

## News & Information

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### *Subsidiary Tracking Stock*

*Sony Communication Network Corporation*

*Financial Results: First Quarter ended June 30, 2003*



Sony Communication Network Corporation (hereinafter, the "SCN Group"), a subsidiary the performance of which is linked to a tracking stock issued by Sony Corporation, announced today its consolidated results for the first quarter ended June 30, 2003 (the period from April 1, 2003 to June 30, 2003).

These results are based on the generally accepted accounting standards of Japan.

- ***Operating Loss Due to Increased Broadband Customer Acquisition Costs***

Sales were 9,323 million yen. Operating loss of 276 million yen, ordinary loss of 302 million yen, and a net loss of 229 million yen were recorded.

- ***So-net Subscribers Total 2.29 million***

Although this was an increase of 20,000 over the year earlier period, it was a decrease of 10,000 from the end of the previous fiscal year. While broadband subscribers increased 70.1% to 460,000 from 270,000 at the end of the year earlier period, narrowband subscribers decreased. As a result, the total of 2.29 million So-net subscribers was an increase of only 20,000 over the year earlier period.

- ***Update to Fiscal Year 2003 Forecast (refer to p. 9)***

Regarding the Forecast of Consolidated Results for the year ending March 31, 2004, the forecast announced on April 23 has been revised. The SCN Group now expects sales of 40,000 million yen, an operating loss of 1,500 million yen, an ordinary loss of 1,700 million yen, and a net loss of 1,200 million yen.

### Consolidated Results for the Three-months ended June 30, 2003

	(Millions of Yen)		
	Three-months ended June 30		
	2002	2003	Change (%)
Sales	¥ 9,656	¥ 9,323	(3.4)
Operating income (loss)	191	(276)	—
Ordinary income (loss)	122	(302)	—
Net income (loss)	(80)	(229)	—

## Summary of Consolidated Operations

During the three-months ended June 30, 2003, the Japanese economy was at a near standstill, in an environment of anxiety over deep-rooted deflation.

In this economic situation, in the area of those Internet sectors that are connected with the SCN Group, the number of broadband, dedicated-line users of cable modems, FTTH, and ADSL in particular passed 10 million as of the end of June. (Data according to the Ministry of Public Management, Home Affairs, Posts and Telecommunications.)

In this business environment, the SCN Group made efforts to acquire subscribers by strengthening its various free-time campaigns, for ADSL and FTTH, as well as by enriching its service line-up from the second half of the previous fiscal year. As a result, the number of broadband subscribers reached 460,000, an increase of 190,000 from the year earlier period, although the increase in total So-net subscribers since the year earlier period was only 20,000, to a total of 2.29 million.

As a result, sales for the SCN Group for the quarter ended June 30, 2003 decreased 3.4% from the year earlier period to 9,323 million yen. Sales were impacted by factors including price reductions from January of this year and the rolling out of free-time campaigns.

Regarding profitability, communication line usage costs decrease compared to the year earlier period resulting from pushing costs down by the SCN group through actions such as optimizing the number of ports for access points. However, although the SCN Group worked to carry out structural improvements such as reducing costs by improving operation efficiency, it was unable to offset factors such as the impact of cost increases related to subscriber acquisition and price reductions, as well as increases in production costs for broadband content. Thus, the SCN Group recorded an operating loss of 276 million yen, compared with an operating income of 191 million yen in the year earlier period. Also, equity losses of 20 million yen were recorded, which resulted in an ordinary loss of 302 million yen, compared with an ordinary income of 122 million yen in the year earlier period. With an increase in deferred tax assets, net loss for the period under review was 229 million yen, compared with a loss of 80 million yen in the year earlier period.

## **Sales by Category**

The three-months ended June 30, 2003

		Three-months ended June 30, 2002 (millions of yen)	Percentage of total (%)	Three-months ended June 30, 2003 (millions of yen)	Percentage of total (%)	Year-on-year change (%)
Operating revenue	Internet provider services	8,117	84.1	<b>7,814</b>	83.8	(3.7)
	Internet-related services	1,150	11.9	<b>1,308</b>	14.0	13.7
Merchandise sales		389	4.0	<b>201</b>	2.2	(48.4)
Total		9,656	100.0	<b>9,323</b>	100.0	(3.4)

### **«Operating revenue»**

#### ISP services

In this category, the SCN Group recognizes that as the availability of broadband, dedicated line connections expands, changeover from narrowband to broadband is being stimulated by increased market penetration.

In order to respond to subscriber needs, the SCN Group lowered usage fees including connection prices for FTTH, from January of this year and reduced connection prices for FTTH, newly released

the “So-net ADSL 1M” course with moderate fees, as a strong action to acquire new subscribers. Based on these steps, the number of broadband subscribers increased, although the total number of So-net subscribers saw an actual decline.

As a result, sales of ISP services for the quarter ended June 30, 2003 were 7,814 million yen, a decrease of 3.7% compared with the year earlier period. Such sales accounted for 83.8% of total sales.

#### Internet-related services

In this category, the SCN Group strived to offer contents aimed at the spread of dedicated-line broadband, including the production of video programming such as the So-net Channel and So-net TV, as well as sales of expansion packages for the online game EverQuest.

Furthermore, sales of consolidated subsidiaries that are included in this category smoothly increased. As a result, sales in this category for the quarter ended June 30, 2003 were 1,308 million yen, an increase of 13.7% compared with the year earlier period. Sales in this category accounted for 14.0% of total sales.

#### **<<Merchandise sales>>**

In this category, although there were contributions from sales of “PostPet V.3” e-mail pet software and broadband AV routers, sales were impacted by decreased sales of PlayStation 2 broadband units. As a result, sales in this category for the quarter ended June 30, 2003 were 201 million yen, a decrease of 48.4% compared with the year earlier period. Such sales accounted for 2.2% of total sales.

### **Results of Consolidated Subsidiaries and of Affiliated Companies Accounted for by the Equity Method**

The SCN Group includes the following four consolidated subsidiaries: So-net Sports.com Corp., So-net M3 Inc., Skygate, Co., Ltd., and Drivegate Inc., and two affiliated companies accounted for by the equity method: Label Gate Co., Ltd. and DeNA Co., Ltd. Regarding Drivegate Inc., the SCN Group has completed the wrapping up or transfer to other companies of a majority of its business.

Overall, during the quarter under review, equity losses of 20 million yen were recorded compared with 88 million yen in the year earlier period. Among these companies, DeNA Co., Ltd. progressed well, including increasing the number of goods it offers for auction.

## Cash Flow

Cash and cash equivalents decreased 1,256 million yen from the end of the previous period, to 2,128 million yen at June 30, 2003, which was a decrease of 1,995 million yen compared with the end of the year earlier period. During the quarter under review, the SCN Group used 403 million yen of cash in operating activities, used 553 million yen of cash in investing activities, and used 300 million yen of cash in financing activities.

### <Cash flow from operating activities>

During the quarter ended June 30, 2003, regarding cash flows from operating activities, the SCN Group used 403 million yen, while during the quarter ended June 30, 2002, the SCN Group generated 65 million yen. This was mainly due to the recording of net loss before income taxes of 303 million yen during the period under review, compared with net income before income taxes of 122 million yen in the year earlier period. Also, included in the net loss before income taxes during the period under review was depreciation of 191 million yen and amortization for goodwill of 78 million yen.

### <Cash flow from investing activities>

During the quarter ended June 30, 2003, regarding cash flows from investing activities, the SCN Group used 553 million yen, while during the quarter ended June 30, 2002, the SCN Group used 143 million yen. Factors influencing cash flows from investing activities during the quarter under review included outlays of 204 million yen for acquisition of intangible assets such as connection services and e-commerce related systems as well as homepage development, compared with outlays of 151 million yen in the year earlier period; outlays of 144 million yen for loans to affiliated companies, compared with 73 million yen in the year earlier period; and payments for long term prepaid expenses of 193 million yen.

### <Cash flow from financing activities>

During the quarter ended June 30, 2003, regarding cash flows from financing activities, the SCN Group used 300 million yen, while during the quarter ended June 30, 2002, the SCN Group used 440 million yen. During the quarter under review, this reflected the repayment of long-term debt to Sony Corp.

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## Condensed Consolidated Statements of Income (Unaudited)

**For the three-months ended June 30, 2003**

	<b>(Millions of yen)</b>		
	<b>Three-months ended June 30</b>		
	<b>2002</b>	<b>2003</b>	<b>Change</b>
Sales	9,656	<b>9,323</b>	(3.4%)
Cost of sales	<u>5,698</u>	<u><b>5,772</b></u>	
Gross profit	3,958	<b>3,551</b>	
Selling, general and administrative expenses	<u>3,767</u>	<u><b>3,827</b></u>	
Operating income (loss)	191	<b>(276)</b>	—%
Non-operating income	30	<b>36</b>	
Non-operating expenses			
Equity in net loss of affiliated companies	88	<b>20</b>	
Other	10	<b>42</b>	
	<u>99</u>	<u><b>62</b></u>	
Ordinary income (loss)	122	<b>(302)</b>	—%
Extraordinary loss			
Loss on issuance of stock by equity investee	—	<b>1</b>	
Net income (loss) before income taxes	<u>122</u>	<u><b>(303)</b></u>	—%
Income tax current	4	<b>(18)</b>	
Income tax deferred	<u>220</u>	<u><b>(63)</b></u>	
Minority interest income	—	<b>6</b>	
Minority interest loss	<u>22</u>	<u>—</u>	
Net income (loss)	<u>(80)</u>	<u><b>(229)</b></u>	—%

## Condensed Consolidated Balance Sheets

(Millions of yen)

	June 30 2002	March 31 2003	June 30 2003
<b>ASSETS</b>			
Current assets	<u>8,965</u>	<u>8,594</u>	<u>7,343</u>
Cash and bank deposit	415	517	509
Notes and account receivable, trade	4,144	3,803	3,671
Inventories	77	278	206
Deposits in parent company	3,708	—	—
Deposits in Sony group company	—	2,867	1,619
Other	652	1,176	1,374
Allowance for bad debt	(30)	(47)	(36)
Noncurrent assets	<u>4,773</u>	<u>5,458</u>	<u>5,628</u>
Property, plant and equipment	<u>423</u>	<u>349</u>	<u>332</u>
Intangible assets	<u>2,789</u>	<u>2,465</u>	<u>2,454</u>
Software	1,079	1,141	1,202
Goodwill	1,337	1,104	1,026
Other	373	220	225
Investment and other assets	<u>1,561</u>	<u>2,644</u>	<u>2,843</u>
Investment in affiliates and others	786	1,618	1,637
Other	774	1,025	1,205
Total assets	<u>13,738</u>	<u>14,051</u>	<u>12,972</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities	<u>5,411</u>	<u>5,880</u>	<u>5,012</u>
Account payable, trade	2,114	2,428	2,287
Current portion of long-term borrowing from parent company	1,200	800	500
Accrued expense	1,727	1,889	1,772
Other	369	763	453
Long-term liabilities	<u>574</u>	<u>94</u>	<u>103</u>
Long-term borrowing from parent company	500	—	—
Other	74	94	103
Total liabilities	<u>5,985</u>	<u>5,974</u>	<u>5,116</u>
Minority interest	<u>(236)</u>	<u>33</u>	<u>40</u>
Common stock	5,246	5,246	5,246
Additional paid-in capital	4,765	4,765	4,765
Retained earnings (accumulated losses)	(2,025)	(1,961)	(2,190)
Unrealized exchange gains (losses) of investment securities	3	(6)	(5)
Total stockholders' equity	<u>7,989</u>	<u>8,044</u>	<u>7,816</u>
Total liabilities and stockholders' equity	<u>13,738</u>	<u>14,051</u>	<u>12,972</u>

## Consolidated Statements of Cash Flow (Unaudited)

	<u>(Millions of yen)</u>	
	<b>Three-months ended June 30</b>	
	<u>2002</u>	<u>2003</u>
I. Cash flows from operating activities		
Net income (loss) before income taxes	122	<b>(303)</b>
Depreciation and amortization	202	<b>191</b>
Amortization for goodwill	78	<b>78</b>
Equity in net losses of affiliated companies	88	<b>20</b>
Loss on issuance of stock by equity investee	—	<b>1</b>
Decrease in accrued bonuses	(184)	<b>(165)</b>
Increase in accrued severance costs for employees	6	<b>5</b>
Increase in accrued severance indemnities for directors	1	<b>4</b>
Increase (decrease) in allowance for bad debt	2	<b>(11)</b>
Interest and dividend income	(1)	<b>(1)</b>
Interest expenses	2	<b>1</b>
Loss on disposal of tangible fixed assets	6	<b>8</b>
(Increase) decrease in account receivable, trade	(157)	<b>131</b>
(Increase) decrease in inventories	(13)	<b>72</b>
Increase in other current assets	(135)	<b>(25)</b>
Increase (decrease) in accounts payable, trade	146	<b>(140)</b>
Increase (decrease) in accrued expenses	14	<b>(117)</b>
Increase (decrease) in other current liabilities	16	<b>(23)</b>
Sub Total	<u>194</u>	<u><b>(276)</b></u>
Receipt of interest	1	<b>1</b>
Payments for interest	(2)	<b>(1)</b>
Payments for income taxes	(128)	<b>(127)</b>
Net cash provided by (used in) operating activities	<u>65</u>	<u><b>(403)</b></u>
II. Cash flows from investing activities		
Payment for acquisition of fixed assets	(17)	<b>(14)</b>
Proceeds from sales of fixed assets	6	—
Payment for acquisition of intangible assets	(151)	<b>(204)</b>
Proceeds from sales of intangible assets	20	—
Proceeds from deposits	42	<b>1</b>
Payments for long-term prepaid expenses	—	<b>(193)</b>
Net cash increase resulting from acquiring subsidiary	30	—
Payments for loan	(73)	<b>(144)</b>
Net cash used in investing activities	<u>(143)</u>	<u><b>(553)</b></u>

	<u>(Millions of yen)</u>	
	<b>Three-months ended June 30</b>	
	<u>2002</u>	<u>2003</u>
III. Cash flows from financing activities		
Decrease in short-term borrowing	(140)	—
Payments of long term debt	(300)	<b>(300)</b>
Net cash used in financing activities	<u>(440)</u>	<u>(300)</u>
IV. Effect of exchange rate difference on cash and cash equivalents	—	—
V. Decrease in cash and cash equivalents	(518)	<b>(1,256)</b>
VI. Cash and cash equivalents at beginning of year	<u>4,641</u>	<u><b>3,384</b></u>
VII. Cash and cash equivalents at end of the period	<u>4,123</u>	<u><b>2,128</b></u>

(Notes)

1. As of June 30, 2003, there were 4 consolidated subsidiaries, and 2 affiliated companies accounted for by the equity method.
2. Consolidated financial statements of the SCN Group are based on the standards conforming with the Generally Accepted Accounting Principles in Japan.
3. SCN and part of consolidated subsidiaries are included in the consolidated tax return system of Sony Corporation.
4. Cash and cash equivalents include cash and bank deposit and deposits in parent company or Sony group company.

(For reference)

	Three-months ended June 30, 2002	<b>Three-months ended June 30, 2003</b>	(millions of yen) Change (%)
Increase in fixed assets	6	<b>11</b>	69.9
Increase in intangible assets	187	<b>214</b>	14.1
Depreciation of fixed assets	32	<b>25</b>	(22.6)
Amortization of intangible assets	160	<b>142</b>	(11.1)
R&D expenses	—	—	—

## Forecast of Consolidated Results

Regarding the forecast of the consolidated results for the fiscal year ending March 31, 2004, the SCN Group announces the following changes to the forecast announced April 23, 2003.

The reasons for the changes are as follows.

1. Regarding sales, the number of customer acquisitions in the quarter ended June 30, 2003 was below that forecast originally.
2. Regarding profitability, it is expected that there will be cost improvements.

(Forecast as of July 23, 2003)

<u>Consolidated Results</u>		(millions of yen) <u>Change from previous forecast</u>
Sales	40,000	(7.0%)
Operating income (loss)	(1,500)	+11.8%
Ordinary income (loss)	(1,700)	+10.5%
Net income (loss)	(1,200)	+7.7%

(Forecast as of April 23, 2003)

<u>Consolidated Results</u>		(millions of yen) <u>Change from previous year</u>
Sales	43,000	+10.8%
Operating income (loss)	(1,700)	—
Ordinary income (loss)	(1,900)	—
Net income (loss)	(1,300)	—

(For reference)

(Year ended March 31, 2003)

<u>Consolidated Results</u>		<u>Change from previous year</u>
Sales	38,795	+17.0%
Operating income (loss)	472	—
Ordinary income (loss)	96	—
Net income (loss)	(16)	—

## Cautionary statement:

**Statements made in this release with respect to Sony Corporation and Sony Communication Network's ("SCN") current plans, estimates, strategies and beliefs and other statements that are not historical facts are forward-looking statements about the future performance of SCN. These statements are based on management's assumptions and beliefs in light of the information currently available to it. Therefore, SCN cautions you that a number of important risks and uncertainties could cause actual results to differ materially from those discussed in the forward-looking statements, and therefore you should not place undue reliance on them.**