

## News & Information

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***Subsidiary Tracking Stock  
Sony Communication Network Corporation  
Consolidated Financial Results for the  
Third Quarter ended December 31, 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 third quarter ended December 31, 2003 (the period from October 1, 2003 to December 31, 2003) and the nine-month period ended December 31, 2003 (the period from April 1, 2003 to December 31, 2003).

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

- ***FY2003.3Q sales decrease 3.5% from the year earlier period—increased revenue from broadband connection and internet-related services, but negative impact from decreased revenue from narrowband connection services and free-promotion campaigns.***

During the quarter ended December 31, 2003, sales decreased 3.5% from the year earlier period to 9,590 million yen. An operating loss of 463 million yen and an ordinary loss of 504 million yen were recorded. As a result of gains recorded on issuance of stock by equity investee and sales of investments in affiliate, net income for the period under review was 292 million yen.

- ***So-net subscribers total 2.3 million, including 520,000 broadband subscribers.***

Although losses of narrowband subscribers increased, the number of broadband subscribers increased 150,000, from 370,000 at the end of the year earlier period, to 520,000. From the year ended March 31, 2003, the number of broadband subscribers increased 100,000. As a result, the total number of So-net subscribers increased 10,000 from 2.29 million at the end of the year earlier period to 2.30 million. The total number of subscribers has not changed since the end of the period ended March 31, 2003.

- ***Update to Fiscal Year 2003 Forecast:***

Regarding the Forecast of Consolidated Results for the year ending March 31, 2004, the forecast as of October 23, 2003 has been revised.

The forecast for the total number of So-net subscribers at the end of the year ending March 31, 2004 has been revised from 2.4 million to 2.3 million. Along with this revision, the forecast for sales has been lowered by 3.8% from 40,000 million yen to 38,500 million yen. The forecast for operating loss has been revised from a loss of 1,500 million yen to 1,200 million yen, for ordinary loss from 1,700 million yen to 1,200 million yen, and for net loss from 600 million yen to 300 million yen.

## Consolidated Results for the three-months ended December 31, 2003

	(Millions of Yen)		
	<b>Three-months ended December 31</b>		
	2002	2003	Change (%)
Sales	9,933	<b>9,590</b>	(3.5)
Operating income (loss)	76	<b>(463)</b>	—
Ordinary income (loss)	(17)	<b>(504)</b>	—
Net income	201	<b>292</b>	45.3

## Consolidated Results for the nine-months ended December 31, 2003

	(Millions of Yen)		
	<b>Nine-months ended December 31</b>		
	2002	2003	Change (%)
Sales	29,307	<b>28,604</b>	(2.4)
Operating income (loss)	973	<b>(926)</b>	—
Ordinary income (loss)	695	<b>(917)</b>	—
Net income (loss)	276	<b>(92)</b>	—

## Summary of Consolidated Operations (three-months ended December 31, 2003)

During the three-month period ended December 31, 2003, although the strong yen continued its progression, there was a trend towards recovery in corporate profitability. Also, consumer spending and business investment continued to strengthen. Thus, the trend towards economic recovery continued during the period.

Under these economic conditions, in the Internet sectors with which the SCN Group is involved, the number of ADSL users passed 10 million at the end of December. The total number of dedicated-line broadband users as of the end of December, including users of ADSL, cable, and FTTH, passed 13 million. (Data according to the Ministry of Public Management, Home Affairs, Posts and Telecommunications.)

In this business environment, the SCN Group continued to implement various free-promotion campaigns, as in the second quarter, for ADSL and FTTH. The SCN Group also put efforts into customer acquisition such as by offering a reasonably priced connection service for PDAs(Personal Digital Assistant). As a result of these efforts, the number of broadband subscribers increased by 150,000 from the end of the year earlier period, and by 100,000 from the end of the year ended March 31, 2003, to 520,000. Due to the effects of narrowband subscribers continuing to switch to broadband, as well as increased numbers of narrowband subscribers ending their subscriptions, the total number of So-net subscribers increased only 10,000 from the year earlier period, to 2.3 million, which was the same as at the end of the year ended March 31, 2003.

As a result of these factors, sales for the SCN Group for the quarter ended December 31, 2003 decreased 3.5% from the year earlier period, to 9,590 million yen. While there was an increase in subscribers to broadband services, and increased revenue from internet-related services, including that of consolidated subsidiaries, there was an impact from free-promotion campaigns and a decline in the number of narrowband subscribers.

Regarding profitability, the SCN Group worked to reduce costs through such efforts as decreasing the number of access points for dial-up access and reductions in outsourcing and the use of temporary staff at call centers. On the other hand, there were expenditure for broadband contents, expenses related to marketing and sales promotions such as end-of-year television advertising, and one time costs such as informing existing users of access point integrations. As a result, an operating loss of

463 million yen was recorded, compared with an operating profit of 76 million yen in the year earlier period. Also, although equity income of 14 million yen in affiliated companies accounted for by the equity method was recorded, compared with equity losses of 68 million yen in the year earlier period, due to factors including disposition of certain inventories, an ordinary loss of 504 million yen was recorded, compared with an ordinary loss of 17 million yen in the year earlier period. Furthermore, due to issuance of new shares by Label Gate Co., Ltd., which is accounted for by the equity method, SCN's share in Label Gate Co., Ltd. declined. As a result, SCN's share of its accumulated losses declined and a gain on issuance of stock by equity investee of 613 million yen was recorded under extraordinary gains. Also there was a gain on sale of investment in affiliate of 81 million yen. Furthermore, corresponding with a withdrawal from certain businesses, one-time charges of 54 million yen were recorded. As a result, including an effect of income tax benefit of 162 million yen due to losses incurred, net income of 292 million yen was recorded, compared with net income of 201 million yen during the year earlier period.

## Sales by Category

### The three-months ended December 31, 2003

		Three-months ended December 31, 2002 (millions of yen)	Percentage of total (%)	Three-months ended December 31, 2003 (millions of yen)	Percentage of total (%)	Year-on-year change (%)
Operating revenue	Internet provider services	8,220	82.8	<b>7,656</b>	79.8	(6.9)
	Internet-related services	1,317	13.2	<b>1,689</b>	17.6	28.3
Merchandise sales		396	4.0	<b>245</b>	2.6	(38.2)
Total		9,933	100.0	<b>9,590</b>	100.0	(3.5)

### The nine-months ended December 31, 2003

		Nine-months ended December 31, 2002 (millions of yen)	Percentage of total (%)	Nine-months ended December 31, 2003 (millions of yen)	Percentage of total (%)	Year-on-year change (%)
Operating revenue	Internet provider services	24,483	83.5	<b>23,295</b>	81.4	(4.9)
	Internet-related services	3,807	13.0	<b>4,657</b>	16.3	22.3
Merchandise sales		1,018	3.5	<b>653</b>	2.3	(35.9)
Total		29,307	100.0	<b>28,604</b>	100.0	(2.4)

### 《Operating revenue》

#### ISP services

In this category, the market for dedicated-line, broadband connections, primarily ADSL and FTTH, is continuing to expand.

In order to respond to these customer needs, at the end of the year, the SCN Group was working to acquire customers through new member promotion campaigns for services that use FTTH as well as through services for PDAs. As a result, the number of So-net broadband subscribers increased to 520,000, and the total number of So-net subscribers was 2.3 million.

Overall, sales of ISP services for the quarter ended December 31, 2003 were 7,656 million yen, a decrease of 6.9% compared with the year earlier period. Such sales accounted for 79.8% of total sales. Impacting these sales were free-promotion campaigns for broadband services as well as the impact of narrowband users ending their subscriptions.

#### Internet-related services

In this category, sales of contents aimed at mobile phones and consolidated subsidiaries increased smoothly. This included an increase in sales of So-net M3 Inc., which operates medical-related sites. This also included Skygate, Co., Ltd., which saw good sales of airline tickets for the end-of-year travel season, and So-net Sports.com Corp., which saw good sales of martial arts events tickets during the end-of-the year period. As a result, sales in this category for the quarter ended December 31, 2003 were 1,689 million yen, an increase of 28.3% compared with the year earlier period. Sales in this category accounted for 17.6% of total sales.

#### 《Merchandise sales》

In this category, although there were contributions from sales of sports-related websites and theater-related websites, sales were impacted by decreased sales of PlayStation 2 broadband units. As a result, sales in this category for the quarter ended December 31, 2003 were 245 million yen, a decrease of 38.2% compared with the year earlier period. Such sales accounted for 2.6% of total sales.

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

The SCN Group includes the following five consolidated subsidiaries: So-net Sports.com Corp., So-net M3 Inc., So-net M3 U.S.A. Corp., Skygate, Co., Ltd., and Drivegate Inc. Of these, operations were halted at Drivegate Inc. last July, and in January 2004, it was decided to dissolve the company.

Also, Label Gate Co., Ltd., which is accounted for by the equity method, has carried out measures to increase the number of songs and albums available for download, but it has not yet begun recording profits. Furthermore, Label Gate Co., Ltd. has issued new shares, and as a result, the SCN Group's share of the company has decreased from 36% to 21%. This has resulted in a reduction of the SCN Group's share of Label Gate's accumulated losses. DeNA Co., Ltd. has seen an increase in the number of goods it offers for auctions and shopping, and it has continued to record profits. The SCN Group's share of the company decreased from 45% to 28% due to a sale of its investment in the company.

As a result of the above factors, during the quarter under review, equity income of 14 million yen was recorded compared with equity losses of 68 million yen in the year earlier period.

## Cash Flow (nine-months ended December 31, 2003)

Cash and cash equivalents were 2,328 million yen at the end of the period ended December 31, 2003, a decrease of 2,787 million yen from the year earlier period, and a decrease of 1,056 million yen from March 31, 2003. During the nine-month period under review, the SCN Group generated 41 million yen of cash in operating activities, used 296 million yen of cash in investing activities, and used 800 million yen of cash in financing activities.

### <Cash flows from operating activities>

During the nine-month period ended December 31, 2003, regarding cash flows from operating activities, the SCN Group generated 41 million yen, while during the nine-month period ended December 31, 2002, the SCN Group generated 2,145 million yen. This was mainly due to the recording of net loss before income taxes of 305 million yen during the period under review, compared with net income before income taxes of 695 million yen in the year earlier period. Also, net loss before income taxes of 305 million yen during the period under review included gain on issuance of stock by equity investee of 613 million yen as a non-cash earning, due to a change in the SCN Group's share of an affiliated company .

### <Cash flows from investing activities>

During the nine-month period ended December 31, 2003, regarding cash flows from investing activities, the SCN Group used 296 million yen, while during the nine-month period ended December 31, 2002, the SCN Group used 630 million yen. Factors influencing the decrease in cash flows from investing activities during the nine-month period under review compared with those during the nine-month period ended December 31, 2002 included repayment of loans by affiliated company of 732 million yen, and proceeds from sale of investment in affiliated company of 231 million yen during the period under review, although there were outlays of 728 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 498 million yen in the year earlier period; and payments for long term prepaid expenses of 195 million yen, compared with payments of 2 million yen in the year earlier period.

### <Cash flows from financing activities>

During the nine-month period ended December 31, 2003, regarding cash flows from financing activities, the SCN Group used 800 million yen, while during the nine-month period ended December 31, 2002, the SCN Group used 1,040 million yen. During the nine-month period under review, this reflected the repayment of long-term debt to Sony Corp.

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For inquiries, please contact:

Sony Corp., IR Office

7-35, Kita-Shinagawa 6-chome Shinagawa-ku, Tokyo 141-0001 Tel:(03) 5448-2180

[www.sony.co.jp/IR/](http://www.sony.co.jp/IR/)

Sony Communication Network Corporation, IR Section

7-35, Kita-Shinagawa 4-chome Shinagawa-ku, Tokyo 140-0001 Tel:(03) 3446-7210

[www.so-net.ne.jp/corporation/IR/](http://www.so-net.ne.jp/corporation/IR/)

## Condensed Consolidated Statements of Income (Unaudited)

**For the three-months ended December 31, 2003**

**(Millions of yen)**

	Three-months ended December 31			Change
	2002	2003		
Sales		9,933	<b>9,590</b>	(3.5%)
Cost of sales		5,735	<b>5,963</b>	
Gross profit		4,197	<b>3,627</b>	
Selling, general and administrative expenses		4,121	<b>4,090</b>	
Operating income (loss)		76	<b>(463)</b>	—%
Non-operating income				
Equity in net income of affiliated companies	—		<b>14</b>	
Other	19	19	<b>1</b>	<b>15</b>
Non-operating expenses				
Equity in net loss of affiliated companies	68		—	
Other	45	113	<b>56</b>	<b>56</b>
Ordinary loss		(17)	<b>(504)</b>	—%
Extraordinary gain				
Gain on issuance of stock by equity investee	—		<b>613</b>	
Gain on sale of investment in affiliate	—	—	<b>81</b>	<b>695</b>
Extraordinary loss				
Loss on withdrawal from certain operations		—	<b>54</b>	
Net income (loss) before income taxes		(17)	<b>136</b>	—%
Income tax current	96		<b>(132)</b>	
Income tax deferred	(301)	(204)	<b>(29)</b>	<b>(162)</b>
Minority interest income (loss)		(14)	<b>6</b>	
Net income		201	<b>292</b>	—%

**For the nine-months ended December 31, 2003**

**(Millions of Yen)**

	Nine-months ended December 31			Change
	2002	2003		
Sales		29,307	<b>28,604</b>	(2.4%)
Cost of sales		16,996	<b>17,805</b>	
Gross profit		12,312	<b>10,799</b>	
Selling, general and administrative expenses		11,339	<b>11,725</b>	
Operating income (loss)		973	<b>(926)</b>	—%
Non-operating income		62	<b>208</b>	
Non-operating expenses				
Equity in net loss of affiliated companies	273		<b>4</b>	
Other	66	340	<b>194</b>	<b>198</b>
Ordinary income (loss)		695	<b>(917)</b>	—%
Extraordinary gain				
Gain on issuance of stock by equity investees	0		<b>613</b>	
Gain on sale of investment in affiliate	—	0	<b>81</b>	<b>695</b>
Extraordinary loss				
Loss on withdrawal from certain operations	—		<b>54</b>	
Loss on revaluation of investments in other securities	—		<b>28</b>	
Loss on issuance of stock by equity investee	—	—	<b>1</b>	<b>83</b>
Net income (loss) before income taxes		695	<b>(305)</b>	—%
Income tax current	469		<b>(54)</b>	
Income tax deferred	(22)	447	<b>(179)</b>	<b>(232)</b>
Minority interest income (loss)		(28)	<b>20</b>	
Net income (loss)		276	<b>(92)</b>	—%

## Condensed Consolidated Balance Sheets (Unaudited)

	<u>(Millions of yen)</u>		
	December 31	March 31	December 31
	2002	2003	2003
<b>ASSETS</b>			
Current assets	<u>9,932</u>	<u>8,594</u>	<u>7,836</u>
Cash and bank deposit	459	517	644
Notes and account receivable, trade	3,954	3,803	3,871
Inventories	105	278	137
Deposits in Sony group company	4,657	2,867	1,684
Other	791	1,176	1,543
Allowance for bad debt	(33)	(47)	(43)
Noncurrent assets	<u>4,428</u>	<u>5,458</u>	<u>5,645</u>
Property, plant and equipment	<u>383</u>	<u>349</u>	<u>294</u>
Intangible assets	<u>2,577</u>	<u>2,465</u>	<u>2,407</u>
Software	1,168	1,141	1,265
Goodwill	1,182	1,104	870
Other	227	220	271
Investment and other assets	<u>1,468</u>	<u>2,644</u>	<u>2,945</u>
Investment in affiliates and others	749	1,618	1,526
Other	719	1,025	1,419
Total assets	<u>14,361</u>	<u>14,051</u>	<u>13,481</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities	<u>6,176</u>	<u>5,880</u>	<u>5,356</u>
Account payable, trade	2,331	2,428	2,631
Current portion of long-term borrowing from parent company	1,100	800	—
Accrued expense	1,853	1,889	2,021
Other	892	763	704
Long-term liabilities	<u>83</u>	<u>94</u>	<u>130</u>
Total liabilities	<u>6,259</u>	<u>5,974</u>	<u>5,487</u>
Minority interest	<u>(241)</u>	<u>33</u>	<u>53</u>
Common stock	5,246	5,246	5,246
Additional paid-in capital	4,765	4,765	4,765
Retained earnings (accumulated losses)	(1,669)	(1,961)	(2,054)
Unrealized exchange gains (losses) of investment securities	1	(6)	(14)
Foreign currency translation adjustment	—	—	(1)
Total stockholders' equity	<u>8,343</u>	<u>8,044</u>	<u>7,942</u>
Total liabilities and stockholders' equity	<u>14,361</u>	<u>14,051</u>	<u>13,481</u>

## Consolidated Statements of Cash Flow (Unaudited)

	<u>(Millions of Yen)</u>	
	Nine-months ended December 31	
	2002	2003
I. Cash flows from operating activities		
Net income (loss) before income taxes	695	(305)
Depreciation and amortization	589	627
Amortization for goodwill	234	234
Equity in net losses of affiliated companies	273	4
Gain on issuances of stock by equity investee	(0)	(613)
Loss on issuance of stock by equity investee	—	1
Loss on revaluation of investments in other securities	—	28
Gain on sale of investments in affiliate	—	(81)
Loss on withdrawal from certain operations	—	54
Decrease in accrued bonuses	(239)	(155)
Increase in accrued severance costs for employees	17	23
Increase in accrued severance indemnities for directors	9	13
Increase (decrease) in allowance for bad debt	5	(5)
Interest income	(2)	(2)
Interest expenses	6	3
Loss on disposal of tangible fixed assets	21	85
Loss on sales of tangible fixed assets	—	1
Gain on sales of tangible fixed assets	—	(0)
(Increase) decrease in account receivable, trade	33	(69)
(Increase) decrease in inventories	(41)	141
Increase in other current assets	(34)	(214)
Increase in accounts payable, trade	363	203
Increase in accrued expenses	140	112
Increase in other current liabilities	250	82
Sub Total	<u>2,318</u>	<u>167</u>
Receipt of interest	2	2
Payments for interest	(6)	(3)
Payments for income taxes	(170)	(126)
Net cash provided by operating activities	<u>2,145</u>	<u>41</u>
II. Cash flows from investing activities		
Payment for securities investment	(16)	(122)
Proceeds from sales of securities investment	—	231
Payment for acquisition of fixed assets	(37)	(34)
Proceeds from sales of fixed assets	6	1
Payment for acquisition of intangible assets	(498)	(728)
Proceeds from sales of intangible assets	20	0
Payment for deposits	(27)	(4)
Proceeds from deposits	101	1
Payments for long-term prepaid expenses	(2)	(195)
Net cash increase resulting from acquiring subsidiary	30	—
Payments for loan	(206)	(178)
Rrepayment of loan	—	732
Net cash used in investing activities	<u>(630)</u>	<u>(296)</u>

	<u>(Millions of yen)</u>	
	<b>Nine-months ended December 31</b>	
	<u>2002</u>	<u>2003</u>
III. Cash flows from financing activities		
Decrease in short-term borrowing	(140)	—
Payments of long-term debt	(900)	<b>(800)</b>
Net cash used in financing activities	<u>(1,040)</u>	<u><b>(800)</b></u>
IV. Effect of exchange rate difference on cash and cash equivalents	—	<b>(1)</b>
V. Increase (decrease) in cash and cash equivalents	475	<b>(1,056)</b>
VI. Cash and cash equivalents at beginning of year	4,641	<b>3,384</b>
VII. Cash and cash equivalents at end of the period	<u>5,115</u>	<u><b>2,328</b></u>

(Notes)

1. Consolidated financial statements of the SCN Group are based on the standards conforming with the Generally Accepted Accounting Principles in Japan.

(For reference)

	<u>(Millions of yen)</u>		
	Three-months ended December 31, 2002	<b>Three-months ended December 31, 2003</b>	Change (%)
Increase in fixed assets	11	<b>10</b>	(13.6)
Increase in intangible assets	125	<b>262</b>	110.1
Depreciation of fixed assets	34	<b>25</b>	(24.7)
Amortization of intangible assets	144	<b>203</b>	41.3
	Nine-months ended December 31, 2002	<b>Nine-months ended December 31, 2003</b>	Change (%)
Increase in fixed assets	34	<b>30</b>	(10.9)
Increase in intangible assets	438	<b>745</b>	70.1
Depreciation of fixed assets	98	<b>75</b>	(23.8)
Amortization of intangible assets	460	<b>494</b>	7.4

## **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 forecast announced October 23, 2003.

The main reasons for the revisions are as follows:

- Sales are expected to be lower than the previous forecast due to the revision in the expected number of total So-net subscribers at the end of the year ending March 31, 2004 from 2.4 million to 2.3 million.
- Operating loss and ordinary loss are expected to improve over the previous forecast due to a reduction in expected subscriber acquisition costs.
- Also due to the expected reduction in subscriber acquisition costs, net loss before income taxes is expected to improve over the previous forecast, and net loss is expected to improve due to anticipated income tax benefit for the current loss incurred.

(Forecast as of January 27, 2004)

<u>Consolidated Results</u>		(Millions of yen) <u>Change from previous forecast</u>
Sales	38,500	(3.8%)
Operating income (loss)	(1,200)	+ 20%
Ordinary income (loss)	(1,200)	+ 23.5%
Net income (loss)	(300)	+ 50.0%

(Forecast as of October 23, 2003)

<u>Consolidated Results</u>		(Millions of yen) <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%

(For reference: Year ended March 31, 2003)

<u>Consolidated Results</u>		(Millions of yen) <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.**