guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Sony adopted FIN No. 48 effective April 1, 2007. As a result of the adoption of FIN No. 48, a charge against beginning retained earnings totaling 4,452 million yen was recorded. As of April 1, 2007, total unrecognized tax benefits were 223,857 million yen, of which 129,632 million yen, if recognized, would affect Sony’s effective tax rate.

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 and shorter product cycles in a variety of consumer product categories. Sony’s sales and operating income depend on Sony’s ability to continue to develop efficiently and offer Electronics and Game products at competitive prices that meet changing and increasingly diverse consumer preferences. If we are unable to effectively anticipate and counter the price erosion that frequently accompanies our products, or if the average selling prices of our products decrease faster than we are able to reduce our manufacturing costs, our gross margins will decrease and our results of operations and financial condition may be negatively impacted.

To remain competitive and stimulate customer demand, Sony must successfully manage frequent product and service introductions and transitions.

Due to the highly volatile and competitive nature of the PC, consumer electronics and mobile communication industries, Sony must continually introduce new products, services and technologies, enhance existing products and services, and effectively stimulate customer demand for new and upgraded products and services. The success of new product and service introductions depends on a number of factors, including timely and successful completion of development efforts, market acceptance, Sony’s ability to manage the risks associated with new products and production ramp-up issues, the availability of application software for new products, the effective management of purchase commitments and inventory levels in line with anticipated product demand, the availability of products in appropriate quantities and costs to meet anticipated demand, and the risk that new products and services may have quality or other defects in the early stages of introduction. Accordingly, Sony cannot determine in advance the ultimate effect that new product introductions and transitions will have on financial condition and operating results.

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

Sony has several business segments in different industries and has many product categories within the Electronics segment, which causes it to face a broad range of competitors ranging from large international companies to highly specialized entities that are focused on only a few businesses. 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. Sony's financial services businesses may not be able to compete effectively, especially against established competitors with greater financial, marketing and other resources.

Sony's investments in research and development may not yield the results expected.

Sony's businesses, particularly the Electronics and Game segments, operate in intensely competitive markets characterized by changing consumer preferences and rapid technological innovation. Due to technological innovation and ease of imitation, new products tend to become standardized rapidly, leading to intense competition and price declines. In order to strengthen the competitiveness of its products in this environment, Sony is continuing to invest heavily in research and development. However, these investments in research and development may not yield the results expected, hindering Sony's ability to commercialize in a timely manner new and competitive products that meet the needs of the market, which consequently, may negatively impact Sony's results.

Sony may not be able to recoup the large capital expenditures or investments it makes to increase production capacity.

Sony continues to invest heavily in production equipment in the Electronics segment. Sony also invests in production-related joint ventures. One recent example is the investment Sony and Samsung Electronics Co., Ltd. ("Samsung") made in connection with 8th generation production capacity for amorphous thin film transistor ("TFT") LCD panel production, following investments in 7th generation production capacity, at S-LCD Corporation ("S-LCD"), a joint venture of the two companies. The accumulated total amount of the investment in S-LCD by Sony and Samsung for 7th and 8th generation production capacity is approximately 400 billion yen (approximately 50 percent of which was contributed by Sony). Sony may not be able to recover these capital expenditures or investments, in part or in full, or the recovery of these capital expenditures or 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 "Electronics" section of "Trend Information" in "Item 5. *Operating and Financial Review and Prospects.*")

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

During the last several years Sony has moved increasingly toward 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.

Sony currently has investments in several joint ventures, including Sony Ericsson Mobile Communications, AB, S-LCD and SONY BMG MUSIC ENTERTAINMENT ("SONY BMG"). In February 2008, Sony and Sharp signed a non-binding memorandum of intent to establish a joint venture to manufacture 10th generation amorphous TFT LCD panels and modules. 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 short- and medium-term during the investment period of alliances, joint ventures and strategic investments even if Sony and its partners remain on course to achieve their common objectives.

Sony may not adequately manage the growing number of joint ventures and strategic alliances, and, in particular, may not deal effectively with the legal and cultural differences that can arise in such relationships or changes in the relationships with or financial status of partners. 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 reputation could be harmed by the actions or activities of a joint venture that uses the Sony brand.

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

Sony implemented restructuring initiatives in relation to its mid-term corporate strategy for the three fiscal years ended March 31, 2008 that focused on the reduction of the number of business categories and product models, the rationalization of manufacturing sites, streamlining of administrative and headquarter functions, and the sale of non-core assets. In association with these restructuring initiatives, 138.7 billion yen, 38.8 billion yen and 47.3 billion yen of restructuring charges were recorded for the fiscal years ended March 31, 2006, 2007 and 2008, respectively. Sony anticipates the recording of approximately 20 billion yen of restructuring charges for the fiscal year ending March 31, 2009.

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 projected cost savings 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 the 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 the 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 areas for its businesses.

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 Sony Corporation's subsidiaries around the world, which are then translated into yen at the monthly average currency exchange rate. Sony's consolidated balance sheets are prepared using the local currency-denominated assets and liabilities 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 23.2 percent of Sony's sales and operating revenue in the fiscal year ended March 31, 2008 were originally recorded in Japan. Accordingly, Sony's consolidated financial results and the 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. 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, the euro or other foreign currencies.

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 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 engage in research and development, procurement, production, logistics, and sales activities in a manner that is profitable after the effect of such exchange rate changes.

Although Sony hedges most of 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. Sony consumes a tremendous volume of parts and components such as semiconductors and LCD panels for its products. 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. In the past, for example, Sony has experienced both a shortage of certain semiconductors, which resulted in Sony's inability to meet demand for its PCs and audio visual products, as well as a surplus in certain other semiconductors that resulted in the recognition of losses when semiconductor prices fell.

Sony's profitability may also be adversely affected by inventory adjustments that, as a result of efforts to reduce inventory by adjusting production or by reducing the price of finished 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 is discretionary to a very significant extent. 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, 2008, 23.2 percent, 25.1 percent and 26.2 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 or natural disasters 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.

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

Most of Sony's activities are conducted outside of Japan, and international operations bring challenges. For example, in the Electronics and Game segments, production and procurement of products and parts in Asian countries such as China are increasing, and this creates a risk that production and shipping of products and parts could be interrupted by a natural disaster or pandemic in the region, similar to the spread of Severe Acute Respiratory Syndrome ("SARS"). In addition, production of electronics products in China and other Asian countries increases the time necessary to supply products to Europe and the U.S., which can make it more difficult to meet changing customer demand. Further, Sony may encounter difficulty in planning and managing operations due to unfavorable political or economic factors, such as cultural and religious conflicts, non-compliance with expected business conduct, unexpected legal or regulatory changes such as foreign exchange, import or export controls, nationalization of assets or restrictions on the repatriation of returns from foreign investments and the lack of adequate infrastructure. As emerging markets are becoming increasingly important in our operations, the above mentioned risks are also expected to grow and could have an adverse impact on our financial condition and operating results.

The large-scale investment required during the development and introductory period of a new gaming platform may not be fully recovered.

Within the Game segment, developing and providing 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 the past, large-scale investment relating to capital expenditures and research and development for the manufacture of key components, including semiconductors supplied for PLAYSTATION®3 (“PS3”), was also recorded within the Electronics 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, resulting in a significant negative impact on Sony’s profitability. In addition, even if Sony is able to sufficiently recoup its investment, significant negative impact on Sony’s operating results could occur during the introductory period of the platform. Further, even 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 a platform are PS3-related charges that resulted in losses of 232.3 billion yen and 124.5 billion yen within the Game segment for the fiscal years ended March 31, 2007 and 2008, respectively. These losses arose from the strategic pricing of PS3 hardware at points lower than its production cost. (Refer to “Electronics” section of “Trend Information” and “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, PSP® (PlayStation®Portable), and 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. 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 as well as 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 produced by third parties.

In the Game segment, the penetration of gaming platforms is a significant factor driving sales and profitability, which may be affected by the ability to provide customers with sufficient software line-ups, including software produced 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, timing of releases or syndication sales, 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, both of which are difficult to predict, as well as the timing of new motion picture releases and the syndication of television productions. In addition, the commercial success of the Pictures segment’s motion picture and television productions depends upon the public’s acceptance of other competing productions, 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 highly regulated industries and new rules, regulations and regulatory initiatives by government authorities 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 ("FSA") has recently strengthened its regulatory supervision relating to non-payment of insurance claims. The FSA requires all life and non-life insurance companies to perform and report on the results of a systematic review of non-payment of insurance claims. Based on the results of such review, the FSA has issued business improvement orders and other administrative sanctions to non-life insurance companies, and it is considering issuing certain administrative sanctions to life insurance companies. Compliance with multiple regulatory regimes is challenging and, due to our common branding strategy, compliance failures in any of our businesses within our Financial Services segment could have a negative impact on the overall business reputation of the Financial Services segment.

Declines in the value of equity securities could have a material adverse impact on the financial results of Sony's Financial Services segment.

In the Financial Services segment, Sony Life Insurance Co., Ltd. ("Sony Life") holds both convertible bonds and equity securities. The convertible bonds are required to be marked to market at the end of each accounting period on the income statement under U.S. generally accepted accounting principles. Declines in equity prices, such as those due to recent problems in the United States residential mortgage market that have resulted in large fluctuations in global equity prices, may result in valuation losses on the convertible bonds as well as impairment losses on the equity securities held by Sony Life.

Changes in interest rates may significantly affect Sony's Financial Services segment's financial condition and results.

We engage in asset liability management ("ALM") in an effort to manage the investment assets within the Financial Services segment in a manner appropriate to our liabilities, which arise from both the insurance policies we underwrite in both our life insurance and non-life insurance businesses and the deposits, borrowings and other liabilities in our banking business. ALM considers the long-term balance between assets and liabilities in an effort to ensure stable returns. Any failure to appropriately conduct our ALM activities, or any significant changes in market conditions beyond what our ALM could reasonably address, could have a material adverse effect on the financial condition and results of operations of our Financial Services segment. In particular, because Sony Life's liabilities to policyholders generally have longer durations than its investment assets, lower interest rates tend to reduce yields on Sony Life's investment portfolio while premiums remain generally unchanged on outstanding policies. As a result, Sony Life's profitability and long-term ability to meet policy commitments could be materially and adversely affected.

The investment portfolio within Sony's Financial Services segment exposes Sony to a number of additional risks other than the risks related to declines in the value of equity securities and changes in interest rates.

In Sony's Financial Services segment, generating stable investment income is important to our operations and we invest in a variety of asset classes, including Japanese government and corporate bonds, foreign government and corporate bonds, Japanese stocks, loans and real estate. In addition to risks related to changes in interest rates and the value of equity securities, the Financial Services segment's investment portfolio exposes Sony to a variety of other risks, including foreign exchange risk, credit risk and real estate investment risk, any or all of which may have an adverse effect on the financial condition and results of operations of our Financial Services segment.

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. These reserves are calculated 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 these businesses purchase with the premiums received. These assumptions and estimates are inherently uncertain, and we cannot determine with precision the ultimate amounts that we 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 we 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 our control, including:

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

If the actual experience of our insurance businesses is less favorable than our assumptions or estimates, our policy 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 we 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, including its investment in SONY BMG, and the Pictures segment are subject to digital piracy, which may become increasingly prevalent with the development of new technologies.

The development of digital technology has created new risks with respect to Sony's ability to protect its copyrights in its music business, including its investment in SONY BMG, as well as in the Pictures segment. Advances in technology that enable the transfer and downloading of digital audio and video 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 video files. 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. Such unauthorized distribution has adversely affected sales and operating income within the music business, and returns from Sony's investment in SONY BMG, and threatens to adversely affect sales and operating income in the Pictures segment. 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 the returns from Sony's investment in SONY BMG 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 may be subject to renewed judicial review by the European Court.

In August 2004, Sony combined its recorded music business outside of Japan with the recorded music business of Bertelsmann AG, forming SONY BMG, after receiving antitrust approval from, among others, the European Commission. On December 3, 2004, Impala, an international association of 2,500 independent recorded music companies, appealed the European Commission's clearance decision to the EU Court of First Instance ("CFI"). On July 13, 2006, the CFI annulled the Commission's decision to allow the merger to go forward, requiring the Commission to re-examine the transaction. In October 2006, Sony Corporation of America and Bertelsmann AG filed an appeal of the CFI's judgment to the Court of Justice of the European Communities ("ECJ"). The ECJ is scheduled to render judgment on that appeal on July 10, 2008. On October 3, 2007, following its re-examination of the merger, the Commission rendered a second clearance decision reaffirming the conclusion reached in 2004 that the transaction raised no competition concerns. That decision may be appealed to the CFI until June 26, 2008 and on June 16, 2008 Impala announced it had filed an appeal. If the ECJ were to affirm the CFI's judgment annulling the Commission's original clearance decision and the CFI (and upon a further appeal, the ECJ) were to annul that second clearance decision, then, should the Commission following a further investigation reverse the position it had taken in 2004 and 2007, the previously combined company could be forced to unwind the merger in whole or in part. In such circumstance, Sony might incur significant costs and might 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 competitiveness and profitability.

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 program 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 recording 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. Although Sony is developing counter-measures, such events could 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.

Sony's reputation and business could be harmed and Sony could be subject to legal claims if there is loss, disclosure or misappropriation of our customers' personal information or other breaches of our security.

Sony makes extensive use of online services and centralized data processing, including through third-party service providers, particularly in the Financial Services segment. The secure maintenance and transmission of confidential information is a critical element of Sony's operations. Sony's customers' personal information may be lost or disclosed or taken without customer's consent. In addition, Sony's information technology and other systems, or those of service providers or strategic business partners, may be compromised. If we lose customers' personal information or if a malicious third party were to penetrate the network security of Sony, Sony's business partners or service providers to misappropriate or acquire customers' personal information, or if there were an advertent or inadvertent loss, disclosure or misappropriation of customers' personal information by Sony employees, Sony's reputation could be damaged and Sony could be subject to lawsuits or claims.

Any loss, disclosure or misappropriation of customers' personal information or other breach of our security would likely have a serious impact on our reputation and could have a significant adverse effect on our businesses and our results of operations.

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

Sony products, such as software 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. If they are not, Sony may incur expenses in connection with, for example, product recalls, after-sales 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. (A portion of the provision totaling 15.7 billion yen was reversed in the current fiscal year based on the actual results of recalls and replacements as compared to our original estimates. Refer to "Performance by Product Category" for "Electronics" within "*Operating Results for the Fiscal Year Ended March 31, 2008*" 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 the notes to the 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 gains or losses 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. Similarly, if Sony is required to make an additional contribution to each foreign plan to meet any funding requirements in accordance with local laws and regulations in each country, Sony's consolidated cash flow might be adversely affected.

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 reduce the amount of its deferred tax assets or 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 and the substantial cost to defend the litigation or regulatory proceedings could have a material adverse effect on Sony's business, results of operations, financial condition, cash flows 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). Sony has also become more reliant upon the services of third-party original equipment and design manufacturers in the Electronics and Game segments. In addition, Sony consigns to external suppliers extensive activities including procurement, 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 insufficient compliance with applicable regulations or infringement of third-party intellectual property rights by external suppliers as well as certain risks, such as accidents or natural disasters, to which an external supplier might be exposed.

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. Sony sees issues related to climate change as a potential risk if we do not respond or undertake environmental activities appropriately. Sony recognizes that climate change issues could possibly lead to an increase in additional costs due to new regulations including carbon taxes and governmental policies regarding energy efficiency for electronics products. A new regulation regarding logistics has already been introduced in Japan and other countries may introduce similar regulations in the near future. In addition, in the event that we are unable to respond appropriately to consumers' growing concerns with issues related to climate change, there is a risk that Sony's reputation could be harmed and that consumers may choose to purchase products from companies other than Sony.

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, making the results available to the public and the EU regulators. For certain types of chemical substances, manufacturers, users and importers of the chemical substance are required to convey the information about the designated substance in its supply chain. 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 results of operations and financial condition.

Sony has established an internal risk management system in response to two directives enacted by the EU: The Restriction of Hazardous Substances Directive ("RoHS") and the Waste Electrical and Electronic Equipment Directive ("WEEE"). Similar regulations are being formulated in other parts of the world, including China. We may incur substantial costs in complying with other similar programs that might be enacted outside Europe in the future.

American Depositary Shareholders have fewer rights than shareholders and may not be able to enforce judgments based on U.S. securities laws.

The rights of shareholders under Japanese law to take actions, including voting their shares, receiving dividends and distributions, bringing derivative actions, examining Sony's accounting books and records and exercising appraisal rights are available only to shareholders of record. Because the depositary, through its custodian agents, is the record holder of the shares underlying the American Depositary Shares ("ADSs"), only the depositary can exercise those rights in connection with the deposited shares. The depositary will make efforts to vote the shares underlying ADSs in accordance with the instructions of ADS holders and will pay the dividends and