income for the year ended March 31, 2001 included a one-time, non-cash charge with no tax effect of 101.7 billion yen, primarily to reduce the carrying value of its film inventory.

8. In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements". Sony adopted SAB No. 101 in the fourth quarter ended March 31, 2001 retroactive to April 1, 2000. As a result, a one-time non-cash cumulative effect adjustment of 2.8 billion yen was recorded in the income statement directly above the caption of "net income" for a change in accounting principle. In December 2003, SAB No. 101 was amended by SAB No. 104, "Revenue Recognition". The amendment did not have an impact on Sony's results of operations and financial position.

Capitalization and Indebtedness

Not Applicable

Reasons for the Offer

Not Applicable

Risk Factors

This section contains forward-looking statements that are subject to the Cautionary Statement appearing elsewhere in 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, in the face of increasingly intense pricing pressure from Korean and Chinese competitors in a variety of consumer product areas, Sony is focusing its resources on developing, manufacturing and marketing higher value-added products. Examples in both the Electronics and Game segments include displays equipped with proprietary high resolution circuitry systems, devices designed for use with secured media distribution services, optical media devices and new microprocessors and system large scale integration ("LSI") for the next generation computer entertainment system and broadband network products. Sony's sales and operating income depend on Sony's ability to continue to develop and offer products that meet consumer preferences at competitive prices.

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, 2004, 29.6 percent, 28.3 percent and 23.6 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. and 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 and stockholders' equity 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, liabilities and stockholders' equity is accounted for in currencies other than the Japanese yen. For example, only 29.6 percent of Sony's sales and operating revenue in the fiscal year ended March 31, 2004 were originally recorded in Japan. Accordingly, Sony's consolidated results, assets, liabilities and stockholders' equity 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 years ended March 31, 2001 and 2003, 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 year by 1.0 percent and 37.7 percent, respectively; however, if Sony's consolidated operating income had been prepared on a local currency basis, it would have increased by 48 percent and decreased 5 percent in those two fiscal years, respectively (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 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 Electronics and Game segments are particularly sensitive to the yen's appreciation because research and development, production activities and administrative functions are largely located in Japan so that the ratio of yen-denominated costs to total costs is higher than the ratio of yen-denominated revenue to total revenue. Mid- to long-term volatile changes of exchange rate levels, such as the decade-long strengthening of the yen against major currencies between 1985 and 1995 when it strengthened against the U.S. dollar from over 260 yen to less than 80 yen, 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 and Game segments, 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 must continually develop a wide range of new technologies and invest in production capacity to create new products. Examples of such new technologies include a new microprocessor and other system LSIs for the next generation computer entertainment system and for digital consumer electronics and technologies for organic electro-luminescent displays and liquid crystal displays ("LCDs"). However, Sony may not be able to recover its development costs or production capacity investments in any one of these technologies and its mid-term profitability could be adversely affected as a result.

Moreover, through the implementation of Transformation 60 (see below), Sony plans to continue to expend significant sums on research and development and semiconductor fabrication equipment. Recent examples of such expenditures include an investment for research and development into 65 nanometer semiconductor process technology along 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.

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

Sony has engaged in significant reorganization efforts in the past 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 strengthening core businesses, increasing investments in research and development and undertaking restructuring initiatives such as a reduction in personnel, withdrawal from selected businesses and implementation of other programs to reduce fixed costs.

Restructuring charges recorded on a consolidated basis for the fiscal years ended March 31, 2002, 2003 and 2004 were 107.0 billion yen, 106.3 billion yen and 168.1 billion yen, respectively. The 168.1 billion yen recorded in the fiscal year ended March 31, 2004 included charges incurred from restructuring activities that were started (but not completed) in previous fiscal years. Sony expects to incur restructuring charges totaling approximately 335 billion yen through the implementation of Transformation 60, including the 168.1 billion yen of restructuring charges incurred in the fiscal year ended March 31, 2004. The details of the restructuring plans for the remaining two fiscal years 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 net income. Moreover, due to internal or external factors, the improved efficiencies and cost savings projected may not be realized as scheduled or at all 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 include a decision to implement restructuring initiatives in addition to those already planned or a decision to increase research and development outlays or other investments beyond currently projected levels which could increase total costs of the program, while possible external factors include regional labor regulations and union contracts that could prevent Sony from executing restructuring initiatives as planned. Therefore such reorganizations may not result in reductions in expenses, improved efficiency, increased ability to respond to market changes or reallocation of resources to more profitable activities. The inability to fully and successfully implement the 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 that caused Sony to be unable to meet demand for its personal computers and AV products as well as a surplus in certain semiconductors that resulted in the recording of losses when semiconductor prices fell. Fluctuations in the semiconductor market may cause a shortage of supply of semiconductors and affect Sony's production and/or the cost of goods sold because Sony consumes a tremendous volume of semiconductor parts and components for its products. Sony's profitability may be adversely affected by supply or inventory shortages, delays in cost reductions 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, exceed the amount expected to be used or are otherwise recorded at more than net realizable value. Such inventory adjustments have had, and if Sony is not successful in managing its inventory may in the future have, a material adverse affect on Sony's operating income and profitability.

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 products (PS one hardware, PlayStation 2 hardware and related software) 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 at this time of year 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, is susceptible to weak sales and supply shortages that prevent it from meeting demand for its products during this season.

Sony's Music and Pictures segments are subject to digital piracy, and this risk grows more acute as new technologies develop.

In Sony's Music and Pictures segments, technological developments have created new risks with respect to Sony's ability to protect its intellectual property. Advances in technology that enable the transfer and downloading of digital music and AV files from the Internet without authorization from the owners of rights to such content have threatened the conventional copyright-based business model by making it easier to create and redistribute unauthorized music and AV files. Such unauthorized distribution has adversely affected sales and operating results within the Music segment 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 intellectual property. These initiatives will increase Sony's near-term expenses and may not achieve their intended result.

Sony's Music segment is dependent on establishing new artists, and Sony's Music and Pictures segments are subject to increasing prices for talent.

Sony's Music segment is highly dependent on establishing artists that appeal to customers, and the competition with other entertainment companies for such talent is intense. Therefore, if the Music segment is unable to find and establish new talented artists, this segment's sales and operating income may be adversely affected. In addition, with respect to both the Music and Pictures segments, 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 directly or indirectly 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 is subject to variability in claims, valuation losses, and shifts in customers' demand and a need for prudent and foresightful Asset Liability Management ("ALM") as well as mandatory contributions to a policy holder insurance fund.

Sony's Financial Services segment faces unpredictable increases in insurance claims and shifts in customer demand from more profitable products such as life guarantees to less profitable products such as annuities. This segment also may incur valuation losses if the value of securities purchased for investment purposes decreases. In addition, if it fails to conduct ALM in a prudent and foresightful manner to pursue 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's Financial Services segment is also subject to mandatory contributed reserves for the Life Insurance Policyholders Protection Corporation of Japan ("PPC"). The PPC was established in 1998 to provide financial support to insolvent life insurance companies, and all life insurers in Japan, including Sony Life Insurance Co., Ltd. ("Sony Life"), are members of the PPC and are subject to assessment by the PPC based on their respective share of insurance industry premiums and policy reserves. Since some life insurers have become insolvent since 1998, the PPC's financial resources have already been reduced because it has had to provide financial support to those companies. If there are further bankruptcies of life insurers, solvent life insurers including Sony Life may be required to contribute additional financial resources. Sony Life's estimated required future contribution based on the assessments made by the PPC is incorporated in other expenses in Sony Life's statements of income and long-term liabilities in its balance sheets.

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

Sony believes that the utilization of broadband networks to facilitate 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 cooperation and alliances with, and strategic investments in, third parties may not produce successful results.

Sony increasingly relies on alliances, joint ventures and strategic investments, including investments in such joint ventures as Sony Ericsson Mobile Communications, AB ("Sony Ericsson"), S.T. Liquid Crystal Display Corporation ("ST-LCD") and other companies, in order to develop and introduce new products and services, mitigate the burden of substantial investments and achieve operating efficiencies through cooperation. In April 2004, Sony established a joint venture in partnership with Samsung for the production of 7th generation amorphous TFT LCD panels. In December 2003, Sony also announced that it has signed a binding letter of intent to form a jointly-owned recorded music company with Bertelsmann AG, to be called Sony BMG. The formation of the joint venture is dependent upon regulatory approval in the United States and the European Union. If this or any alliances and joint ventures cannot be implemented due to lack of regulatory approval, Sony may not be able to achieve its objectives. In addition, if, in the case of existing alliances, joint ventures and strategic investments, Sony and its partners are not able to reach their common financial objectives successfully, Sony's financial performance 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 are on a course to achieve their 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, totalling 20.8 billion yen (Sony Ericsson turned profitable in the fiscal year ended March 31, 2004), and the equity in net loss of Crosswave

Communications Inc. amounting to 1.4 billion yen in the fiscal year ended March 31, 2004, which commenced reorganization proceedings under the Corporate Reorganization Law of Japan.

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

Sony 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. Furthermore, 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, hardware or software defects and computer viruses pose increasing risks, as do possible misappropriation, misuse, leakage, falsification, and disappearance of internal databases, including customer and vendor data.

Judging from the experience of other 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. Although Sony continues to take precautions against such unforeseen risks, such as by maintaining backup and other redundancies for major data centers and undertaking efforts to educate operators and administrators who have access to databases about appropriate ways to protect such information, these measures may be inadequate, and Sony may be unable to avoid or prevent such events. If such an event were to occur, it could impair Sony's operational activities, generate expenses relating to physical or personal damage, or hurt Sony's brand image.

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 demand increases for digital equipment. At the same time product quality and liability issues present greater risks. In the first half of the fiscal year ended March 31, 2002, Sony recalled products in the mobile phone handset business for quality reasons, which resulted in increased after-sales service expenses of 18.6 billion yen. Sony's efforts to manage the rapid advancements in technologies and increased demand, as well as control product quality, may not be successful and if they are not, Sony may incur expenses such as those for product recalls, service and lawsuits and Sony's brand image and reputation for 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 return from investments or increase of 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 13 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 Welfare Pension Insurance Law 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 case of a plan deficit, that is in excess of the actuarial reserve required by the law over 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 on others' intellectual property rights and may not be able to continue to obtain necessary licenses.

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. In addition, 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 operating efficiency with limited managerial resources, Sony increasingly procures from third-party suppliers components, such as plasma panels and LCD panels for televisions, and technologies, such as wireless technologies for mobile handsets and operating software for Sony's PCs and for personal digital assistants. In addition, it consigns to external suppliers extensive activities including procurement, manufacturing, logistics, sales and other services. Reliance on outside sources increases the chances 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 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 cost 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. Sony seeks advantages from international operations, such as low-cost production and the mid- to long-term potential of consumer markets in China, particularly in the Electronics and Game segments, and the potential prolonging of product life cycles in the current hardware business through sales to markets in Eastern Europe, the Middle East and East Asia (excluding Japan) in the Game segment.