

December 31, 2004. As a result of the adoption of EITF Issue No. 04-8, Sony's diluted EPS of its income before cumulative effect of an accounting change and its net income for the fiscal year ended March 31, 2004 were restated respectively. Sony's diluted EPS of income before cumulative effect of an accounting change and net income for the fiscal year ended March 31, 2005 were decreased by 7.26 yen and 7.06 yen, respectively, compared to those before the adoption of EITF Issue No. 04-8.

3. In January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities – an Interpretation of Accounting Research Bulletins ("ARB") No. 51", and the revised FIN No. 46 was issued in December 2003. This interpretation addresses consolidation by a primary beneficiary of a variable interest entity ("VIE"). Sony adopted FIN No. 46 on July 1, 2003. As a result of the adoption of FIN No. 46, Sony recognized a 2,117 million yen charge as a cumulative effect of an accounting change. Additionally, Sony's assets and liabilities increased by 96,776 million yen and 97,950 million yen, respectively, including cash and cash equivalents of 1,521 million yen.
4. On April 1, 2001, Sony adopted FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by FAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities – an Amendment of FASB Statement No. 133". As a result, Sony's operating income, income before income taxes and net income for the fiscal year ended March 31, 2002 decreased by 3,007 million yen, 3,441 million yen and 2,167 million yen, respectively. Additionally, Sony recorded a one-time non-cash after-tax unrealized gain of 1,089 million yen in accumulated other comprehensive income in the consolidated balance sheet, as well as an after-tax gain of 5,978 million yen in the cumulative effect of accounting changes in the consolidated statement of income. In April 2003, the FASB issued FAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." Sony adopted FAS No. 149 on July 1, 2003. The adoption of FAS No. 149 did not have an impact on Sony's results of operations and financial position.
5. In July 2001, the FASB issued FAS No. 142, "Goodwill and Other Intangible Assets." Sony adopted FAS No. 142 retroactive to April 1, 2001. As a result, Sony's operating income and income before income taxes for the fiscal year ended March 31, 2002 increased by 20,114 million yen and income before cumulative effect of accounting changes as well as net income for the fiscal year ended March 31, 2002 increased by 18,932 million yen.

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 and Game segments produce consumer products that compete against products sold by an increasing number of competitors on the basis of 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 products at competitive prices that meet changing and increasingly diversified consumer preferences.

Sony is subject to competition from firms that may be more specialized.

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.

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

A consumer's decision to purchase products such as those offered by Sony's Electronics, Game, Music and Pictures segments 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, 2005, 29.3 percent, 27.6 percent and 22.6 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.

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 average market rate during each financial period. 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 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 29.3 percent of Sony's sales and operating revenue in the fiscal year ended March 31, 2005 were originally recorded in Japan. Accordingly, Sony's consolidated results, assets and liabilities in Sony's businesses that operate internationally, principally in its Electronics, Game, Music 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, 2005, for example, Sony's consolidated operating income prepared on the basis of Generally Accepted Accounting Principles in the U.S. ("U.S. GAAP") in yen increased from the preceding fiscal year by 15.2 percent; however, if Sony's consolidated operating income had been prepared on a local currency basis, it would have increased by 26 percent. (Refer to "Operating Results" in "Item 5. Operating and Financial Review and Prospects.") 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 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 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, such as the decade-long strengthening of the yen against major currencies between 1985 and 1995, when the yen appreciated from a level in excess of 260 yen to the U.S. dollar to a level of less than 80 yen to the U.S. dollar, 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 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 segment, compete in markets characterized by ever-shortening product life cycles caused 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 with IBM Corporation and Toshiba Corporation and an investment in a joint venture with Samsung Electronics Co., Ltd. ("Samsung") to produce 7th generation amorphous thin film transistor ("TFT") LCD panels. Sony may not be able to recover these investments, in part or in full, and its mid-term profitability could be adversely affected as a result. (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 businesses by withdrawing from or downsizing selected businesses. Other efforts have been made to reduce fixed costs including a reduction in the number of Sony's employees around the world.

Since the fiscal year ended March 31, 2004, Sony has been implementing Transformation 60, a three-year program scheduled to end March 31, 2006, that consists of a series of fundamental reforms including an increase in research and development spending and investments in order to strengthen core businesses, and undertaking restructuring initiatives such as implementing personnel reductions, withdrawal from selected businesses and other programs to reduce fixed costs.

Restructuring charges recorded on a consolidated basis for Transformation 60 during the fiscal years ended March 31, 2004 and 2005 were 168.1 billion yen and 90.0 billion yen, respectively. Sony expects to incur restructuring charges totaling approximately 330 billion yen through the three-year implementation of Transformation 60. The details of the restructuring plan for the fiscal year ending March 31, 2006 have yet to be determined in full.

Restructuring charges are recorded in cost of sales, selling, general, and administrative expense 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 investments beyond currently projected levels, either of which might increase total costs of the program. Possible external factors could include, for example, increased burdens from regional labor regulations and union contracts 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.

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 and audio visual products, and a surplus in certain semiconductors that resulted in the recording 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. 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 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 (PS one, PlayStation 2, PlayStation Portable) and is dependent upon year-end holiday season demand, 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 the segment.

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

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

In Sony's Music segment, at 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 segment, 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 and DVD 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 segment and Sony's investment in SONY BMG are dependent on establishing new artists, and Sony's Music and Pictures segments, as well as Sony's investment in SONY BMG, are subject to increasing prices for talent.

The success of Sony's Music segment 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 segment 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 and Pictures segments, as well as SONY BMG, Sony has experienced and may continue to experience significant increases in talent-related spending.

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.

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, and the availability of alternative forms of entertainment and leisure activities.

In addition to the need for maintaining a prudent and prescient Asset Liability Management, Sony's Financial Services segment is subject to valuation losses, shifts in customers' demand and a variability in claims, at Sony Life Insurance Co., Ltd. and Sony Assurance Inc., as well as mandatory contributions to the Life Insurance Policyholders Protection Corporation of Japan by Sony Life.

Sony's Financial Services segment faces rapid shifts in customer demand from more profitable protection-orientated products such as term insurance to less profitable savings-oriented products such as endowment insurance, as well as a risk of unpredictable increases in insurance claims. This segment also may incur valuation losses if the value of securities purchased for investment purposes decreases. In addition, if it fails to conduct Asset Liability Management ("ALM") in a prudent and prescient manner to pursue an optimal combination of possible risks and expected returns on investment assets and underwriting risks on insurance policy benefits, Sony's Financial Services segment may not be able to keep providing competitive products and services to customers on a long-term basis. Sony Life Insurance Co., Ltd. ("Sony Life"), which constitutes the largest portion of this segment, is also subject to mandatory contributed reserves for the Life Insurance Policyholders Protection Corporation of Japan ("PPC"), the organization that provides support to insolvent life insurance companies. Sony Life's estimated required contribution based on the assessments made by the PPC is incorporated in other expenses within Sony Life's statements of income and long-term liabilities in its balance sheets in Japan. If there are bankruptcies of life insurers, solvent life insurers including Sony Life may be required to contribute additional financial resources.

In addition, with respect to the companies within the Financial Services segment other than Sony Life, such as Sony Bank Inc., there is a risk of recording valuation losses if the value of securities purchased for investment purposes decreases, or if there is a failure to conduct ALM in a prudent and prescient manner.

Sony may not be successful in implementing its broadband network strategy.

Sony believes that the utilization of broadband networks to facilitate the integration of hardware and content is essential to 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"), S.T. Liquid Crystal Display Corporation ("ST-LCD"), a joint venture with Toyota Industries Corporation, and other companies. In April 2004, Sony established S-LCD Corporation 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. In April 2005, a consortium led by Sony Corporation of America and its equity partners, Providence Equity Partners, Texas Pacific Group, Comcast Corporation and DLJ Merchant Banking Partners, completed the acquisition of Metro-Goldwyn-Mayer Inc. ("MGM"). 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 temporarily adversely affected by the establishment of those alliances, joint ventures and strategic investments even if Sony and its partners remain on course to achieve those common objectives. Recent examples of how Sony's financial performance has been adversely affected in the course of these types of relationships are the equity in net loss of Sony Ericsson incurred in the fiscal year ended March 31, 2003, totaling 20.8 billion yen and the equity in net loss recorded at SONY BMG in the fiscal year ended March 31, 2005, totaling 3.4 billion yen, primarily as the result of restructuring costs.

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 earthquake 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, 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 become more important to Sony's operating activities, network and information system shutdowns caused by unforeseen events such as power outages, disasters, terrorist attack, 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 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 databases, including customer and vendor data.

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 events.

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.

Sony may be adversely affected by its employee benefit obligations.

Sony recognizes an unfunded pension obligation (in an amount equal to (i) its Projected Benefit Obligation (“PBO”) less (ii) the fair value of plan assets and accrued pension and severance costs) as a pension cost in a systematic and gradual manner over employees’ average remaining service periods as required under FAS No. 87, “Employers’ Accounting for Pensions”. Any decrease of pension asset value due to low returns from investments or increases in PBO due to a lower discount rate may increase unfunded pension obligations, resulting 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.

Sony may be accused of infringing others’ intellectual property rights

Sony’s products incorporate a wide variety of technologies. Claims could be asserted against Sony that such technology infringes intellectual property owned by others, and the outcome of any such claim would be uncertain.

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 to include intellectual property licensed from third parties. 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.

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 software 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 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 environmental and occupational health and safety regulations relating to matters such as reductions or prohibitions in the use of harmful substances, comprehensive compliance and risk management practices in manufacturing activities and products, decreases in the level of standby power of certain products, protection of natural resources and remediation as a result of certain manufacturing operations and the recycling of products, batteries and packaging materials. The European Parliament and the Council of the European Union have published directives on waste electrical and electronic equipment and on the restriction of the use of certain hazardous substances in electrical and electronic equipment. These directives will require electronics producers after August 2005 to bear the cost of collection, treatment, recovery and safe disposal of future products from end-users and to ensure after June 2006 that new electrical and electronic equipment does not contain specified hazardous substances. While the cost of these directives to Sony cannot be determined before regulations are adopted in individual member states, it may be substantial. In the event it is determined that Sony has not complied in a material way with certain environmental laws and regulations, Sony may incur remediation costs or sustain injury to its brand image. Sony's activities also may be limited if Sony is unable to comply with such regulations, which could adversely affect Sony's results.

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

A substantial portion of Sony's activities are conducted outside Japan, including in developing and emerging markets. Sony operates its manufacturing subsidiaries in 16 countries and its sales subsidiaries in 43 countries. Countries where Sony manufactures its principal products are Japan, Malaysia, China, the U.S., the U.K., Singapore, Spain and Mexico.

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 production of personal computer 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 repatriation of returns from foreign investments.

American Depositary Share holders 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 distributions collected from Sony. However, ADS holders will not be able to bring a derivative action, examine Sony's accounting books and records, or exercise appraisal rights through the depositary.

Sony is incorporated in Japan with limited liability. A substantial portion of the assets of Sony are located outside the U.S. As a result, it may be more difficult for investors to enforce against Sony judgments obtained in U.S. courts predicated upon the civil liability provisions of the Federal securities laws of the U.S. or