

News & Information

No.03-43E

2003/10/23

13:00

Subsidiary Tracking Stock
Sony Communication Network Corporation
Financial Results for the Second Quarter and
the Six-month Period ended September 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 second quarter ended September 30, 2003 (the period from July 1, 2003 to September 30, 2003) and the six-month period ended September 30, 2003 (the period from April 1, 2003 to September 30, 2003).

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

- FY2003.2Q Results: Operating Loss Due to Increased Customer Acquisition Costs**
 During the quarter ended September 30, 2003, sales were 9,691 million yen. An operating loss of 187 million yen, an ordinary loss of 110 million yen, and a net loss of 155 million yen were recorded. For the six-month period, sales were 19,014 million yen. An operating loss of 463 million yen, an ordinary loss of 412 million yen, and a net loss of 384 million yen were recorded.
- Broadband Subscribers Increase 53% to 490,000**
 Although the total number of So-net subscribers decreased 10,000 to 2.28 million compared with the year earlier period, the number of broadband subscribers totaled 490,000, an increase of 53% over the year earlier period.
- Update to Fiscal Year 2003 Forecast: Net Loss Forecast Revised Positively**
 Regarding the Forecast of Consolidated Results for the year ending March 31, 2004, the forecast for net loss was revised from a net loss of 1,200 million yen to a net loss of 600 million yen.

Consolidated Results for the three-months ended September 30, 2003

	(Millions of Yen)		
	Three-months ended September 30		
	2002	2003	Change (%)
Sales	9,719	9,691	(0.3)
Operating income (loss)	706	(187)	—
Ordinary income (loss)	591	(110)	—
Net income (loss)	155	(155)	—

Consolidated Results for the six-months ended September 30, 2003

	(Millions of Yen)		
	Six-months ended September 30		
	2002	2003	Change (%)
Sales	19,375	19,014	(1.9)
Operating income (loss)	896	(463)	—
Ordinary income (loss)	713	(412)	—
Net income (loss)	76	(384)	—

Summary of Consolidated Operations (three-months ended September 30, 2003)

During the three-month period ended September 30, 2003, in spite of the temporary slowing effect of cool summer weather, the Japanese economy began to recover at a generally mild pace with personal consumption and capital investment improving as stock prices increased.

In this economic situation, in the area of those Internet sectors that the SCN Group is involved with, the number of users, particularly of ADSL, increased, and the number of FTTH(Fiber to the home) users continued to rise steadily as well. As of the end of September, the number of dedicated-line broadband users passed 12 million. (Data according to the Ministry of Public Management, Home Affairs, Posts and Telecommunications.)

In this business environment, the SCN Group moved to continue to implement various free campaigns and price reductions for ADSL and FTTH. The SCN Group also expanded its selection of FTTH offerings and promoted customer upgrades from narrowband to broadband. The SCN Group also made efforts to develop content aimed at the broadband market.

Given these activities, although the number of broadband subscribers increased by 170,000 from the year earlier period, to 490,000, due to an intensification of competition for subscribers, the total number of So-net subscribers decreased 10,000 compared with the year earlier period, to 2.28 million.

As a result of these factors, as well as of the effects stemming from the expansion of various free campaigns, sales for the SCN Group for the quarter ended September 30, 2003 decreased 0.3% from the year earlier period, to 9,691 million yen.

Regarding profitability, the SCN Group worked to carry out structural improvements. For example, the SCN Group worked to improve efficiencies including decreasing communication line usage costs compared to the year earlier period through actions such as optimizing the number of access point ports. However, such actions did not completely offset the effects of price reductions and increased costs relating to customer acquisition and increased development costs for contents aimed at broadband. As a result, an operating loss of 187 million yen was recorded, compared with an operating profit of 706 million yen in the year earlier period.

In addition, thanks to business improvements in affiliated companies accounted for by the equity method, equity income of 2 million yen was recorded, compared with equity losses of 117 million yen in the year earlier period. As a result, an ordinary loss of 110 million yen was recorded, compared with an ordinary loss of 591 million yen in the year earlier period, and a net loss of 155 million yen was recorded, compared with net income of 155 million yen during the year earlier period.

Sales by Category

The three-months ended September 30, 2003

		Three-months ended September 30, 2002 (millions of yen)	Percentage of total (%)	Three-months ended September 30, 2003 (millions of yen)	Percentage of total (%)	Year-on- year change (%)
Operating revenue	Internet provider services	8,146	83.8	7,813	80.6	(4.1)
	Internet- related services	1,339	13.8	1,670	17.2	24.7
Merchandise sales		233	2.4	207	2.2	(11.2)
Total		9,719	100.0	9,691	100.0	(0.3)

The six-months ended September 30, 2003

		Six-months ended September 30, 2002 (millions of yen)	Percentage of total (%)	Six-months ended September 30, 2003 (millions of yen)	Percentage of total (%)	Year-on- year change (%)
Operating revenue	Internet provider services	16,263	83.9	15,584	82.0	(4.2)
	Internet- related services	2,490	12.9	3,022	15.9	21.4
Merchandise sales		622	3.2	408	2.1	(34.4)
Total		19,375	100.0	19,014	100.0	(1.9)

«Operating revenue»

ISP services

In this category, the SCN Group recognizes that the number of users is expanding primarily in the area of dedicated-line, broadband connections.

In order to respond to the needs of these subscribers, the SCN Group has lowered usage fees and expanded the access areas for ADSL and FTTH services. The SCN Group has also enriched its FTTH offerings, and along with implementing such promotions as a 3-month free campaign, the SCN Group has increased the number of broadband subscribers by offering upgrade incentives. However, the total number of So-net subscribers decreased 10,000 compared to the end of the year earlier period.

As a result, sales of ISP services for the quarter ended September 30, 2003 were 7,813 million yen, a decrease of 4.1% compared with the year earlier period. Such sales accounted for 80.6% of total sales. Impacting these sales were free campaign offerings and the flattening of subscriber numbers.

Internet-related services

In this category, the SCN Group strived to offer contents aimed at the spread of dedicated-line broadband, including program production of video contents such as the So-net Channel and So-net TV, as well as new offerings such as “Wonder Juke,” an online juke box, and the producing of “Mask of Love,” a broadband theater offering using a 360-degree camera. Also, “Keitai PostPet,” a mobile

phone version of the e-mail pet software “PostPet,” saw an increase in registered users during the quarter under review.

As a result, sales in this category for the quarter ended September 30, 2003 were 1,670 million yen, an increase of 24.7% compared with the year earlier period. Sales in this category accounted for 17.2% of total sales.

«Merchandise sales»

In this category, although there were contributions from sales of “PostPet V.3” e-mail pet software, broadband AV routers, and goods connected with J-League related sites, sales were impacted by decreased sales of ADSL modems and PlayStation 2 broadband units. As a result, sales in this category for the quarter ended September 30, 2003 were 207 million yen, a decrease of 11.2% 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 Label Gate Co., Ltd., during the quarter under review, it was approved that Sony Music Entertainment (Japan) Inc. and the SCN Group would make capital injection into Label Gate Co., Ltd. and on October 1, 2003, the SCN Group's share in Label Gate Co., Ltd. decreased resultantly.

Overall, during the quarter under review, equity income of 2 million yen was recorded compared with equity losses of 117 million yen in the year earlier period. Among these companies, DeNA Co., Ltd. generated profit with continuing to expand the number of goods it offers for auction.

Cash Flow (six-months ended September 30, 2003)

Cash and cash equivalents decreased 1,829 million yen from the end of the fiscal year ended March 31, 2003 to 1,555 million yen at September 30, 2003. During the six-month period under review, the SCN Group used 350 million yen of cash in operating activities, 879 million yen of cash in investing activities, and 600 million yen of cash in financing activities.

<Cash flow from operating activities>

During the six-month period ended September 30, 2003, regarding cash flows from operating activities, the SCN Group used 350 million yen, while during the six-month period ended September 30, 2002, the SCN Group generated 928 million yen. This was mainly due to the recording of net loss before income taxes of 441 million yen during the period under review, compared with net income before income taxes of 713 million yen in the year earlier period. Also, included in the net loss before income taxes during the period under review was depreciation of 389 million yen and amortization for goodwill of 156 million yen.

<Cash flow from investing activities>

During the six-month period ended September 30, 2003, regarding cash flows from investing activities, the SCN Group used 879 million yen, while during the six-month period ended September 30, 2002, the SCN Group used 387 million yen. Factors influencing cash flows from investing activities during the six-month period under review included outlays of 366 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 365 million yen in the year earlier period; outlays of 178 million yen for loans to affiliated companies, compared with 134 million yen in the year earlier period; and payments for long term prepaid expenses of 195 million yen.

<Cash flow from financing activities>

During the six-month period ended September 30, 2003, regarding cash flows from financing activities, the SCN Group used 600 million yen, while during the six-month period ended September 30, 2002, the SCN Group used 740 million yen. During the six-month period 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 September 30, 2003

	<u>(Millions of yen)</u>		
	Three-months ended September 30		
	2002	2003	Change
Sales	9,719	9,691	(0.3%)
Cost of sales	5,563	6,071	
Gross profit	4,156	3,621	
Selling, general and administrative expenses	3,451	3,808	
Operating income (loss)	706	(187)	—%
Non-operating income			
Equity in net income of affiliated companies	—	2	
Other	13	171	173
Non-operating expenses			
Equity in net loss of affiliated companies	117	—	
Other	11	96	96
Ordinary income (loss)	591	(110)	—%
Extraordinary gain			
Gain on issuance of stock by equity investee	0	—	
Extraordinary loss			
Loss on revaluation of investments in other securities	—	28	
Net income (loss) before income taxes	591	(138)	—%
Income tax current	368	96	
Income tax deferred	59	(86)	10
Minority interest income	8	7	
Net income (loss)	155	(155)	—%

For the six-months ended September 30, 2003

	<u>(Millions of Yen)</u>		
	Six-month ended September 30		
	2002	2003	Change
Sales	19,375	19,014	(1.9%)
Cost of sales	11,260	11,842	
Gross profit	8,114	7,172	
Selling, general and administrative expenses	7,218	7,635	
Operating income (loss)	896	(463)	—%
Non-operating income	43	207	
Non-operating expenses			
Equity in net loss of affiliated companies	205	18	
Other	21	138	156
Ordinary income (loss)	713	(412)	—%
Extraordinary gain			
Gain on issuance of stock by equity investee	0	—	
Extraordinary loss			
Loss on issuance of stock by equity investee	—	1	
Loss on revaluation of investments in other securities	—	28	29
Net income (loss) before income taxes	713	(441)	—%
Income tax current	372	78	
Income tax deferred	279	(149)	(71)
Minority interest income	—	14	
Minority interest loss	14	—	
Net income (loss)	76	(384)	—%

Condensed Consolidated Balance Sheets (Unaudited)

	(Millions of yen)		
	September 30	March 31	September 30
	<u>2002</u>	<u>2003</u>	<u>2003</u>
ASSETS			
Current assets	<u>9,094</u>	<u>8,594</u>	<u>7,232</u>
Cash and bank deposit	384	517	519
Notes and account receivable, trade	4,044	3,803	3,866
Inventories	121	278	161
Deposits in parent company	4,057	—	—
Deposits in Sony group company	—	2,867	1,036
Other	515	1,176	1,691
Allowance for bad debt	(28)	(47)	(40)
Noncurrent assets	<u>4,535</u>	<u>5,458</u>	<u>5,519</u>
Property, plant and equipment	406	349	311
Furniture and fixtures	280	232	203
Other	127	116	108
Intangible assets	<u>2,674</u>	<u>2,465</u>	<u>2,432</u>
Software	1,118	1,141	1,290
Goodwill	1,259	1,104	948
Other	296	220	194
Investment and other assets	<u>1,455</u>	<u>2,644</u>	<u>2,776</u>
Investment in affiliates and others	756	1,618	1,660
Other	700	1,025	1,116
Total assets	<u>13,629</u>	<u>14,051</u>	<u>12,751</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities	<u>5,439</u>	<u>5,880</u>	<u>4,929</u>
Account payable, trade	2,098	2,428	2,454
Current portion of long-term borrowing from parent company	1,200	800	200
Accrued expense	1,180	1,889	1,461
Accrued income taxes	374	127	104
Accrued bonuses	225	217	216
Other	363	419	494
Long-term liabilities	<u>275</u>	<u>94</u>	<u>119</u>
Long-term borrowing from parent company	200	—	—
Accrued severance costs for employees	53	65	81
Accrued severance indemnities for directors	21	29	38
Total liabilities	<u>5,714</u>	<u>5,974</u>	<u>5,048</u>
Minority interest	<u>(227)</u>	<u>33</u>	<u>47</u>
Common stock	5,246	5,246	5,246
Additional paid-in capital	4,765	4,765	4,765
Retained earnings (accumulated losses)	(1,869)	(1,961)	(2,345)
Unrealized exchange gains (losses) of investment securities	2	(6)	(10)
Total stockholders' equity	<u>8,143</u>	<u>8,044</u>	<u>7,655</u>
Total liabilities and stockholders' equity	<u>13,629</u>	<u>14,051</u>	<u>12,751</u>

Consolidated Statements of Additional Paid-in Capital and Retained Earnings and Accumulated Losses (Unaudited)

(Millions of yen)

Item	Six-months ended September 30, 2002	Six-months ended September 30, 2003
Additional Paid-in Capital		
Balance at beginning of fiscal year	4,765	4,765
Balance at the end of period	4,765	4,765
Retained Earnings (Accumulated Losses)		
Balance at beginning of fiscal year	(1,945)	(1,961)
Increase		
Net income	76	—
Decrease		
Net loss	—	(384)
Balance at the end of period	(1,869)	(2,345)

Consolidated Statements of Cash Flow (Unaudited)

	(Millions of Yen)	
	Six-months ended September 30	
	2002	2003
I. Cash flows from operating activities		
Net income (loss) before income taxes	713	(441)
Depreciation and amortization	402	389
Amortization for goodwill	156	156
Equity in net losses of affiliated companies	205	18
Gain on issuances of stock by equity investee	(0)	—
Loss on issuance of stock by equity investee	—	1
Loss on revaluation of investments in other securities	—	28
Decrease in accrued bonuses	(17)	(1)
Increase in accrued severance costs for employees	12	17
Increase in accrued severance indemnities for directors	5	8
Decrease in allowance for bad debt	(0)	(7)
Interest income	(2)	(2)
Interest expenses	4	2
Loss on disposal of tangible fixed assets	13	77
Loss on sales of tangible fixed assets	—	1
Gain on sales of tangible fixed assets	—	(0)
Increase in account receivable, trade	(57)	(64)
(Increase) decrease in inventories	(57)	118
Increase in other current assets	(61)	(85)
Increase in accounts payable, trade	130	26
Decrease in accrued expenses	(533)	(428)
Increase (decrease) in other current liabilities	147	(36)
Sub Total	<u>1,059</u>	<u>(223)</u>
Receipt of interest	2	2
Payments for interest	(4)	(2)
Payments for income taxes	(128)	(126)
Net cash provided by (used in) operating activities	<u>928</u>	<u>(350)</u>
II. Cash flows from investing activities		
Payment for securities investment	(16)	(122)
Payment for acquisition of fixed assets	(29)	(20)
Proceeds from sales of fixed assets	6	0
Payment for acquisition of intangible assets	(365)	(366)
Proceeds from sales of intangible assets	20	0
Payment for deposits	—	(0)
Proceeds from deposits	101	1
Payments for long-term prepaid expenses	—	(195)
Net cash increase resulting from acquiring subsidiary	30	—
Payments for loan	(134)	(178)
Net cash used in investing activities	<u>(387)</u>	<u>(879)</u>

	<u>(Millions of yen)</u>	
	Six-months ended September 30	
	<u>2002</u>	<u>2003</u>
III. Cash flows from financing activities		
Decrease in short-term borrowing	(140)	—
Payments of long-term debt	(600)	(600)
Net cash used in financing activities	<u>(740)</u>	<u>(600)</u>
IV. Effect of exchange rate difference on cash and cash equivalents	—	—
V. Decrease in cash and cash equivalents	(199)	(1,829)
VI. Cash and cash equivalents at beginning of year	4,641	3,384
VII. Cash and cash equivalents at end of the period	<u>4,442</u>	<u>1,555</u>

(Notes)

1. Consolidated financial statements of the SCN Group are based on the standards conforming with the Generally Accepted Accounting Principles in Japan
2. While the cash previously deposited in Sony Corp. was recorded under “Deposits in parent company” on the Consolidated Balance Sheet, since the year ended March 31, 2003, it is shown under “Deposits in Sony group company” on the Consolidated Balance Sheet, as the cash is now deposited in Sony Global Treasury Services PLC. Also, both “Deposits in parent company” and “Deposits in Sony group company” appear under “Cash and cash equivalents” on the Consolidated Statement of Cash Flow.

(For reference)

	<u>(Millions of yen)</u>		
	Three-months ended September 30, 2002	Three-months ended September 30, 2003	Change (%)
Increase in fixed assets	16	10	(38.9)
Increase in intangible assets	126	269	114.2
Depreciation of fixed assets	33	25	(24.2)
Amortization of intangible assets	156	148	(5.1)
	Six-months ended September 30, 2002	Six-months ended September 30, 2003	Change (%)
Increase in fixed assets	23	20	(8.6)
Increase in intangible assets	313	483	54.2
Depreciation of fixed assets	65	49	(23.4)
Amortization of intangible assets	316	290	(8.1)

Strategy and Outlook

During this fiscal year, the SCN Group is striving to enrich its basic connection services and value-added connection services aimed at the spread of dedicated-line broadband as well as its content offerings. The SCN Group is also working to strengthen its subsidiaries and affiliated companies as well as its cooperation with the Sony Group.

During the second-half of the year ending March 31, 2004, the SCN Group plans to further push forward its activities of the first-half, including the expansion of broadband subscribers in particularly for FTTH, and the promotion of broadband service upgrades as the most important area of focus. At the same time, the SCN Group is working to offer users greater convenience and more efficient networks through the introduction of nationwide common access points.

Parent company policies regarding the conversion of tracking stock

At the present time, unless there are significant changes in the direction of the corporate strategy of the entire Sony Group or in the way that the SCN Group is defined within the Sony Group, or unless there are significant changes in a business environment which includes a variety of factors such as the growth of the SCN Group, there are no plans to carry out compulsory retirement or conversion into common stock three years after the issuance of the subsidiary tracking stock, that is to say, on June 20, 2004.

Consolidated Results Forecast (revised)

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

The main reason for the change stems from the capital increase of Label Gate Co., Ltd, an affiliated company accounted for by the equity method. Due to the resulting decrease in the shares held by the SCN Group, an extraordinary gain of approximately 0.6 billion yen is expected to be recorded during the third quarter ending December 31, 2003.

(Forecast as of October 23, 2003)

		(Millions of yen)
<u>Consolidated Results</u>		<u>Change from previous forecast</u>
Sales	40,000	(± 0.0%)
Operating income (loss)	(1,500)	(± 0.0%)
Ordinary income (loss)	(1,700)	(± 0.0%)
Net income (loss)	(600)	(+50.0%)

(Forecast as of July 23, 2003)

		(Millions of yen)
<u>Consolidated Results</u>		<u>Change from previous year</u>
Sales	40,000	(+ 3.1%)
Operating income (loss)	(1,500)	—
Ordinary income (loss)	(1,700)	—
Net income (loss)	(1,200)	—

(For reference)

(Year ended March 31, 2003)

<u>Consolidated Results</u>		<u>Change from previous year</u>
Sales	38,795	+17.0%
Operating income	472	—
Ordinary income	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.