

## News & Information

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### ***Subsidiary Tracking Stock Sony Communication Network Corporation Consolidated Financial Results for the quarter ended December 31, 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 third quarter ended December 31, 2004 (the period from October 1, 2004 to December 31, 2004) and the nine-month period ended December 31, 2004 (the period from April 1, 2004 to December 31, 2004).

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

- **For the three months ended December 31, 2004, as in the prior quarter, increase in revenue and a large increase in income compared to the year earlier period.**

During the quarter under review, sales increased 2.8% compared with the year earlier period, to 9,854 million yen. Operating income of 902 million yen was recorded, compared with an operating loss of 463 million yen in the year earlier period. Ordinary income of 944 million yen, compared with an ordinary loss of 504 million yen in the year earlier period, was recorded. Net income increased 166.8% compared with the year earlier period, to 778 million yen.

- **So-net subscribers total 2.37 million, of which 610,000 are broadband subscribers**

Compared with the end of the year earlier period, the number of broadband subscribers increased by 90,000 from 520,000 to 610,000. Also, the total number of subscribers increased by 70,000 from 2.30 million at the end of the year earlier period to 2.37 million.

- **Fiscal Year 2004 Forecast**

For the nine month period ended December 31, 2004, sales were 29,494 million yen compared with 28,604 million yen in the year earlier period. Operating income was 2,402 million yen, compared with an operating loss of 926 million yen in the year earlier period. Ordinary income of 2,435 million yen was recorded, compared with a loss of 917 million yen in the year earlier period, and net income of 3,538 million yen was recorded, compared with a net loss of 92 million yen in the year earlier period. Given these results for the first nine months of the fiscal year, there are no changes to the forecast of consolidated results announced on October 28, 2004.

However, the expected number of So-net subscribers as of the end of the year ending March 31, 2005 has been revised from 2.35 million to 2.40 million.

### **Consolidated Results for the quarter ended December 31, 2004**

(Millions of Yen)

	Three months ended December 31		
	2003	2004	Change (%)
Sales	9,590	<b>9,854</b>	+2.8
Operating income (loss)	(463)	<b>902</b>	—
Ordinary income (loss)	(504)	<b>944</b>	—
Net income (loss)	(292)	<b>778</b>	166.8

## Consolidated Results for the nine-months ended December 31, 2004

	(Millions of Yen)		
	Nine-months ended December 31		
	2003	2004	Change (%)
Sales	28,604	29,494	+3.1
Operating income (loss)	(926)	2,402	—
Ordinary income (loss)	(917)	2,435	—
Net income (loss)	(92)	3,538	—

### Summary of Consolidated Operations (October 1, 2004 to December 31, 2004)

**Regarding sales**, during the quarter under review, sales increased 2.8% to 9,854 million yen, compared with 9,590 million yen in the year earlier period.

In the area of Internet provider services, the number of new subscribers to ADSL and FTTH continued to increase at a steady pace. As a result, the number of So-net broadband subscribers increased by 90,000 from the year earlier period to 610,000. However, the number of narrowband subscribers decreased, and as a result, sales in this area decreased.

In the area of Internet-related services, sales increased. This was mainly a result of an increase in content-related sales and viewer fees for CS broadcasting, as well as 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 increased 70,000 from the end of the year earlier period, to 2.37 million. This was mainly a result of increases in broadband subscribers and content users.

**Regarding operating income**, there was a significant improvement. During the quarter under review, an operating profit of 902 million yen was recorded, compared with an operating loss of 463 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 reductions in outsourcing costs and network usage costs, as well as lease of servers and others, relating to the integration of access points. Furthermore, for the item selling, general and administrative expenses, although there were increases in costs relating to customer acquisitions, there were reductions in costs for outsourcing work stemming from more efficient use of call centers and from a significant review of sales promotion expenses and television marketing campaigns. Also, the quarter saw improvement in the profitability of subsidiaries.

**Regarding ordinary income**, there was significant improvement. During the quarter under review, ordinary income of 944 million yen was recorded, compared with an ordinary loss of 504 million yen in the year earlier period.

Under the item of non-operating income, equity income of 32 million yen was recorded. The item of non-operating expenses included loss on disposal of tangible fixed assets.

**Regarding net income before income taxes**, during the quarter under review, there was an increase of 958.5%, to 1,441 million yen, from 136 million yen in the year earlier period. This included an extraordinary gain of 532 million yen under gain on sales of subsidiary stock, stemming from over-allotment proceeds from the public offering of So-net M3, Inc. on the Tokyo Stock Exchange Mothers Board. On the other hand, an extraordinary loss of 37 million yen was recorded relating to a relocation of a part of call center. Also, the current and deferred income taxes totaled 625 million yen. Minority interest income was 38 million yen.

**Regarding net income**, compared with net income of 292 million yen during the year earlier period, net income during the quarter under review increased 166.8% to 778 million yen.

## Sales by Category

### Three-months ended December 31, 2004

		Three months ended Dec. 31, 2003 (millions of yen)	Percentage of total (%)	<b>Three months ended Dec. 31, 2004 (millions of yen)</b>	Percentage of total (%)	Year-on- year change (%)
Operating revenue	Internet provider services	7,656	79.8	<b>7,124</b>	72.3	(7.0)
	Internet- related services	1,689	17.6	<b>2,410</b>	24.5	42.7
Merchandise sales		245	2.6	<b>320</b>	3.2	30.7
Total		9,590	100.0	<b>9,854</b>	100.0	2.8

### Nine-months ended December 31, 2004

		Nine-months ended Dec. 31, 2003 (millions of yen)	Percentage of total (%)	<b>Nine-months ended Dec. 31, 2004 (millions of yen)</b>	Percentage of total (%)	Year-on- year change (%)
Operating revenue	Internet provider services	23,295	81.4	<b>21,732</b>	73.7	(6.7)
	Internet- related services	4,657	16.3	<b>6,988</b>	23.7	50.1
Merchandise sales		653	2.3	<b>774</b>	2.6	18.6
Total		28,604	100.0	<b>29,494</b>	100.0	3.1

### 《Operating revenue》

#### ISP services

In this category, in order to meet customer needs, particularly for ADSL and FTTH, the SCN Group worked at the end of the year to carry out customer acquisition activities utilizing ADSL and FTTH. As a result, the number of broadband So-net subscribers increased to 610,000, and the total number of subscribers increased to 2.37 million. On the other hand, the impact of narrowband subscribers canceling their service plans resulted in an overall decrease in sales in this category of 7.0%, to 7,124 million yen. Such sales accounted for 72.3% of total sales.

#### Internet-related services

In this category, sales of consolidated subsidiaries increased smoothly, including those of travel-related site Skygate, Co., Ltd. and medical-related site So-net M3 Inc. Also, there were increases in CS broadcasting viewer fees, such as for Korean dramas, as well as increases in management fees for authentication and settlement systems related to online games. As a result, sales in this category during the quarter under review increased 42.7% to 2,410 million yen. Sales in this category accounted for 24.5% of total sales.

### 《Merchandise sales》

In this category, there were contributions from sales of products related to fashion sites, as well as those related to sporting and theater events. As a result, sales in this category during the quarter under review increased 30.7% to 320 million yen. Sales in this category accounted for 3.2% 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., So-net M3 U.S.A. Corp., and Skygate, Co., Ltd.

Regarding Label Gate Co., Ltd., accounted for by the equity method, although there was a significant expansion of distributions, stemming from steps such as the start of album downloads and an increase in the number of songs offered, the company has not yet reached the stage of recording profits.

DeNA Co., Ltd. has continued to record profits by increasing the number of goods offered for auctions and shopping, and at the same time it has strengthened “mobaoku” its auction site for cellular phones.

As a result, during the quarter under review, equity income of 32 million yen was recorded, compared with equity income of 14 million yen in the year earlier period.

Also, on January 13, 2005, the listing of DeNA Co., Ltd. on the Tokyo Stock Exchange Mothers Board was approved.

## Cash Flow (April 1, 2004 to December 31, 2004)

Cash and cash equivalents were 10,120 million yen at the end of the nine-month period ended December 31, 2004, an increase of 7,792 million yen from the end of year earlier period, and an increase of 7,938 million yen from the end of the prior fiscal year. During the nine-month period under review, the SCN Group generated 3,090 million yen of cash in operating activities, generated 2,650 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 nine-month period ended December 31, 2004, regarding cash flows from operating activities, the SCN Group generated 3,090 million yen, compared with the nine-month period ended December 31, 2003 when the SCN Group generated 41 million yen. During the period under review, the main factors included net income before income taxes of 5,815 million yen, compared with a net loss before income taxes of 305 million yen in the year earlier period. Included in net income before income taxes during the period under review were gain on sale of subsidiary stock of 2,876 million yen, 2,795 million yen larger than gain on sale of investment in affiliate of 81 million yen in the year earlier period and gain on issuance of subsidiary stock that was non-cash gain of 1,823 million yen, 1,209 million yen larger than gain on issuance of stock by equity investee of 613 million yen in the year earlier period.

### <Cash flows from investing activities>

During the nine-month period ended December 31, 2004, regarding cash flows from investing activities, the SCN Group generated 2,650 million yen, compared with the nine-month period ended December 31, 2003 when the SCN Group used 296 million yen. The main factor in the period under review was proceeds of 3,162 million yen stemming from gain on sales of subsidiary stock, which was the stock offering when consolidated subsidiary So-net M3 Inc. listed on the Tokyo Stock Exchange Mothers Board. Also, although repayment of loan from affiliate companies decreased from 732 million yen in the year earlier period to 53 million yen, outlays for acquisition of intangible assets such as connection services, e-commerce related systems, and homepage development were held down through careful consideration to 476 million yen, from 728 million yen in the year earlier period.

### <Cash flows from financing activities>

During the nine-month period ended December 31, 2004, regarding cash flows from financing activities, the SCN Group generated 2,201 million yen, while during the nine-month period ended December 31, 2003, the SCN Group used 800 million yen. During the period under review, this reflected the issuance of new stock at the time of the listing of the Group's consolidated subsidiary So-net M3 Inc. on the Tokyo Stock Exchange Mothers board.

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## Condensed Consolidated Statements of Income (Unaudited)

For the three-months ended December 31, 2004

(Millions of yen)

	Three-months ended December 31				Change
	2003		2004		
Sales		9,590		<b>9,854</b>	2.8%
Cost of sales		5,963		<b>5,302</b>	
Gross profit		3,627		<b>4,552</b>	
Selling, general and administrative expenses		4,090		<b>3,650</b>	
Operating income (loss)		(463)		<b>902</b>	—%
Non-operating income					
Equity in net income of affiliated companies	14			<b>32</b>	
Other	1	15		<b>20</b>	<b>52</b>
Non-operating expenses		56		<b>10</b>	
Ordinary income (loss)		(504)		<b>944</b>	—%
Extraordinary gain					
Gain on sale of investment in affiliate and subsidiary stock	81			<b>532</b>	
Gain on issuance of stock by equity investee and subsidiary stock	613	695		<b>1</b>	<b>533</b>
Extraordinary loss					
Loss on withdrawal from certain operations	54			<b>—</b>	
Loss from relocation of certain business unit	—	54		<b>37</b>	<b>37</b>
Net income before income taxes		136		<b>1,441</b>	958.5%
Income tax current	(132)			<b>550</b>	
Income tax deferred	(29)	(162)		<b>75</b>	<b>625</b>
Minority interest income		6		<b>38</b>	
Net income		292		<b>778</b>	166.8%

**For the nine-months ended December 31, 2004****(Millions of yen)**

	Nine-months ended December 31				Change
	2003		2004		
Sales		28,604		<b>29,494</b>	3.1%
Cost of sales		17,805		<b>16,485</b>	
Gross profit		10,799		<b>13,009</b>	
Selling, general and administrative expenses		11,725		<b>10,607</b>	
Operating income (loss)		(926)		<b>2,402</b>	—%
Non-operating income					
Equity in net income of affiliated companies		—		<b>41</b>	
Other	208	208		<b>85</b>	<b>126</b>
Non-operating expenses					
Equity in net loss of affiliated companies		4		—	
Other	194	198		<b>93</b>	<b>93</b>
Ordinary income (loss)		(917)		<b>2,435</b>	—%
Extraordinary gain					
Gain on sale of investment in affiliate and subsidiary stock		81		<b>2,876</b>	
Gain on issuance of stock by equity investee and subsidiary stock		613		<b>1,823</b>	
Gain on sale of fixed assets		—	695	<b>25</b>	<b>4,724</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 withdrawal from certain operations		54		—	
Loss on issuance of stock by equity investee		1		<b>0</b>	
Loss from relocation of certain business unit		—	83	<b>37</b>	<b>1,344</b>
Net income (loss) before income taxes		(305)		<b>5,815</b>	—%
Income tax current	(54)			<b>1,990</b>	
Income tax deferred	(179)	(232)		<b>229</b>	<b>2,219</b>
Minority interest income		20		<b>58</b>	
Net income		(92)		<b>3,538</b>	—%

## Condensed Consolidated Balance Sheets (Unaudited)

	(Millions of yen)		
	December 31	March 31	December 31
	2003	2004	2004
<b>ASSETS</b>			
Current assets	<u>7,836</u>	<u>7,363</u>	<u>15,408</u>
Cash and bank deposit	644	840	3,553
Notes and account receivable, trade	3,871	3,891	3,869
Inventories	137	130	139
Deposits in Sony group company	1,684	1,342	6,567
Other	1,543	1,183	1,341
Allowance for bad debt	(43)	(23)	(61)
Noncurrent assets	<u>5,645</u>	<u>5,637</u>	<u>4,248</u>
Property, plant and equipment	294	256	232
Intangible assets	<u>2,407</u>	<u>2,263</u>	<u>2,156</u>
Software	1,265	1,286	1,614
Goodwill	870	708	496
Other	271	269	47
Investment and other assets	<u>2,945</u>	<u>3,118</u>	<u>1,860</u>
Investment in affiliates and others	1,526	1,495	707
Other	1,419	1,623	1,242
Allowance for bad debt	—	—	(89)
Total assets	<u>13,481</u>	<u>13,001</u>	<u>19,656</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities	<u>5,356</u>	<u>5,167</u>	<u>7,255</u>
Account payable, trade	2,631	2,463	2,744
Accrued expense	2,021	1,711	1,613
Other	704	993	2,898
Long-term liabilities	<u>130</u>	<u>140</u>	<u>431</u>
Total liabilities	<u>5,487</u>	<u>5,306</u>	<u>7,686</u>
Minority interest	<u>53</u>	<u>58</u>	<u>793</u>
Common stock	5,246	5,246	5,246
Additional paid-in capital	4,765	4,765	4,765
Retained earnings (accumulated losses)	(2054)	(2,373)	1,164
Unrealized exchange gains (losses) of investment securities	(14)	—	1
Foreign currency translation adjustments	(1)	(1)	1
Total stockholders' equity	<u>7,942</u>	<u>7,636</u>	<u>11,177</u>
Total liabilities and stockholders' equity	<u>13,481</u>	<u>13,001</u>	<u>19,656</u>

## Consolidated Statements of Cash Flow (Unaudited)

(Millions of yen)

	Nine-months ended December 31	
	2003	2004
I. Cash flows from operating activities		
Net income (loss) before income taxes	(305)	5,815
Depreciation and amortization	627	565
Loss on impairment of long-lived assets	—	295
Amortization for goodwill	234	213
Equity in net loss (income) of affiliated companies	4	(41)
Gain on issuance of stock by equity investee and subsidiary stock	(613)	(1,823)
Loss on issuance of stock by equity investee	1	0
Loss on revaluation of investments in other securities	28	878
Gain on sale of investment in affiliate and subsidiary stock	(81)	(2,876)
Stock issuance costs	—	13
Loss on withdrawal from certain operations	54	—
Loss from transfer of a part of call center	—	37
Decrease in accrued bonuses	(155)	(171)
Increase in accrued severance costs for employees	23	15
Increase in accrued severance indemnities for directors	13	13
Increase (decrease) in allowance for bad debt	(5)	127
Increase in customer incentive program	—	74
Increase in other accruals	—	4
Interest income	(2)	(5)
Interest expenses	3	0
Foreign exchange loss	—	4
Loss on disposal of fixed assets	85	49
Loss on sales of tangible fixed assets	1	0
Gain on sales of tangible fixed assets	(0)	(25)
(Increase) decrease in account receivable, trade	(69)	22
(Increase) decrease in inventories	141	(9)
Increase in other current assets	(214)	(255)
Increase in accounts payable, trade	203	280
Increase (decrease) in accrued expenses	112	(135)
Increase in other current liabilities	82	26
Sub Total	<u>167</u>	<u>3,090</u>
Receipt of interest	2	5
Payments for interest	(3)	(0)
Payments for income taxes	(126)	(5)
Net cash provided by operating activities	<u>41</u>	<u>3,090</u>

	(Millions of yen)	
	Nine-months ended December 31	
	<u>2003</u>	<u>2004</u>
II. Cash flows from investing activities		
Payment for securities investment	(122)	(10)
Proceeds from sales of securities investment	231	3,162
Payment for acquisition of fixed assets	(34)	(13)
Proceeds from sales of fixed assets	1	25
Payment for acquisition of intangible assets	(728)	(476)
Proceeds from sales of intangible assets	0	—
Payment for deposits	(4)	(5)
Proceeds from deposits	1	—
Payments for long term prepaid expenses	(195)	(42)
Payments for loan	(178)	(45)
Repayment of loan	732	53
Net cash provided by (used in) investing activities	<u>(296)</u>	<u>2,650</u>
III. Cash flows from financing activities		
Payments of long term debt	(800)	—
Proceeds from issuance of subsidiary stock	—	2,201
Net cash provided by (used in) financing activities	<u>(800)</u>	<u>2,201</u>
IV. Effect of exchange rate difference on cash and cash equivalents	(1)	(2)
V. Increase (decrease) in cash and cash equivalents	(1,056)	7,938
VI. Cash and cash equivalents at beginning of year	3,384	2,182
VII. Cash and cash equivalents at end of the period	<u>2,328</u>	<u>10,120</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)

	(Millions of yen)		
	Three-months ended December 31, 2003	<b>Three-months ended December 31, 2004</b>	Change (%)
Increase in fixed assets	10	<b>23</b>	142.2
Increase in intangible assets	262	<b>229</b>	(12.6)
Depreciation of fixed assets	25	<b>18</b>	(29.0)
Amortization of intangible assets	203	<b>152</b>	(25.1)
	Nine-months ended December 31, 2003	<b>Nine-months ended December 31, 2004</b>	Change (%)
Increase in fixed assets	30	<b>34</b>	12.3
Increase in intangible assets	745	<b>589</b>	(20.9)
Depreciation of fixed assets	75	<b>53</b>	(28.7)
Amortization of intangible assets	494	<b>441</b>	(10.6)

## Consolidated Results Forecast

Regarding the forecast of the consolidated results for the fiscal year ending March 31, 2005, there are no changes to the forecast announced on October 28, 2004, which appears below.

However, in connection with the public stock offering by DeNA Co., Ltd., which is expected to occur during the quarter ending March 31, 2005, it is expected that there will be a gain on issuance of stock by equity investee related to the SCN Group's investment in DeNA Co., Ltd. Because the offering price has not been set at the present time, the impact of this offering is not included in the below forecast.

(For reference)

(Millions of yen)

<u>Consolidated Results</u>	<u>FY 03 actual</u>	<u>FY 04 forecast</u>	<u>Change</u>
Sales	38,166	<b>40,000</b>	+4.8%
Operating income (loss)	(870)	<b>2,500</b>	+3,370
Operating income (loss)	(911)	<b>2,500</b>	+3,411
Net income (loss)	(412)	<b>3,300</b>	+3,712

### 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.