

## News & Information

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### *Subsidiary Tracking Stock*

### *Sony Communication Network Corporation*

### *Consolidated Financial Results for the Three-month and Six-month Periods ended September 30, 2005*



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, 2005 (the period from July 1, 2005 to September 30, 2005) and the six-month period ended September 30, 2005 (the period from April 1, 2005 to September 30, 2005).

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

- **During the quarter, increased sales but decreased profitability compared to year earlier period. Although Portal Services turned in a positive performance, there were increased costs for new subscriber acquisitions.**

During the quarter under review, sales increased 5.3% compared with the year earlier period, to 10,545 million yen. This was due to increased sales in the category of Portal Services. However, profitability decreased at each stage due to a focus on customer acquisition activities. An operating loss of 45 million yen was recorded, compared with an operating profit of 780 million yen in the year earlier period; an ordinary loss of 44 million yen was recorded, compared to an ordinary profit of 720 million yen; and a net loss of 392 million yen was recorded, compared with a net profit of 2,367 million yen.

- **Subscribers at 2.81 million; big increase in broadband subscribers, especially for FTTH.**

At the end of the quarter under review, the number of So-net subscribers totaled 2.81 million, an increase of 22.3% over the total of 2.29 million at the end of the year earlier period. Within this, the number of new broadband subscribers was 40,000, which was four times that of the year earlier period. The total number of broadband subscribers at the end of the quarter under review was 730,000, an increase of 26.0% over the total of 580,000 at the end of the year earlier period.

- **Connection Services see decreased revenue due to the effects of promotional campaigns, but increased sales for Portal Services compensates.**

Sales of Connection Services (see note 1) decreased 8.9% from the year earlier period, to 6,641 million yen, due to the effects of both promotional campaigns that offer free installation and usage fees and the decline in narrowband subscribers. Sales in Portal Services (see note 2) increased by 43.5% from the year earlier period, to 3,904 million yen, due to an increase of content revenue, merchandise sales, advertising revenue and others.

**Note 1:** The sales category known as "Internet provider services" through the fiscal year ended March 31, 2005 is now known as "Connection Services." There has not been any change in the sales breakdown of this category.

**Note 2:** Until the end of the fiscal year ended March 31, 2005, the sales categories known as "Internet-related services" and "Merchandise sales" were recorded separately. However, because web contents and sales of goods are both related, from this year, they are now consolidated into one category called "Portal Services." Within this, during the quarter under review, sales of "Merchandise sales" were 319 million yen.

## Consolidated Results for the three-months ended September 30, 2005

(Millions of Yen)

	Three-months ended September 30		
	<u>2004</u>	<u>2005</u>	<u>Change (%)</u>
Sales	10,010	10,545	+5.3
Operating income (loss)	780	(45)	--
Ordinary income (loss)	720	(44)	--
Net income (loss)	2,367	(392)	--

## Consolidated Results for the six-months ended September 30, 2005

(Millions of Yen)

	Six-months ended September 30		
	<u>2004</u>	<u>2005</u>	<u>Change (%)</u>
Sales	19,640	20,561	+4.7
Operating income (loss)	1,500	(35)	--
Ordinary income	1,491	66	(95.6)
Net income	2,760	9,911	+259.1

## Summary of Consolidated Operations (July 1, 2005 to September 30, 2005)

**Regarding sales**, during the quarter under review, sales increased 5.3% to 10,545 million yen, compared with 10,010 million yen in the year earlier period.

In the category of Connection Services, in conjunction with active customer acquisition efforts, as in the prior quarter, particularly for FTTH, the number of So-net broadband subscribers increased by 150,000 compared to the end of the year earlier period, to 730,000. However, with the effects of free promotional campaigns, which offer free installation and monthly usage, as well as of the decline in narrowband users, sales in this category declined.

On the other hand, in the category of Portal Services, sales increased due to an increase of revenue from content revenue aimed at cellular phones devices, air ticket sales at Skygate Co., Ltd. and advertising revenue.

Furthermore, the total number of So-net subscribers increased by 520,000 from the end of the year earlier period, to 2,810,000. This was mainly a result of increases in broadband subscribers and, from the quarter under review, the integration as So-net subscribers of 210,000 members of "Television Kingdom," an EPG (electronic programming guide).

**Regarding operating income**, during the quarter under review, an operating loss of 45 million yen was recorded, compared with operating income of 780 million yen in the year earlier period. This was a result of large increases in customer acquisition costs including such items as acquisition commissions and sales promotion expenses aimed at active efforts in the area of customer acquisitions, particularly for FTTH. This also resulted from expenditure for line connection costs incurred during the free promotional campaigns.

**Regarding ordinary income**, during the quarter under review, an ordinary loss of 44 million yen was recorded, compared with ordinary income of 720 million yen in the year earlier period. Within this, net non-operating income improved over the year earlier period, the reason being the recording of equity in net income of 25 million yen, stemming from strong results in equity affiliate DeNA, Co., Ltd.

**Regarding net income before income taxes**, during the quarter under review, a net loss before income taxes of 142 million yen was recorded, compared with net income before income taxes of 3,604 million yen in the year earlier period. During the quarter under review, factors affecting net income (loss) before income taxes included a revaluation of investment securities of 49 million yen and a one-time transfer allowance of 78 million yen that was recorded as an extraordinary loss.

As a result, the total income tax charges, including both income tax current and income tax deferred were 155 million yen. Furthermore, minority interest income of 96 million yen, compared with 10 million yen in the year earlier period, was recorded, due to increased profitability, and an increase in the minority interest, at So-net M3 Inc.

**Regarding net income**, a net loss of 392 million yen was recorded, compared with net income of 2,367 million yen in the year earlier period.

## Sales by Category

### Three-months ended September 30, 2005

	Three-months ended September 30, 2004 (millions of yen)	Percentage of total (%)	<b>Three-months ended September 30, 2005 (millions of yen)</b>	Percentage of total (%)	Year-on-year change (%)
Connection Services <sup>1</sup>	7,290	72.8	<b>6,641</b>	63.0	(8.9)
Portal Services <sup>2</sup>	2,721	27.2	<b>3,904</b>	37.0	+43.5
Total	10,010	100.0	<b>10,545</b>	100.0	+5.3

### Six-months ended September 30, 2005

	Six-months ended September 30, 2004 (millions of yen)	Percentage of total (%)	<b>Six-months ended September 30, 2005 (millions of yen)</b>	Percentage of total (%)	Year-on-year change (%)
Connection Services <sup>1</sup>	14,608	74.4	<b>13,475</b>	65.5	(7.8)
Portal Services <sup>2</sup>	5,033	25.6	<b>7,085</b>	34.5	+40.8
Total	19,640	100.0	<b>20,561</b>	100.0	+4.7

**Note 1:** The sales category known as “Internet provider services” through the fiscal year ended March 31, 2005 is now known as “Connection Services.” There has not been any change in the sales breakdown of this sales category.

**Note 2:** Until the end of the fiscal year ended March 31, 2005, the sales categories known as “Internet-related services” and “Merchandise sales” were recorded separately. However, because web contents and sales of goods are both related, from this year, they are now consolidated into one category called “Portal Services.” Within this, during the quarter under review, sales of “Merchandise sales” were 319 million yen, compared with 258 million yen in the year earlier period. For the six-month period under review, the figures were 717 million yen and 454 million yen, respectively.

### 《Operating revenue》

#### Connection Services

In this category, the SCN Group has aggressively worked to acquire new customers for its connection service plans, especially for FTTH. The SCN Group has been carrying out customer acquisition activities primarily at volume retailers and retailing sales agents.

As a result, the number of new broadband subscribers during the quarter under review, 40,000, was four times that of the year earlier period. At the end of the quarter under review, the number of broadband subscribers was 730,000, an increase of 26.0% over the year earlier number of 580,000. Furthermore, they accounted for 26% of the total number of So-net subscribers.

During the quarter under review, sales of Connection Services were 6,641 million yen, a decrease of 8.9% compared with the year earlier period. The reason for the decline in revenue in this category was the number of narrowband subscribers decreased and there was the effect of free promotional campaigns. Such sales accounted for 63.0% of total sales.

#### Portal Services

In this category, sales such as content revenue aimed at cellular phones devices, air ticket sales at Skygate, Co., Ltd. and advertising revenue showed favorable performance.

As a result, sales in this category during the quarter under review increased 43.5% compared with the year earlier period, to 3,904 million yen. Sales in this category accounted for 37.0% 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., Medi C&C Co. Ltd., and Skygate, Co., Ltd. The SCN Group includes the following two affiliated companies accounted for by the equity method: Label Gate Co., Ltd. and DeNA Co., Ltd.

During the quarter under review, So-net M3 Inc., which offers marketing support for medically-related companies, saw membership at “m3.com,” a sight for medical professionals, top 110,000. Also, there was an increase in sales due to such factors as an increase in the number of customer businesses.

At Skygate, Co., Ltd., turnover of air ticket, travel service products increased, especially in the July through September period.

Also, during the quarter under review, equity in net income of affiliated companies of 25 million yen was recorded, compared with 4 million yen in the year earlier period. This was largely due to results at DeNA Co., Ltd.’s, which has seen a steady increase in the number of fee-paying users, including at its affiliate network for mobile phones, “Pocket Affiliate,” and at its mobile phone service “Mobaoku,” which, from July 1, 2005, introduced monthly fees for its mobile phone service. Also, revenue related to settlement, and advertising sales have also grown at DeNA.

In conjunction with the recent expansion of the music download market, Label Gate Co., Ltd. also saw increases in available songs and the number of paid downloads. However, as before, profitability continued to be tough.

## **Cash Flow** (for the period April 1, 2005 to September 30, 2005)

Cash and cash equivalents were 25,509 million yen at the end of the six-month period ended September 30, 2005, an increase of 17,075 million yen from the end of the year earlier period, and an increase of 14,869 million yen from March 31, 2005. During the six-month period under review, the SCN Group used 2,784 million yen of cash in operating activities, generated 17,645 million yen of cash in investing activities, and saw no change in cash in financing activities.

### <Cash flows from operating activities>

During the six-month period ended September 30, 2005, regarding cash flows from operating activities, the SCN Group used 2,784 million yen, compared with the six-month period ended September 30, 2004 when the SCN Group generated 1,812 million yen. During the six-month period under review, although the SCN Group recorded net income before income taxes of 17,763 million yen, such income included 17,795 million yen of gain on sale of investment in affiliate and subsidiary stock, which is income related to cash flow from investing activities. Also, compared to the year earlier period, payments for income taxes increased greatly. Furthermore, during the six-month period under review, included in net income before income taxes were non-cash depreciation expense of 429 million yen and amortization of goodwill of 143 million yen.

### <Cash flows from investing activities>

During the six-month period ended September 30, 2005, regarding cash flows from investing activities, the SCN Group generated 17,645 million yen, compared with the six-month period ended September 30, 2004 when the SCN Group generated 2,240 million yen. The main factor in the period under review was the cash proceeds from sale of investment in affiliate and subsidiary stock of 18,499 million yen as a result of sales of stock in consolidated subsidiary So-net M3 Inc. and affiliated company accounted for by the equity method DeNA Co., Ltd. Also, the SCN Group recorded payment for acquisition of intangible assets of 623 million yen for systems and homepage development for connection services and e-commerce activities, compared to payments of 338 million yen in the year earlier period.

### <Cash flows from financing activities>

During the six-month period ended September 30, 2005, regarding cash flows from financing activities, the SCN Group did not carry out any financing or repayment activities.

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**Condensed Consolidated Statements of Income**  
**For the three-months ended September 30, 2005** (unaudited)

	<b>(Millions of yen)</b>		
	<b>Three-months ended September 30</b>		
	<b>2004</b>	<b>2005</b>	<b>Change</b>
Sales	10,010	<b>10,545</b>	5.3%
Cost of sales	5,766	<b>6,453</b>	
Gross profit	4,245	<b>4,091</b>	
Selling, general and administrative expenses	3,465	<b>4,136</b>	
Operating income (loss)	780	<b>(45)</b>	--%
Non-operating income			
Equity in net income of affiliated companies	4	<b>25</b>	
Other	9	<b>18</b>	<b>42</b>
Non-operating expenses	73	<b>41</b>	
Ordinary income (loss)	720	<b>(44)</b>	--%
Extraordinary gain			
Gain on sale of investment in affiliate and subsidiary stock	2,344	—	
Gain on issuance of stock by equity investee	1,821	<b>2</b>	
Reversal of allowance for bad debt	—	<b>27</b>	
Gain on sale of fixed assets	25	4,191	<b>29</b>
Extraordinary loss			
Loss on revaluation of investments in other securities	878	<b>49</b>	
Loss on impairment of long-lived assets	295	—	
Provision for allowance for doubtful accounts	133	—	
Loss on issuance of stock by equity investee	1	—	
One-time transfer allowance	—	1,307	<b>78</b>
Net income (loss) before income taxes	3,604	<b>(142)</b>	--%
Income tax current	1,241	<b>116</b>	
Income tax deferred	(15)	<b>39</b>	<b>155</b>
Minority interest income	10	<b>96</b>	
Net income (loss)	2,367	<b>(392)</b>	--%

**For the six-months ended September 30, 2005****(Millions of yen)**

	Six-months ended September 30			Change
	2004	2005		
Sales	19,640	<b>20,561</b>		4.7%
Cost of sales	11,184	<b>12,005</b>		
Gross profit	8,457	<b>8,556</b>		
Selling, general and administrative expenses	6,956	<b>8,591</b>		
Operating income (loss)	1,500	<b>(35)</b>		--%
Non-operating income				
Equity in net income of affiliated companies	9	<b>99</b>		
Other	64	74	<b>51</b>	<b>151</b>
Non-operating expenses		83	<b>50</b>	
Ordinary income	1,491	<b>66</b>		(95.6)%
Extraordinary gain				
Gain on sale of investment in affiliate and subsidiary stock	2,344	<b>17,795</b>		
Gain on issuance of stock by equity investee	1,821	<b>4</b>		
Reversal of allowance for bad debt	—	<b>27</b>		
Gain on sale of fixed assets	25	4,191	<b>—</b>	<b>17,827</b>
Extraordinary loss				
Loss on revaluation of investments in other securities	878	<b>49</b>		
Loss on impairment of long-lived assets	295	<b>—</b>		
Provision for allowance for doubtful accounts	133	<b>—</b>		
Loss on issuance of stock by equity investee	1	<b>3</b>		
One-time transfer allowance	—	1,307	<b>78</b>	<b>129</b>
Net income before income taxes		4,374	<b>17,763</b>	306.1%
Income tax current	1,440	<b>8,033</b>		
Income tax deferred	154	1,594	<b>(327)</b>	<b>7,706</b>
Minority interest income		21	<b>146</b>	
Net income		2,760	<b>9,911</b>	259.1%

## Condensed Consolidated Balance Sheets

	September 30 2004	March 31 2005	(Millions of yen) September 30, 2005
<b>ASSETS</b>			
Current assets	<u>13,525</u>	<u>16,052</u>	<u>32,342</u>
Cash and bank deposit	3,237	3,861	4,001
Notes and account receivable, trade	3,764	3,755	3,898
Inventories	143	212	275
Deposits in Sony group company	5,198	6,779	21,508
Other	1,243	1,513	2,769
Allowance for bad debt	(60)	(69)	(109)
Noncurrent assets	<u>4,261</u>	<u>5,039</u>	<u>4,800</u>
Property, plant and equipment	<u>229</u>	<u>181</u>	<u>275</u>
Furniture and fixtures	142	122	195
Other	87	59	79
Intangible assets	<u>2,150</u>	<u>2,126</u>	<u>2,389</u>
Software	1,505	1,576	1,794
Goodwill	567	425	415
Other	78	126	181
Investment and other assets	<u>1,882</u>	<u>2,732</u>	<u>2,136</u>
Investment in affiliates and others	660	1,471	1,380
Other	1,320	1,380	848
Allowance for bad debt	(98)	(119)	(92)
Total assets	<u>17,786</u>	<u>21,091</u>	<u>37,142</u>
<b>LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY</b>			
Current liabilities	<u>6,225</u>	<u>8,092</u>	<u>13,427</u>
Account payable, trade	2,561	2,553	2,840
Account payable, other	1,174	1,712	5,315
Accrued expense	1,322	1,936	1,535
Accrued income taxes	465	877	2,897
Accrued bonuses	226	244	289
Accrued customer incentive program	138	145	229
Other accruals	2	4	5
Other	336	621	317
Long-term liabilities	<u>460</u>	<u>388</u>	<u>346</u>
Accrued severance costs for employees	105	111	127
Accrued severance indemnities for directors	55	49	60
Other	300	228	159
Total liabilities	<u>6,685</u>	<u>8,481</u>	<u>13,773</u>
Minority interest	<u>704</u>	<u>840</u>	<u>1,701</u>
Common stock	5,246	5,246	5,246
Additional paid-in capital	4,765	4,765	4,765
Retained earnings	386	1,734	11,644
Unrealized gain on investment securities	1	27	15
Foreign currency translation adjustments	(1)	(0)	(2)
Total stockholders' equity	<u>10,397</u>	<u>11,771</u>	<u>21,668</u>
Total liabilities, minority interest and stockholders' equity	<u>17,786</u>	<u>21,091</u>	<u>37,142</u>

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

(millions of yen)

Item	Six-months ended September 30, 2004	Six-months ended September 30, 2005
<b>Additional Paid-in Capital</b>		
Balance at beginning of fiscal year	4,765	4,765
Balance at the end of period	4,765	4,765
<b>Retained Earnings (Accumulated Losses)</b>		
Balance at beginning of fiscal year	(2,373)	1,734
Increase		
Net income	2,760	9,911
Balance at the end of period	386	11,644

# Consolidated Statements of Cash Flow

(Millions of yen)

	<b>Six-months ended September 30</b>	
	<u>2004</u>	<u>2005</u>
I. Cash flows from operating activities		
Net income before income taxes	4,374	17,763
Depreciation and amortization	371	429
Loss on impairment of long-lived assets	295	—
Amortization for goodwill	142	143
Equity in net income of affiliated companies	(9)	(99)
Gain on issuance of stock by equity investee	(1,821)	(4)
Loss on issuance of stock by equity investee	1	3
Loss on revaluation of investments in other securities	878	49
Gain on sale of investment in affiliate and subsidiary stock	(2,344)	(17,795)
Stock issuance costs	13	—
Increase (decrease) in accrued bonuses	(14)	45
Increase in accrued severance costs for employees	12	11
Increase in accrued severance indemnities for directors	9	11
Increase (decrease) in allowance for bad debt	134	(27)
Increase in customer incentive program	57	84
Increase in other accruals	2	1
Interest income	(3)	(9)
Interest expense	0	0
Foreign exchange loss	—	(4)
Loss on disposal of tangible fixed assets	46	32
Loss on sales of tangible fixed assets	0	—
Gain on sales of tangible fixed assets	(25)	—
Decrease (increase) in account receivable, trade	127	(138)
Increase in inventories	(14)	(62)
Increase in other current assets	(172)	(529)
Increase in accounts payable, trade	97	287
Decrease in accrued expenses	(388)	(403)
Decrease in other current liabilities	(82)	(186)
Sub Total	<u>1,686</u>	<u>(402)</u>
Receipt of interest	3	9
Payments for interest	(0)	(0)
Receipt (payment) for income taxes	124	(2,391)
Net cash provided by (used in) operating activities	<u>1,812</u>	<u>(2,784)</u>

	(Millions of yen)	
	Six-months ended September 30	
	<u>2004</u>	<u>2005</u>
II. Cash flows from investing activities		
Payment for securities investment	(10)	(55)
Proceeds from sales of investment in affiliate and subsidiary stock	2,577	18,499
Payment for acquisition of fixed assets	(9)	(147)
Proceeds from sales of fixed assets	25	—
Payment for acquisition of intangible assets	(338)	(623)
Payment for rent deposits	(2)	(2)
Proceeds from rent deposits	—	56
Payments for long term prepaid expenses	(15)	(10)
Net proceeds as a result of acquiring subsidiary company	—	27
Payments for loan	(24)	(136)
Repayment of loan	35	36
Net cash provided by investing activities	<u>2,240</u>	<u>17,645</u>
III. Cash flows from financing activities		
Proceeds from issuance of subsidiary stock	2,201	—
Net cash provided by financing activities	<u>2,201</u>	<u>—</u>
IV. Effect of exchange rate difference on cash and cash equivalents	(0)	8
V. Increase in cash and cash equivalents	6,253	14,869
VI. Cash and cash equivalents at beginning of year	2,182	10,640
VII. Cash and cash equivalents at end of the period	<u>8,434</u>	<u>25,509</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)

	(Millions of yen)		
	Three-months ended September 30, 2004	<b>Three-months ended September 30, 2005</b>	Change (%)
Increase in fixed assets	8	18	128.6
Increase in intangible assets	277	232	(16.2)
Depreciation of fixed assets*	18	28	51.1
Amortization of intangible assets*	148	178	20.5

	(Millions of yen)		
	Six-months ended September 30, 2004	<b>Six-months ended September 30, 2005</b>	Change (%)
Increase in fixed assets	10	156	1,396.3
Increase in intangible assets	360	628	74.3
Depreciation of fixed assets*	35	52	48.4
Amortization of intangible assets*	289	337	16.5

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

## **Consolidated Results Forecast**

With regards to the forecast for consolidated results for the year ending March 31, 2006, the SCN Group is not announcing any changes to the revised forecast that was announced on September 12, 2005.

For reference, the forecast announced on September 12, 2005 was as follows:

<u>Consolidated Results</u>	<b>(Millions of yen)</b>	
	<u>Forecast</u>	<u>Year-on-year Change</u>
Sales	43,500	+11%
Operating income	500	(81%)
Ordinary income	700	(72%)
Net income	10,200	+148%

### **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.