

D. 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.

The coronavirus disease 2019 (COVID-19) pandemic has adversely affected, and is expected to continue to adversely affect, Sony's business operations, operating results and financial condition.

The COVID-19 pandemic is adversely affecting the production, development, sale and distribution of the products and services in each of Sony's business segments, and this negative impact is expected to continue in the future. For example, in the Game & Network Services ("G&NS") segment, there has been an adverse impact on the production of hardware due to issues in the component supply chain. In the Music segment, CDs and other packaged media sales are decreasing due to restrictions on going outside, and ticket, merchandising and video revenues are decreasing as concerts and other events are being postponed and cancelled in Japan and other areas. In the Pictures segment, box office revenue has been impacted by the closure of movie theaters around the world, and Sony generally has not been able to release its already completed titles in theaters. In the Electronics Products & Solutions ("EP&S") segment, certain of Sony's manufacturing sites ceased production for a period of time pursuant to local government policy, and a portion of supply continues to be insufficient to meet demand. Additionally, some partner companies that supply components to several of Sony's businesses have reduced their operations, causing a delay in the production of some Sony products due to component shortages.

In the Financial Services segment, pursuant to the announcement of a state of emergency by the Japanese government, all in-person sales activity of the Lifeplanner® salespeople at Sony Life Insurance Co., Ltd. ("Sony Life") was suspended from April 2020 to May 2020. The impact that these and other COVID-19-related factors have had on Sony's ability to produce, develop, sell and distribute the products and services of each of Sony's business segments is further discussed in "Item 5. Operating and Financial Review and Prospects."

The timing and extent to which the pandemic further negatively impacts Sony's business could vary greatly depending on future developments, such as the possible further spread of or a resurgence in COVID-19, as well as the state of lockdowns and other measures in various geographic areas around the world. For example, in the G&NS segment, hardware production and game software development could continue to be delayed due to the impact of COVID-19. The Music segment may continue to be negatively impacted by delays in the release of new music and a global reduction in advertising licensing revenue, and the Pictures segment may continue to be negatively impacted by delays in the production and release schedules of new motion pictures and TV shows, as well as by the global reduction in advertising revenue. The EP&S segment could continue to be adversely impacted by factory shutdowns and supply chain issues, and by the closure of retail stores globally. The Imaging & Sensing Solutions ("I&SS") segment may be negatively impacted by a decline in demand in the smartphone market, and the Financial Services segment may continue to be negatively affected by the prohibition against all in-person sales activity of the Lifeplanner® salespeople at Sony Life.

The continued impact of COVID-19 could heighten many of the risks and uncertainties noted below.

Sony must overcome increasingly intense competition, which could lead to lower revenue or operating margins.

Sony has several business segments in different industries with many product and service categories, which cause it to compete with many existing and new competitors ranging from large multinational companies to highly specialized entities that focus on only one or a few businesses and also, potentially, with outsourced manufacturing service partners that currently supply products to Sony. These competitors may have greater financial, technical, labor and marketing resources available to them than those available to Sony. Sony's financial condition and operating results depend on its ability to efficiently anticipate and respond to these established and new competitors.

The competitive factors Sony faces vary depending on the nature of the business. For example, Sony's electronics businesses compete on the basis of various factors including price and function, while Sony's Music and Pictures businesses compete for talent, such as artists, songwriters, actors, directors and producers, and for entertainment content that is created, acquired, licensed and/or distributed. Competition on price can lead to lower margins when costs do not fall at a proportional rate, and competition for talent and appealing product can also lead to lower profitability if the higher costs required for such talent and content cannot be recouped through greater sales. Moreover, even for those products where Sony believes it has a strong competitive advantage, such as image sensors, it is possible that its competitors' technological capabilities will accelerate such that Sony would be unable to maintain its advantageous market position. In its consumer electronics businesses, to produce

products that appeal to changing and increasingly diverse consumer preferences or to overcome the fact that a relatively high percentage of consumers already possess similar products, Sony must develop superior technology, anticipate consumer tastes and rapidly develop attractive and differentiated products with competitive prices and features. Sony faces increasingly intense pricing pressure from competitors, retailer consolidation, new sales/distribution channels and shorter product cycles in a variety of consumer product categories. In the Music and Pictures segments, operating results can be impacted by worldwide consumer acceptance of their products, which is difficult to predict, by competing products released at or near the same time and by alternative forms of entertainment and leisure activities available to consumers. Additionally, the spread of COVID-19 starting in the beginning of the 2020 calendar year resulted in lockdowns around the world, which are influencing changes in consumer behavior.

If Sony is unable to maintain its advantageous market position in the fields in which it has a technological or other competitive advantage, Sony is unable to effectively anticipate and counter the ongoing price erosion that frequently affects its consumer products or the cost pressures affecting its businesses, there is a change in existing business models or consumer preferences, or the average prices of Sony's products decrease faster than Sony is able to reduce manufacturing costs, Sony's operating results and financial condition may be adversely impacted.

To remain competitive and stimulate customer demand, Sony must invest in research and development to achieve product and service innovations and successfully manage frequent introductions of such new products and services.

To strengthen the competitiveness of its products and services, Sony continues to invest in research and development ("R&D"), particularly in growth areas such as image sensors and the G&NS segment. However, Sony may not be successful in investing in R&D if it fails to identify products, services and market trends with significant growth potential. In addition, Sony's investments may not yield the innovation or the expected results quickly enough, or competitors may lead Sony in technological innovation. This may hinder Sony's ability to commercialize new and competitive products and services.

In the consumer electronics, network services and smartphone businesses, Sony must continually introduce, enhance and stimulate customer demand for products and services. Sales of these products and services are particularly sensitive to the significant weighting of consumer demand to the year-end holiday season. In Sony's G&NS segment, the successful introduction and penetration of gaming platforms, including streaming, is a significant factor driving sales and profitability, and this success is affected by the ability to provide customers with attractive software line-ups and online services. However, there is no assurance that third-party software developers and publishers, major contributors to this effort, will continue to develop and release software. In addition, Sony believes that integrating its hardware, software, entertainment content and network services, and investing in R&D to effect such integration, is essential in generating revenue growth and profitability. However, this strategy depends on its ability to further develop network services technologies, coordinate and prioritize strategic and operational issues among Sony's various business units and sales channels, continually introduce enhanced and competitively priced hardware that is seamlessly connected to network platforms with user interfaces that are innovative and attractive to consumers and also standardize technological and interface specifications industry-wide and across Sony's networked products and business units. In addition, the G&NS, Music and Pictures segments must invest substantial amounts, which may include significant upfront investments, in internally developed software titles, artist advances, catalog acquisitions, motion picture productions, television productions and broadcast programming before knowing whether their products will receive customer acceptance. Furthermore, underperformance of Pictures' products in the initial distribution market is correlated with weak performance in subsequent distribution markets, which would have an adverse effect on Sony's results in the year of initial release as well as future years.

The successful introductions of, and transitions to, new products and services depend on a number of factors, such as the timely and successful completion of development efforts, market acceptance, planning and executing an effective marketing strategy, managing new product introductions, managing production ramp-up issues, the availability of application software for new products, quality control and the concentration of consumer demand in the year-end holiday season. If Sony cannot achieve the expected results from its investment in R&D, adequately manage frequent introductions of new products and services and obtain consumer acceptance of its new products and services, or if Sony is not successful in implementing its integration strategy, Sony's reputation, operating results and financial condition may be adversely impacted.

Sony's strategic initiatives, including acquisitions, joint ventures, investments, capital expenditures and restructurings, may not be successful in achieving their strategic objectives.

Sony actively engages in acquisitions, joint ventures, capital expenditures and other strategic investments to acquire new technologies, efficiently develop new businesses and enhance its business competitiveness. For example, on November 18, 2019, Sony acquired the entirety of the remaining 42% equity interest it did not already own in Game Show Network, LLC ("Game Show Network"), making Game Show Network a wholly-owned subsidiary of Sony.

When making acquisitions, Sony's financial results may be adversely affected by the significant cost of the acquisition and/or integration expenses, failure to achieve synergies, failure to generate expected revenue and cost improvements, loss of key personnel and assumption of liabilities.

When establishing joint ventures and strategic partnerships, Sony's financial and operating results may be adversely affected by strategic or cultural differences with partners, conflicts of interest, failure to achieve synergies, additional funding or debt guarantees required to maintain the joint venture or partnership, requirements to buy out a joint venture partner, sell its shares or dissolve a partnership, insufficient management control including control over cash flow, loss of proprietary technology and know-how, impairment losses and reputational harm from the actions or activities of a joint venture that uses the Sony brand.

Sony invests heavily in production facilities and equipment, including fabrication facilities used to make image sensors for smartphones and other products. Sony may not be able to recover these capital expenditures in part or full or in the planned timeframe due to the competitive environment, lower-than-expected consumer demand or changes in the financial condition or business decisions of Sony's major customers. Sony invested 128.9 billion yen and 265.7 billion yen of capital in the fiscal years ended March 31, 2019 and 2020, respectively, mainly for the purpose of increasing image sensor production capacity.

Further, Sony is implementing restructuring and transformation initiatives to enhance profitability, business autonomy and shareholder value and to clearly position each business within the overall business portfolio. For example, Sony transferred its battery business to Murata Manufacturing Co., Ltd. Group in the fiscal year ended March 31, 2018. However, the expected benefits of these initiatives, including the expected level of profitability, may not be realized due to internal and external impediments or market conditions worsening beyond expectations. If Sony is not successful in achieving its restructuring and transformation initiatives, Sony's operating results, financial condition, reputation, competitiveness or profitability may be adversely affected. Sony incurred restructuring charges in the amount of 22.4 billion yen, 33.1 billion yen and 25.0 billion yen in the fiscal years ended March 31, 2018, 2019 and 2020, respectively.

Sony's sales and profitability may be affected by the operating performance of wholesalers, retailers, other resellers and third-party distributors.

Sony is dependent for the distribution of its products on wholesalers, retailers, other resellers and third-party distributors, many of whom also distribute competitors' products. For example, in some cases, Sony's smartphones sold through cellular network carriers are subsidized by the carriers. There is no assurance that such subsidies will be continued at all or in the same amounts upon renewal of Sony's agreements with these carriers or in agreements Sony enters into with new carriers. In addition, the Pictures segment depends on third parties to theatrically exhibit its motion pictures, and to operate cable, satellite, internet and other distribution systems to distribute its motion pictures and television programming; a decline in the licensing fees received from these third parties may adversely affect the Pictures segment's sales. The Pictures segment's worldwide television networks are also distributed on third-party cable, satellite and other distribution systems and the failure to renew, or renewal on less favorable terms of, television carriage contracts (broadcasting agreements) with these third-party distributors may adversely affect the Pictures segment's ability to generate advertising and subscription sales through these networks.

Sony invests in programs to incentivize wholesalers, retailers, and other resellers and third-party distributors to position and promote Sony's products, but there is no assurance that these programs will provide a significant return or incremental revenue by persuading consumers to buy Sony products instead of competitors' products.

The operating results and financial condition of many wholesalers, retailers, other resellers and third-party distributors have been adversely impacted by competition, especially from online retailers, and weak economic conditions. If their financial condition continues to weaken, they stop distributing Sony's products, or uncertainty regarding demand for Sony's products or other factors cause them to reduce their ordering, marketing, subsidizing, or distributing Sony's products, Sony's operating results and financial condition may be adversely

impacted. For example, starting in the beginning of the 2020 calendar year, the spread of COVID-19 led to the closure of retail stores and other businesses globally which is negatively impacting sales of Sony's products.

As a global company, Sony is subject to a wide range of laws and regulations and a growing consumer focus on corporate social responsibility in many countries. Those laws and regulations, as well as consumer focus, might change in significant ways, leading to an increase in the costs of Sony's operations, a curtailment of Sony's activities, and/or an adverse effect on Sony's reputation.

As a global company, Sony is subject to the laws and regulations of many countries throughout the world that affect its business operations in a number of areas, including advertising, promotions, consumer protection, import and export requirements, anti-corruption, anti-competition, environmental protection, privacy, data protection, content and broadcast regulation, labor, taxation, foreign investment, government procurement, foreign exchange controls, and economic sanctions, as well as laws relating to the collection, use, retention, security and transfer of personally identifiable information.

Compliance with these laws and regulations may be onerous and expensive. These laws and regulations continue to develop and may be inconsistent from jurisdiction to jurisdiction, further increasing the cost of compliance and doing business. Any such developments could occur frequently and without warning, and could make Sony's products or services less attractive to its customers, delay or prohibit introduction of new products or services in one or more regions or cause Sony to change or limit its business practices. For example, imposition of restrictive trade measures in the United States and elsewhere, as well as retaliatory actions against such measures, could result in increased customs duties applicable to Sony's products or increased costs for procuring parts and components, and could limit or prohibit the sales of Sony's products and services to certain of its current or potential customers, which may adversely affect Sony's operating results and financial condition. In addition, changes in laws or regulations or the judicial interpretation thereof that Sony relies on or Sony is subject to in conducting its operations, including online operations, as well as Sony's failure to anticipate such changes, may subject Sony to greater risk of liability, increase the costs of compliance, or limit Sony's ability to engage in or expand certain operations or lead to discontinuance of certain operations.

Violation of applicable laws or regulations by Sony, its employees, third-party suppliers, business partners and agents may subject Sony to fines, penalties, legal judgments, restrictions on business operations and/or reputational damage. Additionally, there is a growing global regulatory and consumer focus on corporate social responsibility and sourcing practices and increasing regulatory obligations of public disclosure regarding these matters. In particular, there is increased attention on labor practices, including work environments at electronic component manufacturers and original design manufacturing/original equipment manufacturing, or ODM/OEM, product manufacturers operating in Asia. Increased regulation or public pressure in this area could cause Sony's compliance costs to increase, particularly since Sony uses many parts, components and materials to manufacture its products and relies on suppliers to provide these parts, components and materials but does not directly control the suppliers' procurement or employment practices. A finding of non-compliance, or the perception that Sony has not responded appropriately to growing consumer concern for such issues, whether or not Sony is legally required to do so, may adversely affect Sony's reputation, operating results and financial condition.

Sony must manage its large volume of and widespread procurement from third-party suppliers and business partners to control inventory levels, availability, costs and quality of parts, components, software and network services within volatile markets.

Sony's products and services rely on a large volume of third-party suppliers and business partners for parts, components, software and network services, including semiconductors, chipsets for PlayStation game consoles and mobile products, LCD (liquid crystal display) panels and the Android OS that is used in mobile products, televisions and services. External suppliers' and partners' shortages, fluctuations in pricing, quality issues, discontinued support, changes in business terms or prioritization of customers outside the electronics sector or of Sony's competitors can adversely affect Sony's operating results, brand and reputation. Reliance on third-party software and technologies may make it increasingly difficult for Sony to differentiate its products from competitors' products. Also, shortages or delayed shipments of critical parts or components may result in a reduction or suspension of production at Sony's or its business partners' manufacturing sites, particularly where Sony is substantially reliant on one supplier, where there is limited production capacity for custom parts or components, or where there are initial manufacturing capacity constraints for products, parts or components that use new technologies.

Sony places orders for parts and components in line with production and inventory plans determined in advance based on its forecast of consumer demand, which is highly volatile and difficult to predict. Inaccurate

forecasts of consumer demand or inadequate business planning can lead to a shortage or excess inventory, which can disrupt production plans and result in lost sales opportunities or inventory adjustments, respectively. Sony writes down the value of its inventory when the underlying parts, components or products have become obsolete, when inventory levels exceed the amount expected to be used, or when the value of the inventory is otherwise recorded at a value higher than net realizable value. Such lost sales opportunities, inventory adjustments, or shortages of parts and components have had and may have an adverse impact on Sony's operating results and financial condition.

Sony's sales, profitability and operations are sensitive to global and regional economic and political trends and conditions.

Sony's sales and profitability are sensitive to economic trends in its major markets. In the fiscal year ended March 31, 2020, 29.9%, 22.6% and 20.6% of Sony's sales and operating revenue were attributable to Japan, the U.S. and Europe, respectively. These markets may be subject to significant economic downturns, resulting in an adverse impact on Sony's operating results and financial condition. An actual or expected deterioration of economic conditions in any of Sony's major markets may result in a decline in consumers' consumption and adverse impacts on the businesses of commercial customers, resulting in reduced demand for Sony's products and services. For example, in the Pictures segment, a general decline in the economy may result in decreased overall spending within the advertising market and a decline in television networks' ability to generate revenues, which could result in lower advertising revenues for Sony's own networks and lower license fees paid by third-party networks for Sony's content, which may adversely affect the Pictures segment's revenues.

In addition, Sony's operations are conducted in many countries and regions around the world, and these international operations, particularly in certain emerging markets, can create challenges. For example, in Sony's electronics businesses and the G&NS segment, production and procurement of products, parts and components in China and other Asian countries and regions increase the time necessary to supply products to other markets worldwide, which can make it more difficult to meet changing customer demand in a timely manner. Further, in certain countries and regions, Sony may encounter difficulty in planning and managing operations due to unfavorable political or economic factors, such as armed conflicts, deterioration in foreign relations, changes in trade policies, non-compliance with expected business conduct and a lack of adequate infrastructure. If international or domestic political and military instability disrupts Sony's business operations or those of its business partners Sony's operating results and financial condition may be adversely affected.

Foreign exchange rate fluctuations can affect Sony's operating results and financial condition.

Sony's operating results and financial condition are sensitive to foreign exchange rate fluctuations because many of Sony's products are sold in countries other than the ones in which they were developed and/or manufactured. For example, within Sony's electronics businesses, research and development and headquarters' overhead costs are incurred mainly in yen, and manufacturing costs, including material costs, costs of procurement of parts and components, and costs of outsourced manufacturing services, are incurred mainly in the U.S. dollar and yen. Sales are dispersed and recorded in Japanese yen, the U.S. dollar, euro, Chinese renminbi, and local currencies of other areas, including emerging markets. Consequently, foreign exchange rate fluctuations have had and may have an adverse impact on Sony's operating results, especially when the yen or the euro weaken significantly against the U.S. dollar, when the yen strengthens significantly against the euro, or when the U.S. dollar strengthens against emerging market currencies. Sony's operating results may also be adversely impacted by foreign exchange rate fluctuations since Sony's consolidated statements of income are prepared by translating the local currency denominated operating results of its subsidiaries around the world into yen. Furthermore, as Sony's businesses have expanded in China and other areas, including emerging markets, the impact of fluctuations of foreign currency exchange rates in these areas against the U.S. dollar and yen has increased. 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 while maintaining profitability.

Although Sony seeks to reduce its exposure to foreign exchange risk by hedging a portion of its net short-term foreign currency exposure shortly before the transactions occur, such hedging activity may not offset any, or only a portion, of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place.

Moreover, since Sony's consolidated balance sheet is prepared by translating the local currency denominated assets and liabilities of its subsidiaries around the world into yen, Sony's equity capital may be adversely impacted when the yen strengthens significantly against the U.S. dollar, the euro and/or other foreign currencies.

Ratings downgrades or significant volatility and disruption in the global financial markets may adversely affect the availability and cost of Sony's funding.

Sony's credit ratings may be adversely impacted by unfavorable operating results and a decline in its financial condition. Any credit rating downgrades may, in turn, result in an increase in Sony's cost of funding and may have an adverse impact on Sony's ability to access commercial paper or mid- to long-term debt markets on acceptable terms.

Additionally, global financial markets may experience significant levels of volatility and disruption, generally putting downward pressure on financial and other asset prices and impacting credit availability. Historically, Sony's primary sources of funds have been cash flows from operations, the issuance of commercial paper and other debt securities, such as term debt, as well as borrowings from banks and other institutional lenders. There can be no assurance that such sources will continue to be available on acceptable terms or be sufficient to meet Sony's needs.

As a result, Sony may seek other sources of financing to fund operations, such as the draw-down of funds from contractually committed lines of credit from financial institutions or the sale of assets, in order to repay commercial paper and mid- to long-term debt as they become due, and to meet other operational and liquidity needs. However, such funding sources may also not be available at acceptable terms or be sufficient to meet Sony's requirements. As a result, Sony's operating results, financial condition and liquidity may be adversely affected.

Sony's success depends on the ability to recruit, retain and maintain productive relations with highly skilled personnel.

In order to continue to develop, design, manufacture, market, and sell products and services, in increasingly competitive markets, Sony must attract, retain and maintain productive relations with key personnel, both internally and externally, including its executive team, other management professionals, creative talent and other highly skilled employees such as hardware and software engineers. However, such key personnel are in high demand. In addition, business divestitures, restructuring or other transformation initiatives may lead to an unintended loss of experienced human resources or know-how. Actual or threatened work slowdowns or stoppages related to unionized workers, particularly in the entertainment businesses, could lead to delayed releases or cost increases. If these incidents occur or if Sony is unable to attract, retain and maintain productive relations with its highly skilled employees and key management professionals, Sony's operating results and financial condition may be adversely affected.

Sony's intellectual property might be subject to unauthorized use or theft and it might encounter restrictions in its use of intellectual property owned by third parties.

Sony's intellectual property relating to Sony's products and services, including those of the electronics businesses, such as image sensors, might be subject to unauthorized use or theft. For example, digital technology, the availability of digital media, and global internet penetration impact Sony's ability to protect its copyrighted content from unauthorized duplication, digital theft and counterfeiting, putting pressure on legitimate product sales. Sony has incurred and will continue to incur expenses to help protect its intellectual property rights; however, Sony's various initiatives to prevent such unauthorized use or theft of intellectual property might not achieve their intended result, which could adversely affect Sony's competitive position and the value of its investment in R&D. Additionally, Sony's intellectual property rights may be challenged or invalidated, or such intellectual property rights may not be sufficient to provide Sony with competitive advantages.

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

Claims have been and may be asserted against Sony that its products or services, including third-party parts, components, software and network services used in Sony's products or services, infringe the intellectual property rights of other parties. Such claims may be asserted by competitors or by other rights holders, particularly as products and services evolve to include new technologies and enhanced functionality. Such claims might require Sony to enter into settlement or license agreements, pay significant damage awards, face an injunction or refrain from marketing, selling or distributing certain of its products and services.

The failure to prevent unauthorized use or theft of Sony's intellectual property rights, the failure to enter into licenses for necessary third-party intellectual property rights, the invalidation of Sony's intellectual property rights or the settlement of an infringement claim against Sony by others may adversely impact Sony's reputation, operating results and financial condition.

Changes in consumer behavior resulting from new technologies and distribution platforms, as well as increasing concentration of digital music distributors and creation of content by distributors themselves, may adversely affect operating results in Sony's Music and Pictures segments.

Technology, particularly digital technology, used in the Music and Pictures segments continues to evolve, rapidly leading to alternative methods for the delivery, consumption and storage of digital content. These technological advancements have changed consumer behavior and empowered consumers to seek more control over when, where and how they consume digital content.

The prevalence of enhanced internet capabilities and other new media may continue to reduce the demand for packaged physical media and impact traditional television and in-theater motion picture viewership, which could negatively affect revenues from Sony's Pictures segment.

Furthermore, as more music and video content is consumed over digital streaming networks, digital music distributors are becoming increasingly concentrated, which may decrease competition for Sony's music content and adversely affect its pricing. In addition, digital music and video distributors may increase the amount of content they create for their own services, which may reduce the demand for content created or produced by Sony's entertainment businesses. If Sony is unable to adequately respond to these changes or fails to effectively adapt to new market changes, Sony's operating results and financial condition may be adversely impacted.

Changes in the regulation and performance of financial markets may adversely affect the operating results and financial condition of Sony's Financial Services segment.

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 may lead to increased compliance costs or limitations on operations in the Financial Services segment. In addition, Sony Corporation's ability to receive funds from its affiliate Sony Financial Holdings Inc. in the form of financial support or loans is restricted by guidelines issued by regulatory agencies in Japan.

Changes in interest rates, foreign exchange rates and the value of Japanese government and corporate bonds, U.S. treasury bonds, equities, real estate and other asset classes may have an adverse effect on the operating results and financial condition of the Financial Services segment. For example, the life insurance business has invested most of its general account assets in ultra-long-term Japanese government and corporate bonds, as well as ultra-long-term U.S. treasury bonds, to match the liability characteristics of the long-term maturity insurance policies it has underwritten. The life insurance business has guaranteed yields on outstanding policies while its investment portfolio could be reduced by the market changes discussed above. The banking businesses have invested most of their total loan balance, or over half of their total assets, in their mortgage loans account. An increase in non-performing loans or a decline in prices of the real estate collateral from the market changes discussed above or deterioration of credit quality may have an adverse effect on operating results and financial condition through an increase in the allowance for doubtful accounts.

The market changes discussed above, Sony's management of these changes or the occurrence of earthquakes, pandemic disease or other catastrophic events in Japan could expose the life and non-life insurance businesses to increasing costs or adverse impact on their ability to meet policy commitments.

The insurance businesses' policy reserves and deferred insurance acquisition costs are calculated based on many actuarial assumptions that are uncertain. Significant differences between these actuarial assumptions and actual situations may result in additional policy reserves being recorded and the accelerated amortization of deferred acquisition costs, through the changes of calculation assumptions. In particular, the insurance businesses calculate policy reserves and deferred insurance acquisition costs based on the actuarial assumptions, assuming the future schedule of insurance premium revenue, yield of investments, claims to be paid for occurrence of insured events and other factors. The review of these actuarial assumptions is required at least once in each fiscal year.

Sony's facilities and operations are subject to damage and disruption as a result of catastrophic disasters, outages or similar events that could lead to supply chain, manufacturing and other business disruptions and have an adverse impact on Sony's operating results.

Sony's headquarters and many of Sony's most advanced device manufacturing facilities, including those for semiconductors, are located in Japan, where the risk of earthquakes is relatively high. A major earthquake in Japan, especially in Tokyo, the Tokai area or the Kyushu and Tohoku areas, where Sony headquarters, certain product manufacturing sites and semiconductor manufacturing sites, respectively, are located, could cause substantial damage to Sony's business operations, including damage to buildings, machinery, equipment and inventories, and the interruption of production at manufacturing facilities. For example, the earthquake of April 14, 2016 and subsequent earthquakes in the Kumamoto region in Japan caused damage to a semiconductor manufacturing site in Kyushu, which interrupted production at the site.

In addition, offices and facilities used by Sony, its suppliers, service providers and business partners, including those used for raw materials, parts, components, network, telecommunications and information systems infrastructure, R&D, material procurement, manufacturing, motion picture and television production, logistics, sales, and online and other services are located throughout the world and are subject to possible destruction, temporary stoppage or disruption as a result of unexpected catastrophic events such as natural disasters, pandemic diseases, terrorist attacks, large-scale power outages and large-scale fires. If any of these facilities or offices were to experience a significant loss as a result of any of the above events, it may disrupt Sony's operations, delay design, development or production, interrupt shipments and postpone the recording of sales, and/or result in large expenses to repair or replace these facilities or offices. For example, starting in the beginning of the 2020 calendar year, production delays for a portion of Sony's products occurred due to temporary shutdowns and reduced operations at in-house manufacturing plants, factories to which Sony outsources and at Sony's third-party suppliers, as a result of the spread of COVID-19. Sony may also be exposed to price increases for raw materials, parts and components, and lower demand from commercial customers. These situations may have an adverse impact on Sony's operating results and financial condition.

Sony's brand image, reputation and business may be harmed and Sony may be subject to legal claims if there is a breach or other compromise of Sony's information security or that of its third-party service providers or business partners.

Sony, its third-party service providers, suppliers and other business partners make extensive use of information technology to support business operations, and to provide network and online services to customers. These operations and services, as well as Sony's business information, may be intentionally or inadvertently compromised by malicious third parties, including state-sponsored organizations, criminal organizations, Sony employees, third-party service providers or other business partners. Such organizations or individuals may use a variety and combination of techniques, such as installing malicious software, exploiting vulnerabilities in information technology, using social engineering to mislead employees and business partners into disclosing passwords and sensitive information, and coordinating distributed denial-of-service attacks to render services unavailable. As cyber-attacks become increasingly sophisticated and automated, and as tools and resources become more readily available, there can be no guarantee that Sony's actions, security measures and controls designed to prevent, detect or respond to intrusion, to limit access to data, to prevent loss, destruction, alteration, or exfiltration of business information, or to limit the negative impact from such attacks can provide absolute security against compromise. As a result, Sony's business information, including personal information, may be lost, destroyed, disclosed, misappropriated, altered, or accessed without consent, and Sony's information technology systems or operations, or those of its service providers or other business partners, may be disrupted. Malicious adversaries may also use unauthorized access to Sony's networks as a platform to compromise Sony's third-party business partners without Sony's knowledge. Sony has previously been the subject of sophisticated and targeted attacks. For example, in the fiscal year ended March 31, 2015, Sony's Pictures segment was subject to a cyber-attack that resulted in unauthorized access to, and theft and disclosure of, Sony business information, including employee information and other information, and the destruction of data. Additionally, Sony's network services, online game businesses and websites have been subject to cyber-attacks by groups and individuals with a range of motives and expertise, resulting in unauthorized access, denial of service, and the theft and/or disclosure of customer information.

Any of the above incidents can result in significant remediation costs. In addition, a disruption to Sony's network and online services, information technology, or other compromise of its information security may have serious consequences to its business and operations, including lost revenues, damage to relationships with business partners and other third parties, disclosure, alteration, destruction or use of proprietary information and the failure to retain or attract customers. Moreover, such disruptions and breaches may result in a diversion of

management's attention and resources. Further, it may result in adverse media coverage, which may harm Sony's brand image and reputation. Sony may also be subject to legal claims or legal proceedings, including regulatory investigations and actions. Sony's cyber insurance may not cover all expenses and losses and, accordingly, such breaches or other compromises of Sony's information security or that of its third-party service providers or business partners may have an adverse impact on Sony's operating results and financial condition.

Sony's business may suffer as a result of adverse outcomes of litigation and regulatory actions.

Sony faces the risk of litigation and regulatory actions in different countries in connection with its operations. Legal proceedings, including regulatory actions, may seek to recover very large indeterminate amounts or to limit Sony's operations, and the possibility that they may arise and their magnitude may remain unknown for substantial periods of time. For example, legal proceedings, including regulatory actions, may result from antitrust scrutiny of market practices for anti-competitive conduct. A substantial legal liability or adverse regulatory outcome and the substantial cost to defend the litigation or regulatory actions may have an adverse effect on Sony's reputation, operating results and financial condition.

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

Sony's products and services, such as consumer products, non-consumer products, parts and components, semiconductors, software and network services are becoming increasingly sophisticated and complicated as rapid advancements in technologies occur and as demand increases for mobile products and online services. Also, many Sony products are connected to the internet, and regularly communicate with services provided by Sony or third parties.

Sony's efforts to adapt to rapid advancements in technologies and increased demand for mobile products and online services, while also maintaining product quality and product security, may not be successful and may increase exposure to product liability. As a result, Sony may incur both reputational damages and expenses in connection with, for example, product recalls and after-sales services. In addition, Sony may not be successful in introducing after-sales upgrades, enhancements or new features to existing products and services, or in enabling existing products and services to continue to conveniently and effectively integrate with other technologies and online services. Moreover, cyber-attacks targeting internet-connected products have increased significantly. For example, customer information and Sony or third-party technical information may be misappropriated, the functionality of Sony's products and services may be impaired, or Sony products may be used in denial-of-service attacks. There can be no guarantee that Sony's security measures will prevent products from being compromised.

As a result, the quality of Sony's existing products and services may not remain satisfactory to consumers and become less marketable, less competitive or obsolete, and Sony's reputation, operating results and financial condition may be adversely affected. Moreover, allegations of security vulnerability, health and safety issues related to Sony products, or lawsuits related to product quality, health issues arising from products or product safety, regardless of merit, may adversely impact Sony's operating results and financial condition, either directly or as a result of the impact on Sony's brand image and reputation as a producer of high-quality products and services. These issues are relevant to Sony products sold directly to customers, whether manufactured by Sony or a third party, and also to products of other companies that are equipped with Sony's components, such as semiconductors.

Sony's financial results and condition may be adversely affected by its employee benefit obligations.

Sony recognizes an unfunded pension obligation for its defined benefit pension plans based on (i) the Projected Benefit Obligation ("PBO") under each pension plan less (ii) the fair value of the pension plan's assets, in accordance with the accounting guidance for defined benefit plans. Any decrease of the pension plan asset value or increases in the PBO due to a lower discount rate and changes in certain other actuarial assumptions may increase the unfunded pension obligations and may have an adverse effect on Sony's financial results and condition.

Also, Sony's financial results and condition could be adversely affected by future pension funding requirements pursuant to the Japanese Defined Benefit Corporate Pension Plan Act ("Act"). Under the Act, Sony is required to conduct a periodic actuarial revaluation and to ascertain whether certain financial criteria have been met after the annual accounting closing. In the event that the fair value of pension plan assets falls below the actuarial reserve required by law and the shortfall may not be recovered within a certain moratorium period permitted by laws and/or special legislative decree, Sony may be required to make an additional contribution to

its plans, which may reduce cash flows. Similarly, if Sony is required to make an additional contribution to a foreign plan to meet any funding requirements in accordance with local laws and regulations in each country, Sony's cash flows might be adversely affected. If Sony is required to increase cash contributions to its pension plans when actuarial assumptions, such as an expected long-term rate of return of the pension plan assets, are updated for purposes of determining statutory contributions, it may have an adverse impact on Sony's cash flows.

Further losses in jurisdictions where Sony has established valuation allowances against deferred tax assets, the inability of Sony to fully utilize its deferred tax assets, limitations on the use of its deferred tax assets under local law, exposure to additional tax liabilities or changes in Sony's tax rates could adversely affect Sony's operating results and financial condition.

Sony is subject to income taxes in Japan and numerous other jurisdictions, and in the ordinary course of its business there are many situations where the ultimate tax determination can be uncertain, because of the transfer pricing for its intercompany transactions, and because Sony is subject to continuous review by tax authorities of numerous jurisdictions. The calculation of Sony's tax provision and the carrying value of tax assets, including net operating loss carryforwards and tax credit carryforwards, require significant judgment and the use of estimates, including estimates of future taxable income. As additional evidence becomes available, Sony reassesses these assets to determine if they remain appropriate or whether a reduction by a valuation allowance is appropriate. As of March 31, 2020, total established valuation allowances were 608.2 billion yen. An increase in a valuation allowance may have an adverse impact on Sony's operating results and financial condition.

Deferred tax assets are evaluated on a jurisdiction by jurisdiction basis. As of March 31, 2020, Sony and/or its subsidiaries had valuation allowances principally in Japan and the U.S. Additionally, deferred tax assets could expire unused or otherwise not be realizable for a variety of reasons including the lack of sufficient taxable income in the appropriate jurisdiction. Sony's operating results and financial condition could be adversely affected when the deferred tax assets expire unused.

In some jurisdictions, the use of net operating loss carryforwards or tax credits to reduce taxable income in a subsequent period is limited to a fixed percentage of taxable income or may only be used to offset taxes on income from certain sources. Thus, it is possible that even with significant net operating loss carryforwards or tax credits, Sony could record and pay taxes in a jurisdiction where it has taxable income.

In addition to the above, Sony's future effective tax rates may be unfavorably affected by changes in both the statutory rates and the mix of earnings in countries with differing statutory rates or by other factors such as changes in tax laws and regulations or their interpretation, including limitations or restrictions on various tax deductions and credits, including deductions for royalties and interest. For example, compliance with the U.S. Tax Cuts and Jobs Act of 2017 (the "U.S. Tax Reform Act") may require the use of estimates in Sony's financial statements, and the exercise of significant judgment in accounting for its provisions. As regulations and guidance evolve with respect to the U.S. Tax Reform Act, Sony may make adjustments to amounts that have been previously recorded that may materially affect Sony's operating results and financial condition.

Sony could incur asset impairment charges for goodwill, intangible assets or other long-lived assets.

Sony has a significant amount of goodwill, intangible assets and other long-lived assets, including production facilities and equipment in its electronics businesses. A decline in financial performance, market capitalization, reduced estimates of future cash flows, changes in global economic conditions or changes in estimates and assumptions used in the impairment analysis, which in many cases requires significant judgment, could result in impairment charges against these assets. Goodwill and indefinite lived intangible assets are tested annually for impairment during the fourth quarter of the fiscal year and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value below the carrying amount. Such an event or change in circumstances would include unfavorable variances from or adjustments to established business plans, significant changes in forecasted results or volatility inherent to external markets and industries. The increased levels of global competition and the faster pace of technological change to which Sony is exposed can result in greater volatility of these estimates, assumptions and judgments, and increase the likelihood of impairment charges. In addition, the recoverability of the carrying value of long-lived assets held and used and long-lived assets to be disposed of is reviewed whenever events or changes in circumstances, including the types of events or changes described above with respect to goodwill and intangible assets, indicate that the carrying value of the assets or asset groups may not be recoverable. If the carrying value of the asset or asset group is considered impaired, an impairment charge is recorded for the amount by which the carrying value of the asset or asset group exceeds its fair value. For example, Sony recorded an impairment loss of 31.3 billion yen, 19.2 billion yen and 12.7 billion yen for the fiscal years ended March 31, 2018, 2019 and 2020, respectively,

against long-lived assets in the EP&S segment, related to the smartphone business asset group, as well as an impairment loss of 12.9 billion yen for the fiscal year ended March 31, 2019, against long-lived assets and goodwill in the All Other segment, related to the storage media business asset group. Any such charge may adversely affect Sony's operating results and financial condition.

Holders of American Depositary Shares 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 Corporation is incorporated in Japan with limited liability. A majority of Sony's directors and corporate executive officers are non-U.S. residents, and a substantial portion of the assets of Sony Corporation and the assets of Sony's directors and corporate executive officers are located outside the U.S. As a result, it may be more difficult for investors to enforce against Sony Corporation or such persons, judgments obtained in U.S. courts predicated upon civil liability provisions of the federal and state securities laws of the U.S. or similar judgments obtained in other courts outside Japan. There is doubt as to the enforceability in Japanese courts, in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated solely upon the federal and state securities laws of the U.S.

Prior notification under the Foreign Exchange and Foreign Trade Act of Japan may be required in the case of an acquisition by a foreign investor of a certain portion of our shares.

Because Sony is engaged in certain businesses designated by the Foreign Exchange and Foreign Trade Act of Japan and its related cabinet orders and ministerial ordinances (collectively, the "Foreign Exchange Regulations"), if a foreign investor intends to consummate an acquisition of shares of common stock of Sony Corporation and that acquisition constitutes an "inward direct investment" under the Foreign Exchange Regulations, the foreign investor, subject to certain exemptions, must file a prior notification of such inward direct investment with the Minister of Finance and any other competent Ministers. An amendment to the Foreign Exchange Regulations came into effect on May 8, 2020 (the "Amendment") and the Amendment was fully implemented on June 7, 2020. Under the Amendment, an "inward direct investment" includes an acquisition by a foreign investor of shares of common stock of Sony Corporation, the consummation of which results in such foreign investor, in combination with any existing shareholding, directly or indirectly holding 1% or more (lowered from 10% by the Amendment) of the total number of issued shares of common stock or the total number of voting rights of Sony Corporation. The Amendment also introduced certain exemptions from the prior notification requirements.

If such prior notification is filed, the proposed acquisition may not be consummated until the prescribed screening period expires. In some cases, the Ministers may extend the screening period, and may recommend or order any modification or the abandonment of such acquisition. In addition, if certain conditions - including those prescribed in light of national security of Japan - under the Foreign Exchange Regulations are met, the Ministers may order the foreign investor to divest the shares acquired or take other measures. Consequently, any proposed acquisition by a foreign investor of shares of common stock of Sony Corporation that constitutes an "inward direct investment" may not be consummated in an expected time frame in accordance with an intended plan, or at all.

Additionally, after the implementation of the Amendment, if a foreign investor directly or indirectly holds 1% or more of the total voting rights of Sony Corporation and, at a general meeting of shareholders, consents to certain proposals having a material influence on the management of Sony Corporation such as the (i) election of such foreign investor or any of its related persons (as defined in the Foreign Exchange Regulations) as a director of Sony Corporation or (ii) transfer or discontinuation of its business, such consent, subject to certain exemptions, also constitutes an "inward direct investment" requiring prior notification. If such prior notification is filed, such consent cannot be given until the prescribed screening period expires. As a result, such foreign investors may have difficulties giving such consent in accordance with an intended plan, or at all.