

## News & Information

No.04-053E

2004/10/28

12:00

### *Subsidiary Tracking Stock*

*Sony Communication Network Corporation*

*Consolidated Financial Results for the Quarter and  
Six-month Period ended September 30, 2004*



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, 2004 (the period from July 1, 2004 to September 30, 2004) and the six-month period ended September 30, 2004 (the period from April 1, 2004 to September 30, 2004).

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

- ***For the three months ended September 30, 2004, increased revenue and a large increase in income compared to the year earlier period.***

During the quarter under review, sales increased 3.3%, compared with the year earlier period, to 10,010 million yen. This was a result of increases in the revenue of Internet-related services. Furthermore, as a result of cost reduction in the area of Internet provider services and improvements in profitability at subsidiaries, operating income of 780 million yen was recorded, compared with an operating loss of 187 million yen in the year earlier period. Ordinary income of 720 million yen, compared with an ordinary loss of 110 million yen, was recorded. Net income increased greatly to 2,367 million yen, compared with a net loss of 155 million yen in the year earlier period. Net income for the quarter under review included extraordinary gain from an initial public stock offering by a subsidiary and sale of subsidiary stock

- ***So-net subscribers remain flat***

At the end of the quarter under review, the total number of So-net subscribers was about flat at 2.29 million. The number of broadband subscribers reached 580,000, an increase of 90,000 over the end of the year earlier period.

- ***Fiscal Year 2004 Forecast (revised)***

Regarding the Forecast of Consolidated Results for the year ending March 31, 2005, the forecast announced on September 8, 2004 has been revised. Currently, the SCN Group expects sales of 40,000 million yen, operating income of 2,500 million yen, ordinary income of 2,500 million yen, and net income of 3,300 million yen (see page 12).

### **Consolidated Results for the quarter ended September 30, 2004**

(Millions of Yen)

|                         | Three months ended September 30 |               |            |
|-------------------------|---------------------------------|---------------|------------|
|                         | 2003                            | 2004          | Change (%) |
| Sales                   | 9,691                           | <b>10,010</b> | +3.3       |
| Operating income (loss) | (187)                           | <b>780</b>    | —          |
| Ordinary income (loss)  | (110)                           | <b>720</b>    | —          |
| Net income (loss)       | (155)                           | <b>2,367</b>  | —          |

## Consolidated Results for the six-months ended September 30, 2004

|                         | (Millions of Yen)             |        |            |
|-------------------------|-------------------------------|--------|------------|
|                         | Six-months ended September 30 |        |            |
|                         | 2003                          | 2004   | Change (%) |
| Sales                   | 19,014                        | 19,640 | +3.3       |
| Operating income (loss) | (463)                         | 1,500  | —          |
| Ordinary income (loss)  | (412)                         | 1,491  | —          |
| Net income (loss)       | (384)                         | 2,760  | —          |

### Summary of Consolidated Operations (July 1, 2004 to September 30, 2004)

**Regarding sales,** during the quarter under review, sales increased 3.3% to 10,010 million yen, compared with 9,691 million yen in the year earlier period.

In the area of Internet provider services the market as a whole increased in size, with the number of broadband users (including ADSL, FTTH(Optical Fiber), and CATV) in Japan at the end of September having passed 17 million. (Data according to the Ministry of Public Management, Home Affairs, Posts and Telecommunications.)

For the SCN Group, in the area of Internet provider services, sales decreased. Although the number of SCN Group broadband subscribers was 90,000 larger than the year earlier period, totaling 580,000, the number of narrowband subscribers decreased.

In the area of Internet-related services, sales increased. This was mainly a result of an increase in viewer fees for CS broadcasting and an increase in sales at subsidiaries. Also, there was an increase in the area of merchandise sales.

Furthermore, the total number of So-net subscribers at the end of the period under review was 2.29 million, roughly flat with the year earlier period.

**Regarding operating income,** there was an improvement. During the quarter under review, an operating profit of 780 million yen was recorded, compared with an operating loss of 187 million yen in the year earlier period.

The main factor in the improvement was a series of cost reductions. For example, for the item cost of sales, there were cost reductions related to integration of access points, including outsourcing work charge in network operation, for network lines costs, and for leases charge of servers and such. Furthermore, for the item selling, general and administrative expenses, there were reductions in costs for outsourcing work stemming from more efficient use of call centers, and improvements in advertising and marketing expenses as well as other fixed costs. In addition, there were improvements in the profitability of subsidiaries.

**Regarding ordinary income,** during the quarter under review, ordinary income of 720 million yen was recorded, compared with an ordinary loss of 110 million yen in the year earlier period.

Under the item of non-operating income, equity income of 4 million yen was recorded. Under the item of non-operating expenses, there were one-time expenses connected with a public stock offering of a subsidiary, and disposition of fixed assets.

**Regarding net income,** during the quarter under review, net income of 2,367 million yen was recorded, a significant improvement over a net loss of 155 million yen recorded during the year earlier period.

This was largely the result of the public stock offering of shares in an SCN Group subsidiary, So-net M3. Inc. Due to this offering, extraordinary gain was recorded, including gains from issuance of subsidiary stock of 1,821 million yen and gains from sale of subsidiary stock of 2,344 million yen. On the other hand, concerning unlisted equity investment, loss on investments in

other securities of 878 million yen was recorded as a result of a decline in the fair value of such stock resulting from a worsening of financial conditions of investee companies. Also, an extraordinary loss of 295 million yen was recorded as a result of impairment losses in subsidiary's fixed assets. As a result of the above, net income before income taxes was 3,604 million yen and taxes including corporate tax totaled 1,226 million yen during the quarter under review.

## Sales by Category

### Three-months ended September 30, 2004

|                   |                            | Three months ended Sept. 30, 2003 (millions of yen) | Percentage of total (%) | Three months ended Sept. 30, 2004 (millions of yen) | Percentage of total (%) | Year-on-year change (%) |
|-------------------|----------------------------|---|-------------------------|---|-------------------------|-------------------------|
| Operating revenue | Internet provider services | 7,813   | 80.6                    | <b>7,290</b>  | 72.8                    | (6.7)                   |
|                   | Internet-related services  | 1,670   | 17.2                    | <b>2,463</b>  | 24.6                    | 47.5                    |
| Merchandise sales |                            | 207   | 2.2                     | <b>258</b>  | 2.6                     | 24.2                    |
| Total             |                            | 9,691   | 100.0                   | <b>10,010</b>                                       | 100.0                   | 3.3                     |

### Six-months ended September 30, 2004

|                   |                            | Six-months ended Sept. 30, 2003 (millions of yen) | Percentage of total (%) | Six-months ended Sept. 30, 2004 (millions of yen) | Percentage of total (%) | Year-on-year change (%) |
|-------------------|----------------------------|---|-------------------------|---|-------------------------|-------------------------|
| Operating revenue | Internet provider services | 15,584  | 82.0                    | <b>14,608</b>                                     | 74.4                    | (6.3)                   |
|                   | Internet-related services  | 3,022   | 15.9                    | <b>4,578</b>                                      | 23.3                    | 51.5                    |
| Merchandise sales |                            | 408   | 2.1                     | <b>454</b>  | 2.3                     | 11.4                    |
| Total             |                            | 19,014  | 100.0                   | <b>19,640</b>                                     | 100.0                   | 3.3                     |

### «Operating revenue»

#### ISP services

In this category, the SCN Group has worked to expand its service area for ADSL and FTTH by cooperating with telecom carriers and has worked to enrich its FTTH offerings. The SCN Group has also worked to carry out promotional campaigns to acquire new subscribers, and for narrowband subscribers, the SCN Group has worked to solicit subscriber transitions to broadband services.

As a result, the number of broadband subscribers increased, but the number of narrowband subscribers decreased. Overall, sales of ISP services for the quarter under review were 7,290 million yen, a decrease of 6.7% compared with the year earlier period. Such sales accounted for 72.8% of total sales.

### Internet-related services

In this category, the SCN Group increased sales of services, such as systems for online games and viewer fees for CS broadcasting “So-net Channel 749,” which is programming focused on popular Korean dramas such as “Truth” and “Shoes of Glass.” Also, at group subsidiary Skygate, Co., Ltd., there were increases in commission revenue related to increased air ticket transactions, and at So-net M3 Inc., which carried out a public stock offering in September 2004, there were revenue increases stemming from expansion of “MR-kun.” As a result, sales in this category during the quarter under review increased 47.5% to 2,463 million yen. Sales in this category accounted for 24.6% total sales.

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

In this category, sales steadily increased at e-commerce sites, including the theater-related site “e-oshibai.com”, the animation site “Animax Online Shop”, and online fashion shopping mall “Select Square”, which brings together a variety of famous shops. As a result, sales in this category during the quarter under review increased 24.2% to 258 million yen. Sales in this category 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 four consolidated subsidiaries: So-net Sports.com Corp., So-net M3 Inc., So-net M3 U.S.A. Corp., and Skygate, Co., Ltd. Affiliated companies accounted for by the equity method include Label Gate Co., Ltd. and DeNA Co., Ltd.

During the quarter under review, So-net M3 Inc. listed its common stock on the Tokyo Stock Exchange “Mothers” board on September 16, 2004. At this time, both new stock was issued and existing stock was sold, so the shareholding ratio of So-net M3 Inc. and its subsidiary So-net M3 U.S.A. Corp. held by the SCN Group declined to 74.8%.

During the quarter under review, equity income of 4 million yen was recorded, compared with 2 million yen during the year earlier period, due to the continued strength at DeNA Co., Ltd.’s auctions site and other e-commerce sites.

## Cash Flow (April 1, 2004 to September 30, 2004)

Cash and cash equivalents were 8,434 million yen at September 30, 2004, an increase of 6,253 million yen from the end of the prior fiscal year, and an increase of 6,880 million yen from the end of the year earlier period. During the six-month period under review, the SCN Group generated 1,812 million yen of cash in operating activities, generated 2,240 million yen of cash in investing activities, and generated 2,201 million yen of cash in financing activities.

### <Cash flows from operating activities>

During the six-month period ended September 30, 2004, regarding cash flows from operating activities, the SCN Group generated 1,812 million yen, compared with the six-month period ended September 30, 2003 when the SCN Group used 350 million yen. This was mainly due to net income before income taxes in the period under review of 4,374 million yen, compared with a net loss before income taxes of 441 million yen in the year earlier period. Also, included in the net income before income taxes during the period under review was non-cash expense as such depreciation of 371 million yen, loss on impairment of long-lived assets of 295 million yen, and amortization of goodwill of 142 million yen, and non-cash income such as gain on sales of subsidiary stock of 2,344 million yen and gain on issuance of subsidiary stock of 1,821 million yen.

### <Cash flows from investing activities>

During the six-month period ended September 30, 2004, regarding cash flows from investing activities, the SCN Group generated 2,240 million yen, compared with the six-month period ended September 30, 2003 when the SCN Group used 879 million yen. The main factor in the period under review was proceeds of 2,577 million yen from the sale of subsidiary stock, which was a result of the sale of the stock by the SCN Group when So-net M3 Inc., the Group's consolidated subsidiary, listed on the Tokyo Stock Exchange Mothers board. Also, outlays for acquisition of intangible assets such as connection services, e-commerce related systems, and homepage development were 338 million yen, compared with outlays of 366 million yen in the year earlier period.

### <Cash flows from financing activities>

During the six-month period ended September 30, 2004, regarding cash flows from financing activities, the SCN Group generated 2,201 million yen, while during the six-month period ended September 30, 2003, the SCN Group used 600 million yen. During the period under review, this reflected the issuance of subsidiary stock at the time of the listing of the Group's consolidated subsidiary So-net M3 Inc., the Group's consolidated subsidiary, on the Tokyo Stock Exchange Mothers board.

---

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

For the three-months ended September 30, 2004

(Millions of yen)

|  | Three-months ended September 30 |       |               | Change       |
|--|---------------------------------|-------|---------------|--------------|
|  | 2003                            | 2004  |               |              |
| Sales  |                                 | 9,691 | <b>10,010</b> | 3.3%         |
| Cost of sales  |                                 | 6,071 | <b>5,766</b>  |              |
| Gross profit   |                                 | 3,621 | <b>4,245</b>  |              |
| Selling, general and administrative expenses           |                                 | 3,808 | <b>3,465</b>  |              |
| Operating income (loss)                                |                                 | (187) | <b>780</b>    | —%           |
| Non-operating income                                   |                                 |       |               |              |
| Equity in net income of affiliated companies           |                                 | 2     | <b>4</b>      |              |
| Other  | 171                             | 173   | <b>9</b>      | <b>13</b>    |
| Non-operating expenses                                 |                                 | 96    | <b>73</b>     |              |
| Ordinary income (loss)                                 |                                 | (110) | <b>720</b>    | —%           |
| Extraordinary gain                                     |                                 |       |               |              |
| Gain on sale of subsidiary stock                       | —                               |       | <b>2,344</b>  |              |
| Gain on issuance of subsidiary stock                   | —                               |       | <b>1,821</b>  |              |
| Gain on sale of fixed assets                           | —                               | —     | <b>25</b>     | <b>4,191</b> |
| Extraordinary loss                                     |                                 |       |               |              |
| Loss on revaluation of investments in other securities | 28                              |       | <b>878</b>    |              |
| Loss on impairment of long-lived assets                | —                               |       | <b>295</b>    |              |
| Provision for allowance for doubtful accounts          | —                               |       | <b>133</b>    |              |
| Loss on issuance of stock by equity investee           | —                               | 28    | <b>1</b>      | <b>1,307</b> |
| Net income (loss) before income taxes                  |                                 | (138) | <b>3,604</b>  | —%           |
| Income tax current                                     | 96                              |       | <b>1,241</b>  |              |
| Income tax deferred                                    | (86)                            | 10    | <b>(15)</b>   | <b>1,226</b> |
| Minority interest income                               |                                 | 7     | <b>10</b>     |              |
| Net income (loss)                                      |                                 | (155) | <b>2,367</b>  | —%           |

**For the six-months ended September 30, 2004****(Millions of yen)**

|  | Six-months ended September 30 |        |      |               | Change       |
|--|-------------------------------|--------|------|---------------|--------------|
|  | 2003                          |        | 2004 |               |              |
| Sales  |                               | 19,014 |      | <b>19,640</b> | 3.3%         |
| Cost of sales  |                               | 11,842 |      | <b>11,184</b> |              |
| Gross profit   |                               | 7,172  |      | <b>8,457</b>  |              |
| Selling, general and administrative expenses           |                               | 7,635  |      | <b>6,956</b>  |              |
| Operating income (loss)                                |                               | (463)  |      | <b>1,500</b>  | —%           |
| Non-operating income                                   |                               |        |      |               |              |
| Equity in net income of affiliated companies           |                               | —      |      | <b>9</b>      |              |
| Other  | 207                           | 207    |      | <b>64</b>     | <b>74</b>    |
| Non-operating expenses                                 |                               |        |      |               |              |
| Equity in net loss of affiliated companies             |                               | 18     |      | —             |              |
| Other  | 138                           | 156    |      | <b>83</b>     | <b>83</b>    |
| Ordinary income (loss)                                 |                               | (412)  |      | <b>1,491</b>  | —%           |
| Extraordinary gain                                     |                               |        |      |               |              |
| Gain on sale of subsidiary stock                       |                               | —      |      | <b>2,344</b>  |              |
| Gain on issuance of subsidiary stock                   |                               | —      |      | <b>1,821</b>  |              |
| Gain on sale of fixed assets                           |                               | —      | —    | <b>25</b>     | <b>4,191</b> |
| Extraordinary loss                                     |                               |        |      |               |              |
| Loss on revaluation of investments in other securities |                               | 28     |      | <b>878</b>    |              |
| Loss on impairment of long-lived assets                |                               | —      |      | <b>295</b>    |              |
| Provision for allowance for doubtful accounts          |                               | —      |      | <b>133</b>    |              |
| Loss on issuance of stock by equity investee           |                               | 1      | 29   | <b>1</b>      | <b>1,307</b> |
| Net income (loss) before income taxes                  |                               | (441)  |      | <b>4,374</b>  | —%           |
| Income tax current                                     |                               | 78     |      | <b>1,440</b>  |              |
| Income tax deferred                                    | (149)                         | (71)   |      | <b>154</b>    | <b>1,594</b> |
| Minority interest income                               |                               | 14     |      | <b>21</b>     |              |
| Net income (loss)                                      |                               | (384)  |      | <b>2,760</b>  | —%           |

## Condensed Consolidated Balance Sheets

|   | (Millions of yen)    |                  |                      |
|---|----------------------|------------------|----------------------|
|   | September 30<br>2003 | March 31<br>2004 | September 30<br>2004 |
| <b>ASSETS</b>   |                      |                  |                      |
| Current assets  | <u>7,232</u>         | <u>7,363</u>     | <u>13,525</u>        |
| Cash and bank deposit                                       | 519                  | 840              | 3,237                |
| Notes and account receivable, trade                         | 3,866                | 3,891            | 3,764                |
| Inventories   | 161                  | 130              | 143                  |
| Deposits in Sony group company                              | 1,036                | 1,342            | 5,198                |
| Other   | 1,691                | 1,183            | 1,243                |
| Allowance for bad debt                                      | (40)                 | (23)             | (60)                 |
| Noncurrent assets   | <u>5,519</u>         | <u>5,637</u>     | <u>4,261</u>         |
| Property, plant and equipment                               | 311                  | 256              | 229                  |
| Furniture and fixtures                                      | 203                  | 162              | 142                  |
| Other   | 108                  | 94               | 87                   |
| Intangible assets   | <u>2,432</u>         | <u>2,263</u>     | <u>2,150</u>         |
| Software  | 1,290                | 1,286            | 1,505                |
| Goodwill  | 948                  | 708              | 567                  |
| Other   | 194                  | 269              | 78                   |
| Investment and other assets                                 | <u>2,776</u>         | <u>3,118</u>     | <u>1,882</u>         |
| Investment in affiliates and others                         | 1,660                | 1,495            | 660                  |
| Other   | 1,116                | 1,623            | 1,320                |
| Reserve for doubtful accounts                               | —                    | —                | (98)                 |
| Total assets  | <u>12,751</u>        | <u>13,001</u>    | <u>17,786</u>        |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                 |                      |                  |                      |
| Current liabilities   | <u>4,929</u>         | <u>5,167</u>     | <u>6,225</u>         |
| Account payable, trade                                      | 2,454                | 2,463            | 2,561                |
| Current portion of long-term borrowing from parent company  | 200                  | —                | —                    |
| Accrued expense   | 1,461                | 1,711            | 1,322                |
| Accrued income taxes  | 104                  | 197              | 465                  |
| Accrued bonuses   | 216                  | 239              | 226                  |
| Accrued customer incentive program                          | —                    | 81               | 138                  |
| Other accruals  | —                    | —                | 2                    |
| Other   | 494                  | 475              | 1,511                |
| Long-term liabilities                                       | <u>119</u>           | <u>140</u>       | <u>460</u>           |
| Accrued severance costs for employees                       | 81                   | 93               | 105                  |
| Accrued severance indemnities for directors                 | 38                   | 47               | 55                   |
| Other   | —                    | —                | 300                  |
| Total liabilities   | <u>5,048</u>         | <u>5,306</u>     | <u>6,685</u>         |
| Minority interest   | <u>47</u>            | <u>58</u>        | <u>704</u>           |
| Common stock  | 5,246                | 5,246            | 5,246                |
| Additional paid-in capital                                  | 4,765                | 4,765            | 4,765                |
| Retained earnings (accumulated losses)                      | (2,345)              | (2,373)          | 386                  |
| Unrealized exchange gains (losses) of investment securities | (10)                 | —                | 1                    |
| Foreign currency translation adjustments                    | —                    | (1)              | (1)                  |
| Total stockholders' equity                                  | <u>7,655</u>         | <u>7,636</u>     | <u>10,397</u>        |
| Total liabilities and stockholders' equity                  | <u>12,751</u>        | <u>13,001</u>    | <u>17,786</u>        |

## Consolidated Statements of Additional Paid-in Capital and Retained Earnings and Accumulated Losses

(millions of yen)

| Item                                   | Six-months ended<br>September 30, 2003 | Six-months ended<br>September 30, 2004 |
|--|--|--|
| Additional Paid-in Capital             |  |  |
| Balance at beginning of fiscal year    | 4,765                                  | 4,765                                  |
| Balance at end of period               | 4,765                                  | 4,765                                  |
| Retained Earnings (Accumulated Losses) |  |  |
| Balance at beginning of fiscal year    | (1,961)                                | (2,373)                                |
| Increase                               |  |  |
| Net income                             | —                                      | 2,760                                  |
| Decrease                               |  |  |
| Net loss                               | (384)                                  | —                                      |
| Balance at end of period               | (2,345)                                | 386                                    |

# Consolidated Statements of Cash Flow

(millions of yen)

|   | Six-months ended September 30 |              |
|---|-------------------------------|--------------|
|   | 2003                          | 2004         |
| I. Cash flows from operating activities                 |                               |              |
| Net (loss) income before income taxes                   | (441)                         | 4,374        |
| Depreciation and amortization                           | 389                           | 371          |
| Loss on impairment of long-lived assets                 | —                             | 295          |
| Amortization for goodwill                               | 156                           | 142          |
| Equity in net loss (income) of affiliated companies     | 18                            | (9)          |
| Gain on issuances of subsidiary stock                   | —                             | (1821)       |
| Loss on issuance of stock by equity investee            | 1                             | 1            |
| Loss on revaluation of investments in other securities  | 28                            | 878          |
| Gain on sale of subsidiary stock                        | —                             | (2,344)      |
| Stock issuance costs                                    | —                             | 13           |
| Decrease in accrued bonuses                             | (1)                           | (14)         |
| Increase in accrued severance costs for employees       | 17                            | 12           |
| Increase in accrued severance indemnities for directors | 8                             | 9            |
| (Decrease) increase in allowance for bad debt           | (7)                           | 134          |
| Increase in customer incentive program                  | —                             | 57           |
| Increase in other accruals                              | —                             | 2            |
| Interest income   | (2)                           | (3)          |
| Interest expenses                                       | 2                             | 0            |
| Loss on disposal of tangible fixed assets               | 77                            | 46           |
| Loss on sales of tangible fixed assets                  | 1                             | 0            |
| Gain on sales of tangible fixed assets                  | (0)                           | (25)         |
| (Increase) decrease in trade receivable                 | (64)                          | 127          |
| Decrease (Increase) in inventories                      | 118                           | (14)         |
| Increase in other current assets                        | (85)                          | (172)        |
| Increase in trade payable                               | 26                            | 97           |
| Decrease in accrued expenses                            | (428)                         | (388)        |
| Decrease in other current liabilities                   | (36)                          | (82)         |
| Sub Total   | <u>(223)</u>                  | <u>1,686</u> |
| Receipt of interest                                     | 2                             | 3            |
| Payments for interest                                   | (2)                           | (0)          |
| (Payments) receipt for income taxes                     | <u>(126)</u>                  | <u>124</u>   |
| Net cash (used in) provided by operating activities     | <u>(350)</u>                  | <u>1,812</u> |

|   | (millions of yen)             |              |
|---|-------------------------------|--------------|
|   | Six-months ended September 30 |              |
|   | <u>2003</u>                   | <u>2004</u>  |
| II. Cash flows from investing activities                            |                               |              |
| Payment for securities investment                                   | (122)                         | (10)         |
| Proceeds from sales of securities investment                        | —                             | 0            |
| Proceeds from sales of subsidiary stock                             | —                             | 2,577        |
| Payment for acquisition of fixed assets                             | (20)                          | (9)          |
| Proceeds from sales of fixed assets                                 | 0                             | 25           |
| Payment for acquisition of intangible assets                        | (366)                         | (338)        |
| Proceeds from sales of intangible assets                            | 0                             | —            |
| Payment for deposits  | (0)                           | (2)          |
| Proceeds from deposits  | 1                             | —            |
| Payments for long term prepaid expenses                             | (195)                         | (15)         |
| Payments for loan   | (178)                         | (24)         |
| Prepayment of loan  | —                             | 35           |
| Net cash (used in) provided by investing activities                 | <u>(879)</u>                  | <u>2,240</u> |
| III. Cash flows from financing activities                           |                               |              |
| Payments of long term debt  | (600)                         | —            |
| Proceeds from issuance of subsidiary stock                          | —                             | 2,201        |
| Net cash (used in) provided by financing activities                 | <u>(600)</u>                  | <u>2,201</u> |
| IV. Effect of exchange rate difference on cash and cash equivalents | —                             | (0)          |
| V. (Decrease) increase in cash and cash equivalents                 | (1,829)                       | 6,253        |
| VI. Cash and cash equivalents at beginning of year                  | <u>3,384</u>                  | <u>2,182</u> |
| VII. Cash and cash equivalents at end of period                     | <u>1,555</u>                  | <u>8,434</u> |

(Notes)

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<br>September 30, 2003 | <b>Three-months ended<br/>September 30, 2004</b> | Change<br>(%) |
| Increase in fixed assets           | 10                                       | <b>8</b>   | (21.2)        |
| Increase in intangible assets      | 269                                      | <b>277</b>                                       | 3.1           |
| Depreciation of fixed assets*      | 25                                       | <b>18</b>  | (25.6)        |
| Amortization of intangible assets* | 148                                      | <b>148</b>                                       | (0.3)         |
|                                    | Six-months ended<br>September 30, 2003   | <b>Six-months ended<br/>September 30, 2004</b>   | Change<br>(%) |
| Increase in fixed assets           | 20                                       | <b>10</b>  | (48.8)        |
| Increase in intangible assets      | 483                                      | <b>360</b>                                       | (25.4)        |
| Depreciation of fixed assets*      | 49                                       | <b>35</b>  | (28.5)        |
| Amortization of intangible assets* | 290                                      | <b>289</b>                                       | (0.4)         |

\* Includes loss on impairment of long-lived assets (excluding amounts related to leased assets)

## **Consolidated Results Forecast (revised)**

Regarding the forecast of the consolidated results for the fiscal year ending March 31, 2005, the SCN Group has revised towards improved profitability the forecast previously announced on September 8, 2004.

The reasons for the revisions are as follows:

1. Regarding operating income, the main factor is a reduction in fixed costs stemming from both cost reductions, in areas such as network usage related to the integration of access points, outsourcing, and leases, and structural improvements.
2. Regarding ordinary income, the main factor is the above expected improvement in operating income.
3. Regarding net income, in the quarter under review, a loss on revaluation of investments in other securities of 878 million yen and a loss on impairment of long-lived assets, including lease assets at subsidiary, of 295 million yen were recorded. Furthermore, in the third quarter ending December 31, 2004, it is expected that a gain of 533 million yen from the sale of 740 shares in an over-allotment relating to the public offering of So-net M3 Inc. will be recorded. These factors, together with an increase in the tax expenses related to the revision in ordinary income, and the revision in ordinary income itself, are the main reasons for the revision in forecast net income.

The SCN Group announces the following forecast for consolidated results as of October 28, 2004:

| <u>Consolidated Results</u> |        | (millions of yen)<br><u>Change from previous forecast</u> |
|-----------------------------|--------|---|
| Sales                       | 40,000 | ± 0.0%  |
| Operating income            | 2,500  | + 66.7%   |
| Ordinary income             | 2,500  | + 66.7%   |
| Net income                  | 3,300  | - 10.8%   |

Previous forecast announced September 8, 2004:

| <u>Consolidated Results</u> |        | <u>Change from previous forecast</u> |
|-----------------------------|--------|--------------------------------------|
| Sales                       | 40,000 | ± 0.0%                               |
| Operating income            | 1,500  | ---                                  |
| Ordinary income             | 1,500  | ---                                  |
| Net income                  | 3,700  | + 428.6%                             |

Forecast announced July 28, 2004:

| <u>Consolidated Results</u> |        | <u>Change from previous forecast</u> |
|-----------------------------|--------|--------------------------------------|
| Sales                       | 40,000 | + 3.1%                               |
| Operating income            | 1,500  | ---                                  |
| Ordinary income             | 1,500  | ---                                  |
| Net income                  | 700    | + 50.0%                              |

(For reference)

Consolidated Results for the year ended March 31, 2004

| <u>Consolidated Results</u> |        | <u>Change from previous year</u> |
|-----------------------------|--------|----------------------------------|
| Sales                       | 38,166 | (1.6)%                           |
| Operating loss              | 870    | ---                              |
| Ordinary loss               | 911    | ---                              |
| Net loss                    | 412    | ---                              |

**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.