, may be materially affected by changes in the exchange rates of foreign currencies when translating into Japanese yen. In the fiscal year ended March 31, 2007, for example, Sony's operating income prepared on the basis of generally accepted accounting principles in the U.S. ("U.S. GAAP") in yen decreased from the preceding fiscal year by 68.3 percent to 71.8 billion yen. However, if Sony's operating income had been prepared on a local currency basis, it would have been an operating loss of 20.3 billion yen. Operating results on a local currency basis described herein reflect sales and operating revenue and operating income obtained by applying the yen's monthly average exchange rate in the previous fiscal year to local currency-denominated monthly sales, cost of sales, and selling, general and administrative expenses in the current fiscal year. Foreign exchange rate fluctuations may have a negative impact on Sony's results in the future, especially if the yen strengthens significantly against the U.S. dollar or the Euro.

Foreign exchange fluctuations can affect Sony's results of operations due to sales and expenses in different currencies.

Exchange rate fluctuations affect Sony's operating profitability because many of Sony's products are sold in countries other than the ones in which they were manufactured. The concentration of research and development, administrative functions and manufacturing activities within the Electronics segment largely in Japan, makes this segment particularly sensitive to the yen's appreciation as the ratio of yen-denominated costs to total costs is higher than the ratio of yen-denominated revenue to total revenue. Volatile mid- to long-term changes in exchange rate levels may interfere with Sony's global allocation of resources and hinder Sony's ability to execute procurement, production, logistics, and sales activities in a manner that is profitable after the effect of such exchange rate changes.

Although Sony hedges the net foreign currency exposure resulting from import and export transactions shortly before they are projected to occur, such hedging activity cannot entirely eliminate the risk of adverse exchange rate fluctuations.

Sony must efficiently manage its procurement of parts, the market conditions for which are volatile, and control its inventory of products and parts, the demand for which is volatile.

In the Electronics and Game segments, Sony places orders for components, determines production and plans inventory in advance based on its forecast of consumer demand, which is highly volatile and difficult to predict. In the past Sony has experienced both a shortage of semiconductors, which resulted in Sony's inability to meet demand for its personal computers ("PCs") and audio visual products, and a surplus in certain semiconductors that resulted in the recognition of losses when semiconductor prices fell. Sony consumes a tremendous volume of parts and components for its products such as semiconductors and LCD panels. Consequently, market fluctuations may cause a shortage of parts and components, and may affect Sony's production or the cost of goods sold, as could price fluctuations of the underlying raw or basic materials. Sony's profitability may also be adversely affected by supply or inventory shortages or inventory adjustments that, as a result of efforts to reduce inventory by temporarily halting production or by reducing the price of goods, will lead to an increase in the ratio of cost of sales to sales. Sony writes down the value of its inventory when components or products have become obsolete, when inventory exceeds the amount expected to be used, or when the value of the inventory is otherwise recorded at a higher value than net realizable value. Such inventory adjustments have had and, if Sony is not successful in managing its inventory in the future, will have a material adverse effect on Sony's operating income and profitability. (For more information on sources of supply refer to "*Sources of Supply*" in "Item 4. *Information on the Company*.")

Sony's sales and profitability are sensitive to economic and other trends in Sony's major markets.

A consumer's decision to purchase products such as those offered by Sony in its Electronics, Game and Pictures segments, as well as by companies within All Other, is to a very significant extent discretionary. Accordingly, weakening economic conditions or outlook can reduce consumption in any of Sony's major markets, causing material declines in Sony's sales and operating income. In the fiscal year ended March 31, 2007, 25.6 percent, 26.9 percent and 24.6 percent of Sony's sales and operating revenue were attributable to Japan, the U.S. and Europe, respectively. If economic conditions in Japan, the U.S. or Europe deteriorate, or if the effects of international political and military instability depress consumer confidence, Sony's short- to mid-term sales and profitability may be significantly adversely affected. In addition, since Sony's sales in Other Areas are growing, its sales and profitability may also be affected by future political, economic and military uncertainties surrounding those areas.

Large-scale investment is required within the Game and Electronics segments, particularly during the development and introductory period of a new gaming platform.

Within the Game segment, providing and developing products that maintain competitiveness over an extended life-cycle requires large-scale investment relating to research and development, particularly during the development and introductory period of a new platform. In addition, large-scale investment relating to capital expenditures and research and development is also required within the Electronics segment for the fabrication and manufacture of key components, including semiconductors supplied to the Game segment, which are used in products within the Game segment. Moreover, it is particularly important in the Game segment that these products are provided to consumers at competitive prices to ensure the favorable market penetration of the platform. Should the platform fail to achieve such favorable market penetration, there is a risk that this investment, or a part thereof, will not be recouped and the carrying value of the related assets will be subject to an impairment charge, resulting in a significant negative impact on Sony's mid-term profitability. In addition, even if Sony is able to sufficiently recoup its investment, it is probable that a significant negative impact on Sony's operating results could occur during the introductory period of the platform. Further, if the platform is ultimately successful, it may take longer than expected to recoup the investment, resulting in a negative impact on Sony's profitability.

An example of such a significant negative impact during the introductory period of the platform is the PLAYSTATION®3 ("PS3")-related charges which resulted in a loss of 232.3 billion yen within the Game segment for the fiscal year ended March 31, 2007. This loss reflected a negative margin arising from the sale of the PS3 at strategic price points lower than its production cost during the introductory period. (Refer to "Game" section of "*Operating Performance by Business Segment*" at "Operating Results" in "Item 5. *Operating and Financial Review and Prospects*.")

Sony's Game and Electronics segments are particularly sensitive to year-end holiday season demand.

Since the Game segment offers a relatively small range of hardware products (including PlayStation®2, PSPTM (PlayStation®Portable), and the PS3) and a significant portion of overall demand is weighted towards the year-end holiday season, factors such as changes in the competitive environment, changes in market conditions, delays in the release of highly anticipated software titles and insufficient supply of hardware during the year-end holiday season can negatively impact the financial performance of both the Game and the Electronics segments. For example, in the fiscal year ended March 31, 2007, the introduction of the PS3 in Europe was delayed from the scheduled date of November 2006 to March 2007 because of a delay in improvements in the mass production yield of the blue-violet laser diode, a key device for the Blu-ray disc drive equipped in the PS3, which was designed, developed and manufactured internally at Sony. Also, a supply shortage of the PS3 arose during the 2006 year-end holiday season in Japan and North America.

The Electronics segment is also dependent upon year-end holiday season demand and, to a lesser extent than the Game segment, is susceptible to weak sales and supply shortages that may prevent it from meeting demand for its products during this season.

The sales and profitability of Sony's Game segment depends on the penetration of its gaming platforms, which is sensitive to software line-ups, including software published by third parties.

In the Game segment, the penetration of gaming platforms is a significant factor for sales and profitability, which may be affected by the ability to provide customers with sufficient software line-ups, including software published by third parties. Software line-ups affect not only software sales and profitability, as in many other content businesses, but also affect the penetration of gaming platforms, which can affect hardware sales and profitability.

Operating results for Sony's Pictures segment vary according to the cost of productions, customer acceptance, and competing products.

Operating results for the Pictures segment's motion picture and television productions can materially fluctuate depending primarily upon the cost of such productions and acceptance of such productions by the public, which are difficult to predict. In addition, the commercial success of the Pictures segment's motion picture and television productions depend upon the acceptance of other competing productions by the public, and the availability of alternative forms of entertainment and leisure activities.

Sony's Pictures segment is subject to labor interruption.

The Pictures segment is dependent upon highly specialized union members who are essential to the production of motion pictures and television programs. A strike by one or more of these unions could delay or halt production activities. Such a delay or halt, depending on the length of time involved, could cause delay or interruption in the release of new motion pictures and television programs and thereby could adversely affect revenues and cash flows in the Pictures segment.

Sony's Financial Services segment operates in a highly regulated environment and new regulations and regulatory initiatives could adversely affect the flexibility of its business operation.

Sony's Financial Services segment operates in industries subject to comprehensive regulation and supervision, including the Japanese insurance and banking industries. Future developments or changes in laws, regulations or policies and their effects are unpredictable and could lead to increased compliance expenses or limitations on operations. For example, Japan's Financial Services Agency recently required all life and non-life insurance companies to perform and report on systematic reviews of non-payment of insurance claims, the results of which could lead to additional rulemaking.

In conducting prudent asset liability management, Sony's Financial Services segment is subject to risks from market fluctuations in the value of investments, changes in customer demand and potential variability in insurance claims.

If Sony's Financial Services segment fails to conduct effective asset liability management ("ALM") to balance possible risks and expected returns on investment assets with its financing liabilities and underwriting risks on insurance policy benefits, its ability to provide competitive products and services to customers may deteriorate and its profitability may decline. Sony Life Insurance Co., Ltd. ("Sony Life"), which constitutes the largest portion of this segment, has liabilities to policyholders with a long average duration, making ALM more challenging. This segment also may incur losses from decreases in the value of securities and other financial instruments purchased for investment purposes resulting from fluctuations in interest rates or in equity markets. In addition, Sony's Financial Services segment faces a risk of changes in customer demand including a change from more profitable protection-orientated products, such as term insurance, to less profitable savings-oriented products, such as individual annuities, as well as a risk of unpredictable increases in insurance claims.

Differences between actual and assumed policy benefits and claims may require Sony's Financial Services segment to increase policy reserves in the future.

Sony's life insurance and non-life insurance businesses establish policy reserves for future benefits and claims based on regulatory guidelines and estimates of future payment obligations made by qualified actuaries. The insurance businesses calculate these reserves based on many assumptions and estimates, including the frequency and timing of the event covered by the policy, the amount of benefits or claims to be paid and the investment returns on the assets they purchase with the premiums received. These assumptions and estimates are inherently uncertain, and the insurance businesses cannot determine with precision the ultimate amounts that they will be required to pay for, or the timing of payment of, actual benefits and claims or whether the assets supporting the policy liabilities will grow at the level they assume prior to the payment of benefits or claims. The frequency and timing of the event covered by the policy and the amount of benefits or claims to be paid are subject to a number of risks and uncertainties, many of which are outside of the insurance businesses' control, including:

- changes in trends underlying the insurance businesses' assumptions and estimates, such as mortality and morbidity rates and automobile accident rates;
- the availability of sufficient reliable data and the insurance businesses' ability to correctly analyze the data;
- the insurance businesses' selection and application of appropriate rating and pricing techniques; and
- changes in legal standards, claim settlement practices, medical care expenses and automobile repair costs.

If the actual experience of the insurance businesses is less favorable than their assumptions or estimates, reserves may be inadequate. In addition, any changes in regulatory guidelines or standards with respect to the required level of policy reserves may require that the insurance businesses establish policy reserves based on more stringent assumptions, estimates or actuarial calculations. Such events could result in a need to increase provisions for policy reserves, which may have a significant adverse effect on the financial condition and results of operations of the Financial Services segment.

Sony's Music business, Sony's investment in SONY BMG MUSIC ENTERTAINMENT, and the Pictures segment are subject to digital piracy, which may become increasingly prevalent with the development of new technologies.

In Sony's Music business, including its investment in SONY BMG MUSIC ENTERTAINMENT ("SONY BMG"), as well as in the Pictures segment, the development of digital technology has created new risks with respect to Sony's ability to protect its copyrights. Advances in technology that enable the transfer and downloading of digital audio and visual files from the Internet without authorization from the owners of rights to such content threaten the conventional copyright-based business model by making it easier to create and redistribute unauthorized audio and visual files. Such unauthorized distribution has adversely affected sales and operating results within the Music business, as well as in Sony's investment in SONY BMG, and threatens to adversely affect sales and operating income in the Pictures segment. These technological advances include new digital devices such as hard disk drive video and audio recorders, CD, DVD, and Blu-ray Disc recorders and peer-to-peer digital distribution services. As a result, Sony has incurred and will continue to incur expenses to develop new services for the authorized digital distribution of music, movies and television programs and to combat unauthorized digital distribution of its copyrighted content. These initiatives will increase Sony's near-term expenses and may not achieve their intended result.

Sony's Music business and Sony's investment in SONY BMG are dependent on establishing new artists, and together with Sony's Pictures segment are subject to increases in talent-related costs.

The success of Sony's Music business and Sony's investment in SONY BMG is highly dependent on establishing artists that appeal to customers, and the competition with other entertainment companies for such talent is intense. If the Music business and SONY BMG are unable to find and establish new talented artists, sales, operating income and equity in net income (loss) of affiliated companies may be adversely affected. In addition, with respect to the Music business and the Pictures segment, as well as SONY BMG, Sony has experienced and may continue to experience significant increases in talent-related spending.

SONY BMG is subject to renewed regulatory approval from the European Commission competition authorities.

In August 2004, Sony combined its recorded music business outside of Japan with the recorded music business of Bertelsmann AG, forming SONY BMG, after approval from, among others, the European Commission competition authorities. On December 3, 2004, Impala, an international association consisting of 2,500 independent recorded music companies, applied for annulment of the decision to clear the merger. On July 13, 2006, the European Court of First Instance overruled the Commission's decision to allow the merger to go forward, requiring the Commission to re-examine the merger. The transaction was renotified on January 31, 2007, in accordance with applicable EU merger control rules, and an in-depth investigation was opened on March 1, 2007. While the Commission completes its reexamination, Sony continues to account for the results of Sony BMG under the equity method. If the Commission does not approve the merger and the previously combined company is forced to unwind the merger, Sony may incur significant costs and may not be able to achieve its objectives with respect to its recorded music business.

Sony may not be successful in implementing its hardware, software and content integration strategy.

Sony believes that utilizing broadband networks to facilitate the integration of hardware, software and content is essential for differentiating itself in the marketplace. Sony also believes that this strategy will eventually lead to consistent revenue streams. However, this strategy depends on the development (both inside and outside of Sony) of certain network technologies, coordination among Sony's various business units, and the standardization of technological and interface specifications across business units and within industries. If Sony is not successful in implementing this strategy, it could adversely affect Sony's mid- to long-term competitiveness.

Sony's utilization of joint ventures and alliances within strategic business areas may not be successful.

The composition of Sony during the last several years has reflected a shift towards the establishment of joint ventures and strategic alliances in order to supplement or replace functions that were previously performed by divisions of Sony Corporation or wholly-owned subsidiaries, to mitigate the burden of substantial investments and to achieve operating efficiencies through cooperation with other companies.

Sony currently has investments in several joint ventures, including Sony Ericsson Mobile Communications, AB ("Sony Ericsson"). In April 2004, Sony established S-LCD, a joint venture with Samsung for the production of 7th generation amorphous TFT LCD panels. In August 2004, Sony combined its recorded music business outside of Japan with the recorded music business of Bertelsmann AG, forming the jointly-owned company, SONY BMG. If Sony and its partners are not able to reach their common financial objectives successfully, Sony's financial performance as a whole may be adversely affected. Sony's financial performance may also be adversely affected temporarily or in the medium-term during the investment period of those alliances, joint ventures and strategic investments even if Sony and its partners remain on course to achieve those common objectives. A recent example of how Sony's financial performance has been adversely affected in the course of these types of relationships is the equity in net losses recorded for S-LCD during the fiscal year ended March 31, 2006 of 7.2 billion yen. Managing the growing number of joint ventures and strategic alliances, and, in particular, dealing with the legal and cultural differences that can arise in such relationships, represents a risk. In addition, by participating in joint ventures or strategic alliances, Sony may encounter conflicts of interest, may not maintain sufficient control over the joint venture or strategic alliance, including over cash flow, and may be faced with an increased risk of the loss of proprietary technology or know-how.

Sony's physical facilities and information systems are subject to damage as a result of disasters, outages, malfeasance or similar events.

Sony's headquarters, some of Sony's major data centers and many of Sony's most advanced device manufacturing facilities, including those for semiconductors, are located in Japan, where the possibility of disaster or damage from earthquakes is generally higher than in other parts of the world. In addition, Sony's offices and facilities, including those used for research and development, material procurement, manufacturing, motion picture and television production, logistics, sales and services are located throughout the world and are subject to possible destruction, temporary stoppage or disruption as a result of any number of unexpected events. If any of these facilities or offices were to experience a significant loss as a result of any of the above events, it could disrupt Sony's operations, delay production, shipments and revenue, and result in large expenses to repair or replace these facilities or offices.

In addition, as network and information systems have become increasingly important to Sony's operating activities, network and information system shutdowns caused by unforeseen events such as power outages, disasters, terrorist attacks, hardware or software defects, computer viruses and computer hacking pose increasing risks. Such an event could also result in the disruption of Sony's operations, delay production, shipments and recognition of revenue, and result in large expenditures necessary to repair or replace such network information systems. Furthermore, Sony's operating activities could be subject to risks caused by misappropriation, misuse, leakage, falsification, and disappearance of internal information, including that of customers and vendors. Judging from the experience of other similarly situated companies, it is possible that Sony could be exposed to significant monetary liability if such risks were to materialize, and it is also possible that such events could harm Sony's reputation and credibility. Considering the increasing social awareness concerning the importance of personal information and relevant legislation (Refer to "*Government Regulations*" in "Item 4. *Information on the Company*"), such risks are increasing particularly for businesses that handle a large amount of customer and consumer data. Although Sony continues to take precautions against such unforeseen risks, such as by undertaking efforts to educate operators and administrators who have access to databases about appropriate ways to protect such information, these measures may be insufficient, and Sony may be unable to avoid or prevent such situations.

Sony is subject to financial and reputational risks due to product quality and liability issues.

Sony products, such as software (including software for mobile phone handsets) and electronic devices including semiconductors are becoming increasingly sophisticated and complicated as rapid advancements in technologies occur, and as demand increases for digital equipment. At the same time, product quality and liability issues present greater risks. Sony's efforts to manage the rapid advancements in technologies and increased demand, as well as to control product quality, may not be successful, and if they are not, Sony may incur expenses in connection with, for example, product recalls, service and lawsuits, and Sony's brand image and reputation as a producer of high-quality products may suffer. These issues are not only relevant to the final Sony products that are sold directly to customers but also to the final products of other companies that are equipped with Sony's components, such as the semiconductors mentioned above. An example of these issues is the recording of a 51.2 billion yen provision during the fiscal year ended March 31, 2007 that related to the recalls by Dell Inc., Apple Inc. and Lenovo, Inc. of notebook computer battery packs that use lithium-ion battery cells manufactured by Sony as well as the subsequent global replacement program initiated by Sony for certain notebook computer battery packs used by Sony and several other notebook computer manufacturers that use lithium-ion battery cells manufactured by Sony (refer to "Performance by Product Category" for "Electronics" within "*Operating Results for the Fiscal Year Ended March 31, 2007*" in "Item 5. *Operating and Financial Review and Prospects*").

Sony may be adversely affected by its employee benefit obligations.

Sony recognizes the unfunded pension obligation as consisting of the (i) Projected Benefit Obligation ("PBO") less (ii) the fair value of pension plan assets. Actuarial gains and losses are included in pension expenses in a systematic manner over employees' average remaining service periods in a manner consistent with FAS No. 87, "Employers' Accounting for Pensions," FAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" and the related amendments to those standards. Any decrease of the pension asset value due to low returns from investments or increases in the PBO due to a lower discount rate, increases in rates of compensation and certain other actuarial assumptions would increase the unfunded pension obligations, and could, subject to the provisions of FAS No. 87, result in an increase in pension expenses recorded as cost of sales or as a selling, general and administrative expense. Refer to Note 14 of Notes to Consolidated Financial Statements for more information regarding Sony's pension and severance plans. Also refer to "Critical Accounting Policies" in "Item 5. *Operating and Financial Review and Prospects*."

Most pension assets and liabilities recognized on Sony's consolidated balance sheets relate to Japanese plans, which are subject to the Japanese Defined Benefit Corporate Pension Plan Act pursuant to which Sony is required to meet certain financial criteria including periodic actuarial revaluation and annual settlement of gain or loss of the plan. In the eventuality that the actuarial reserve required by law exceeds the fair value of pension assets, Sony may be required to make an additional contribution to the plan, which would reduce consolidated cash flow.

Changes in Sony's tax rates or exposure to additional tax liabilities could adversely affect its earnings and financial condition.

Sony is subject to income taxes in Japan and numerous other jurisdictions. Significant judgment is required in determining its worldwide provision for income taxes. In the ordinary course of our business, there are many transactions, including intercompany charges, and calculations where the ultimate tax determination is uncertain. Also, Sony's future effective tax rates could be unfavorably affected by changes in the mix of earnings in countries with differing statutory rates.

Further, Sony is subject to continuous examination of its income tax returns by tax authorities. As a result, Sony regularly assesses the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of its provision for income taxes. However, there can be no assurance that the outcomes of these examinations will not have an adverse effect on Sony's operating results and financial condition.

In addition, if Sony is unable to generate sufficient future taxable income in certain jurisdictions, or if there is a significant change in the actual effective tax rates or the time period within which the underlying temporary differences become taxable or deductible, Sony could be required to increase its valuation allowances against its deferred tax assets resulting in an increase in its effective tax rate and an adverse impact on future operating results.

Sony's business could suffer as a result of adverse outcomes of current or future litigation and regulatory actions.

Sony faces the risk of litigation and regulatory proceedings in connection with its operations. Lawsuits, including regulatory actions, may seek recovery of very large, indeterminate amounts or limit Sony's operations, and the possibility that they may arise and their magnitude may remain unknown for substantial periods of time. A substantial legal liability or adverse regulatory outcome could have a material adverse effect on Sony's business, results of operations, financial condition, and reputation.

Sony may be accused of infringing others' intellectual property rights and be liable for significant damages.

Sony's products incorporate a wide variety of technologies. Claims have been and could be asserted against Sony that such technology infringes the intellectual property owned by others. Such claims might require us to enter into settlement or license agreements, to pay significant damage awards, and/or to face a temporary or permanent injunction prohibiting Sony from marketing or selling certain of its products, which could have a material adverse effect on Sony's business, results of operations, financial condition, and reputation.

Sony is dependent upon certain intellectual property rights of others, and Sony may not be able to continue to obtain necessary licenses to employ technology covered by such rights.

Many of Sony's products are designed under the license of patents and other intellectual property rights from third parties who have developed technologies that are protected by such rights. Based upon past experience and industry practice, Sony believes that it will be able to obtain or renew licenses relating to various intellectual properties useful in its business that it needs in the future; however, such licenses may not be available at all or on acceptable terms, and Sony may need to redesign or discontinue marketing or selling such products as a result.

Increased reliance on external suppliers may increase financial, reputational and other risks to Sony.

With the increasing necessity of pursuing quick business development and high operating efficiency with limited managerial resources, Sony increasingly procures from third-party suppliers components (including LCD panels for televisions), and technologies (such as operating systems for PCs). In addition, it consigns to external suppliers extensive activities including procurement, manufacturing, logistics, sales and other services. Reliance on outside sources increases the chance that Sony will be unable to prevent products from incorporating defective or inferior third-party technology or components. Products with such defects can adversely affect Sony's consolidated sales and its reputation for quality products. This reliance on external suppliers may also expose Sony to the effects of an external suppliers' insufficient compliance with applicable regulations or infringement of third-party intellectual property rights.

Sony is subject to environmental and occupational health and safety regulations that can increase the costs of operations or limit its activities.

Sony is subject to a broad range of environmental and occupational health and safety laws and regulations, including laws and regulations relating to air pollution, water pollution, the management, elimination or reduction of the use of hazardous substances, decreases in the level of standby power of certain products, waste management, recycling of products, batteries and packaging materials, site remediation and worker and consumer health and safety. These regulations could become more stringent or additional regulations could be adopted in the future, which could cause us to incur additional compliance costs or limit our activities. Further, a failure to comply with applicable environmental or health and safety laws could result in fines, penalties, legal judgments or other costs or remediation obligations. Such a finding of noncompliance could also injure our brand image. Such events could adversely affect our financial performance.

We monitor and evaluate new environmental and health and safety requirements that may affect our operations. The European Union (the "EU") has enacted two directives relevant to our business: the Restriction of Hazardous Substances Directive ("RoHS") and the Waste Electrical and Electronic Equipment Directive ("WEEE"). RoHS restricts the use of certain hazardous substances in electrical and electronic equipment marketed in the EU. WEEE makes producers of electrical and electronic equipment financially responsible for the collection of certain products from end users who wish to dispose of them and for subsequent treatment, recycling and safe disposal of those products. Similar regulations are being formulated in other parts of the world, including in China. We could incur substantial costs to comply with RoHS, WEEE and other similar programs that might be enacted in the future.

In addition, the EU's Registration, Evaluation, Authorisation and Restriction of Chemicals program ("REACH") came into effect as of June 2007. In general, REACH requires manufacturers, users and importers of a broad range of chemical substances to register for these chemicals and uses of chemicals up and down the supply chain and perform a range of tests and assessments on those substances and make the results available to the public and the EU regulators. Going forward, as registrations and test data are processed and evaluated under the REACH program, actions could be taken that could affect the cost and availability of certain chemicals, and users may have to shift to the use of more expensive and/or less effective substitutes. The various obligations under REACH are to be phased in over a period of time, and we will continue to evaluate the potential impact of these regulations, including whether REACH could directly or indirectly increase our costs or restrict our activities, which could have an adverse impact on our financial performance.

Sony is subject to the risks of operations in different countries.

Most of Sony's activities are conducted outside of Japan, including in emerging markets. International operations bring challenges. Production in China and other Asian countries of electronics products increases the time necessary to supply products to Europe and the U.S., which can make it more difficult to meet changing customer demand and preferences. Concentration of the production of PC components in China and Taiwan could lead to production interruptions if a catastrophe or widespread contagion, similar to the spread of Severe Acute Respiratory Syndrome ("SARS"), occurs in the region. Further, Sony may encounter difficulty in planning and managing operations due to unfavorable political or economic factors, such as instability in the Middle East resulting from the Iraq War, cultural and religious conflicts, foreign exchange controls, or unexpected legal or regulatory changes such as import or export controls, nationalization of assets or restrictions on the repatriation of returns from foreign investments.