

## To Our Shareholders and Investors

**Consolidated Financial Statements for 2nd Quarter of  
Fiscal Year ending March 2017  
April 1, 2016 - September 30, 2016**



## Greetings

To all our valued shareholders and investors, I would like to express my warmest gratitude for your continued loyal patronage and hope that this letter finds you well.

Since our founding in 1996, we have upheld our corporate mission of "Creating products that inspire joy and move the world" and have striven to plan and develop new products that matched the needs of our customers. In the recent year, we have actively planned and developed for the rapidly growing smartphone app market, and focused on venturing into new businesses to meet the changing times and customer needs. In this consolidated second quarter, we concentrated on strengthening the postcard creation software line-up and providing our apps to the major Japanese mobile phone carrier markets as well as to SIM card related businesses. Due to these business activities, our Operating Income and Ordinary Income for the consolidated second quarter resulted in an all-time high, surpassing that of the Fiscal Year ending March 2016 and resulting in an all-time high for four consecutive years. I would like to send my gratitude to all our valued shareholders and investors - for without your encouragement and support, this extraordinary feat would not have been possible.

This August marked our company's 20th year anniversary. I would like to express my deepest gratitude to all our shareholders and investors for their continued support and promise to them that we will continue to stay true to our slogan, "We Source What's Next" to spread joy and excitement to the people around the world, while expanding our reaches to the global market with a firm "customer-first mindset".

I thank all of you again, from the bottom of my heart, for your kind understanding and encouragement, and look forward to your continued support in the coming future.

SOURCENEXT Corporation  
President and CEO  
**Noriyuki Matsuda**



# SOURCENEXT Products and Services

## "New Business Developments for the Changing Times"

### Smartphone Apps

#### Providing Apps to the 3 Major Mobile Carriers

We have apps provided to all 3 of the major mobile phone carriers' monthly subscription services and have a total of 77 apps.

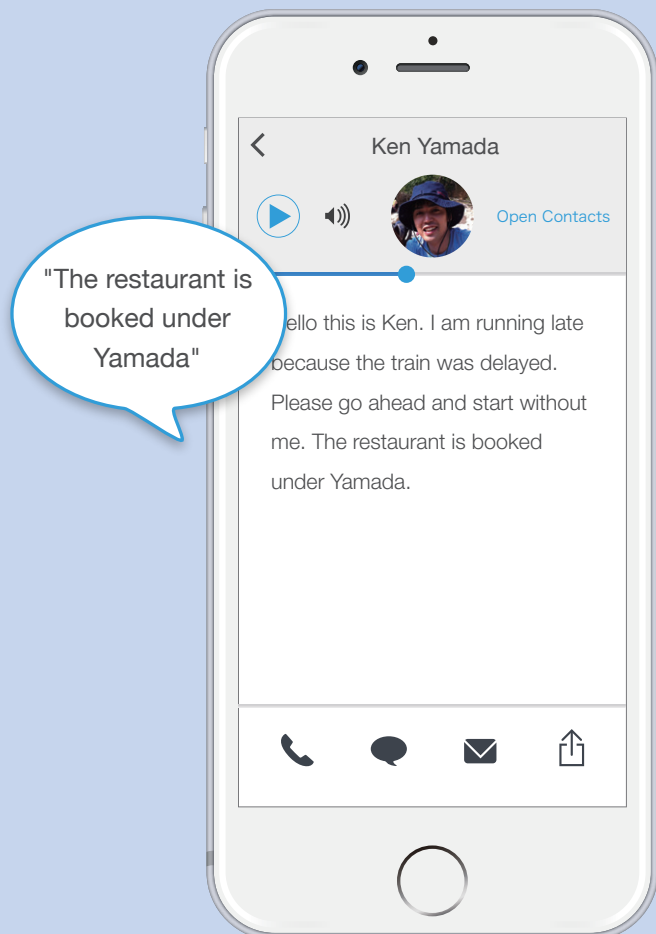
Providing Since	Carrier Name	Service Name	Number of Apps Provided
March 2012	KDDI	"au SmartPass"	34
June 2013	NTT DoCoMo	"SugoToku Contents"	23
August 2014	Softbank Mobile	"App Pass"	27

(As of November 2016)

### New Services

#### A Voice Messaging Service you can READ

On May 2016, SOURCENEXT released a revolutionary new product "Smart Voice Message" (for iPhone and Android), which allows users to READ their voice messages instead of having them dial up the messaging services for playback. The messages can be forwarded to email with both the text and audio attached and the app also has the capability to identify callers who are not in the Contacts by looking up the number on the online database.



### A New Way of Providing Apps

#### Opening the Doors to New Businesses

Taking advantage of our broad application line-up, we focus on providing our apps through various "all you can use" subscription services. By actively providing apps as OEM's our sales channel continues to spread to various sectors.

#### Names of Services and their Target User Base

CHOU HODAI : For PC Users	Internet Service Providers, Cable TV service providers, MVNO Smartphone dealers, PC schools, Smartphone / PC shops, etc.
Apps CHOU HODAI : For Smartphone Users	



A monthly subscription service which allows users to download and use all the software they want from a select lineup of 120 applications - which includes popular titles such as "Super Security".



An "all you can use" monthly app subscription service with over 100 apps to choose from.



## PC Software

### Taking Advantage of the "Windows 10" Business Opportunities

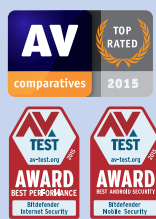
Due to the free upgrades to the new Windows 10 OS (until end of July 2016), sales of our "Windows 10 Upgrade Services" for our ZERO series anti-virus products also showed strong sales.



**ZERO Virus Security**  
A cumulative total of 9.7 million users, and being used in over 3,000 companies.



**ZERO Super Security**  
Powered by the unbeatable Bitdefender engine, which has been presented the "TOP RATED 2015" award from AV-Comparatives.



AV-Comparatives (Austria) and AV-TEST (Germany) are independent testing institutes which conduct tests and evaluate security products from around the world.

## User Services

### Over 13 Million Registered Users

The total number of SOURCENEXT registered users now exceed 13 million, and we believe that these registered users are our most valuable assets. By providing better services to each individual users on a personal level, we believe that this will lead to more repeat users and also help us to build even stronger relationship with our customers.



### 24 Language Versions of "Rosetta Stone" on Sale



From June 2016, we began to deal the highly popular language education software "Rosetta Stone" in our EC site. Using a unique method for teaching users a foreign language without using their native language (Japanese), the current line up offers courses in 24 different foreign languages.

### Special "Product Training Courses" Offered to Users

We actively help novice users get more familiarized with their PC's and software by offering special "Training Courses" from time to time. These courses not only prove to be helpful for participating users, but also help us to gather a more hands-on feedback directly from our users for improving / enhancing our products.



"Heartwarming Photo Movie 2" Training Course carried out in March



"FUDEOH" (postcard creation software) Training Course carried out in November



### Distribution Started for "FUDEMAME"

Since September of 2016, we obtained the exclusive rights to sell the postcard software "FUDEMAME" and began distribution through retail and in our web shop. With the addition of "FUDEMAME" to our current postcard software lineup (along with "FUDEOH" and "ATENA SHOKUNIN") we now have over 80% of the market share in the postcard creation software market.

## Frequently Asked Questions

**Q. What is your most popular product / service?**

**A. The "ZERO" security software series.**

"ZERO Virus Security ZERO" has a cumulative total of 9.7 million users\*.

(\*) as of November 2016

**Q. What are your thoughts on premium redemptions to shareholders?**

**A. We aim to have a stabilized dividend payout**

Our fundamental policies for profit-sharing are based on the overall business performance, dividend ratio, and investments which will be necessary for mid to long-term growth for the company. Our dividends paid out to shareholders on March 2015 was 10%, and for this fiscal year, we aim to increase this to 15%. For the future, we plan to continue taking these various business factors into consideration and aim to have a stabilized dividend payout.

**Q. What are your future business strategies?**

**A. We aim to utilize our assets (smartphone apps and PC software) to the fullest and continue to expand our sales to various channels.**

Our goal is to actively promote the current Windows 10 related titles as well as obtain new IP's (Intellectual Properties) for releasing to the market. In addition, we plan to carry out various activities such as develop multilingual versions in preparation for future global expansions.

**Q. Does SOURCENEXT have a regulatory compliance program which they abide by?**

**A. Our company as a whole has a strong sense of abiding by and upholding compliance regulations.**

At SOURCENEXT, our ultimate goal is "to become the most EXCITING company in the world" and we define this term "EXCITING" to mean "being genuinely good", "creating happiness", and "having fun". We take pride in our company's cultural values which emphasizes on being good and truthful. Regardless of our employees' employment status, everyone in the company is required to first take a training course to learn about the importance of upholding compliance, and a designated committee (formed by employees) lectures the entire staff upon compliance regulations and corporate policies. Corporate obligations set forth by law, are also strictly abided and we also have a "Corporate Ethics Hotline" (run by an independent third party that has no stakes in our company) set up where all employees are able to anonymously report any unethical acts they find within the company.



## Financial Highlights

### Summary for Current Quarter

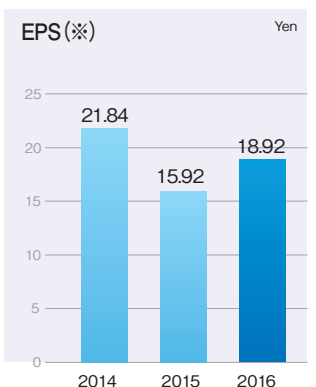
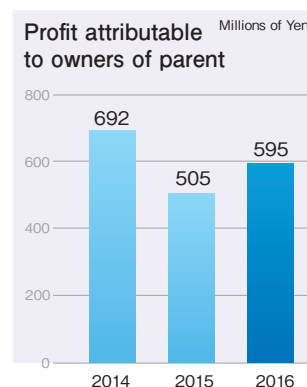
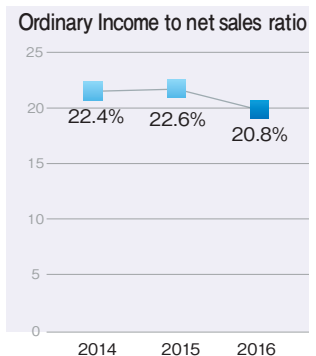
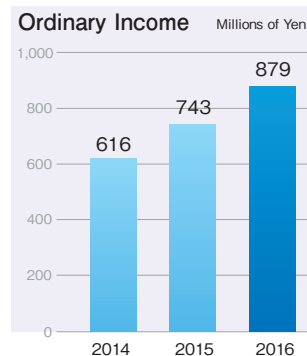
In this consolidated cumulative second quarter, (April 1, 2016 to September 30, 2016), we placed our focuses on the sales of Microsoft's new "Windows 10" OS supported software products, postcard creation software, and expanding our sales of our smartphone apps.

In the PC software category, we ran special "Anniversay Campaigns" to celebrate the 20th year of our company, and also a 10th year campaign for our "ZERO" security products, in order to strengthen our position in the retail markets following the end of the "Windows 10" free update period. In the postcard creation software division, we were able to increase our sales by acquiring the exclusive rights to sell "FUDEMAME" and introducing the full line up of "FUDEOH", "ATENA SHOKUNIN" and "FUDEMAME" to the market.

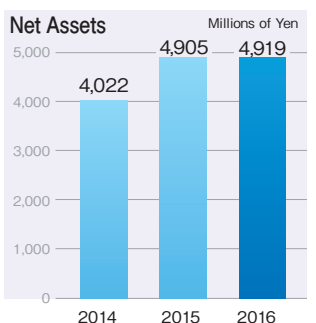
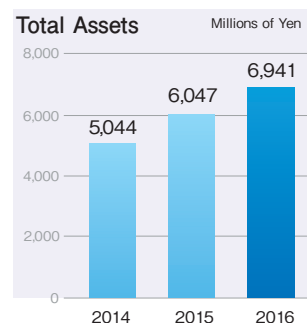
In regards to our eSHOP sales, in addition to our sales of "Windows 10" supported products, we brought forth new popular products such as the language learning software "Rosetta Stone".

In the Smartphone app market, we continued to provide new Android apps to the 3 major mobile phone carriers' (Docomo / au / Softbank) monthly subscription services as well as actively releasing new updates for current titles on the service. The "Smart Voice Message" app which we released in May (a voicemail app which allows users to have their voice messages converted to text and sent down via mail), has been accepted very well by the market.

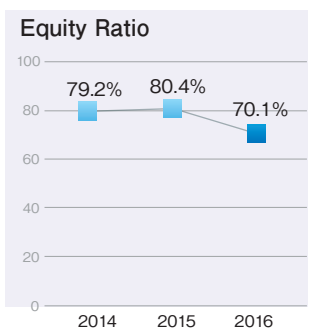
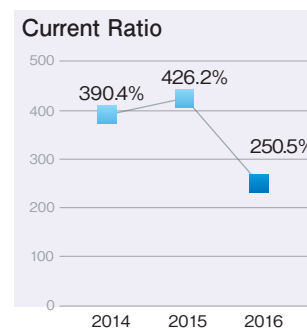
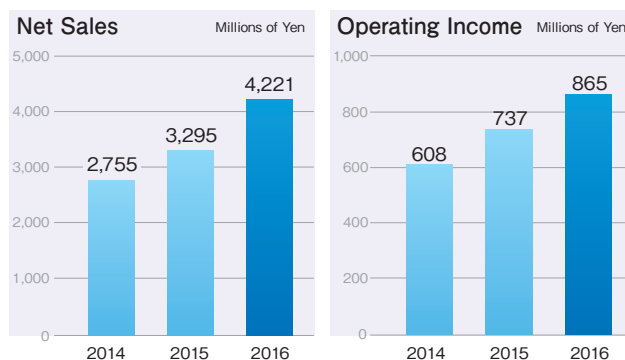
As a result of these marketing activities, our Operating Income ended at 865 million yen (17.3% increase from previous quarter), our Ordinary Income ended at 879 million yen (18.2% increase from previous quarter) and resulted in the highest profits for 4 consecutive years, in terms of the first half of the year. The quarterly Net Profits for the shareholders of the parent company was 595 million yen (17.8% increase from previous quarter) and resulted in over 10% increase in Profits compared to previous quarter.



(\*) Earnings Per Share



### Consolidated Business Performances



## Quarterly Consolidated Financial Statements (Summary)

### Consolidated Balance Sheets (As of Sep 30, 2016)

< Assets >		< Liabilities >		Thousands of Yen
Current assets	5,007,843	Current liabilities		1,998,981
Non-current assets	1,934,117	Non-current liabilities		23,252
Property, plant and equipment	310,960	Total liabilities		2,022,233
Intangible assets	1,123,211	< Net Assets >		
Investments and other assets	499,945	Shareholders' equity		4,870,170
		Accumulated other comprehensive income		▲540
		Subscription rights of share		50,097
		Total net assets		4,919,726
Total assets	6,941,960	Total liabilities and net assets		6,941,960

### Consolidated Statements of Income (From April 1, 2016 to Sep 30, 2016)

	Thousands of Yen
Net sales	4,221,405
Cost of sales	1,237,738
Gross profit	2,931,134
Selling, general and administrative expenses	2,065,274
Operating income	865,859
Ordinary income	879,399
Profit before income taxes	866,229
Total Income taxes	270,807
Profit attributable to owners of parent	595,421

### Consolidated Statements of Cash Flows (From April 1, 2016 to Sep 30, 2016)

	Thousands of Yen
Cash flows from operating activities	226,725
Cash flows from investing activities	△622,795
Cash flows from financing activities	△586,399
Cash and cash equivalents at end of period	2,186,990

### Capitalization Policy and Semester Forecasts

In the First Half of this Fiscal Year, we acquired our own shares. The main objectives in acquiring our own shares is to increase the per share values of shareholders while utilizing for M&A and business alliances, and as part of our capitalization policies which flexibly respond to the changing business climates. Due to this, the number of our own shares owned is now 772,006 shares (in terms of ratio against issued shares, 2.43%).

The consolidated financial forecasts for the Fiscal Year ending March 2017 is Net Sales of 8.09 billion yen (15.2% increase from previous quarter), Operating Income of 1.56 billion yen (6.7% increase from previous quarter), and Net Profits for the parent company for this quarter at 1.07 billion yen (8.7% increase from previous quarter).

In regards to dividends pay outs to shareholders, the consolidated payout ratio of ordinary dividend is estimated to be 15% (5.9 yen per share) with a 1 yen commemorative dividend added for the 20th year anniversary, totalling to an annual 6.9 yen (consolidated payout ratio of 17.9%). We plan to continue to actively acquire new IP (intellectual properties), utilize our wide sales channels to increase sales and obtain new users in order to expand current markets.

# Corporate Profile

## Overview of Corporation (as of September 30, 2016)

### Company Name

SOURCENEXT Corporation

### Founded

August 2, 1996

### Headquarter

Shiodome City Center 33F, 1-5-2  
Shimbashi Minato-ku, Tokyo 105-7133

### Capital

1,771 million yen

### Number of Employees

100 (temporary staffs/employees: 5)

### Description of Business

Planning, development and distribution of  
PC / smartphone software and hardware products

### Members of the Board

(as of September 30, 2016)

President and CEO  
Noriyuki Matsuda

Executive Vice President  
Satomi Matsuda

Managing Director  
Tomoaki Kojima

Managing Director  
Fumihiko Aoyama

Outside Director  
Masaharu Ikuta

Outside Director  
Hiroshi Takasawa

Outside Director  
Hideaki Kubori

Standing Auditor  
Shozaburo Takano

Outside Auditor  
Tetsuya Kobayashi

Outside Auditor  
Kakuji Takano

### Present Shares (as of September 30, 2016)

Total Number of Authorized Shares  
90,280,000 shares

Total Number of Issued Shares  
31,732,000 shares

Number of Shareholders  
4,501

### Subsidiaries

SOURCENEXT INC. (wholly-owned subsidiary)

## Corporate Philosophy

Origin of company name:

**"We Source What's Next"**

SOURCENEXT's Ultimate Strategy

Corporate Mission

**Creating products that inspire joy and move the world**

Corporate Vision

**To become the most exciting company in the world**

The three conditions of "Exciting"  
**Being genuinely good**  
**Creating happiness**  
**Having fun**

Corporate Principles

**Work diligently.**

**Think positively.**

**Keep your senses sharp.**



# Shareholders' Memo

## Fiscal Year

From April 1 to March 31 of the following year

## Annual Meeting of Shareholders

June of every year

## Record Date

For Annual Shareholders' Meeting: March 31, every year

For Year-end Dividend: March 31, every year

If others are deemed necessary, the dates will be as notified in advance

## Shareholder Registry Administrator and Transfer Account Management Institution for Special Accounts

1-4-4 Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Group

## Shareholder Registry Administrator Office

1-4-4 Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Group Transfer Agent Dept.

(Mailing Address) 2-8-4, Izumi, Suginami-ku, Tokyo 168-0063

Sumitomo Mitsui Trust Group Transfer Agent Dept.

(Telephone Number) 0120-782-031

(Internet Homepage URL) <http://www.smtb.jp/personal/agency/index.html>

(Regarding changes in registered address and referencing information regarding shares)

Shareholders who have an account opened with a securities company, who need to make changes to their registered address or need to reference any records, please contact the securities companies for which the account is opened for. For shareholders who do not have an account at any securities company, please make inquiries to the telephone number noted above.

(Regarding Special Accounts)

For shareholders who are not using Japan Securities Depository Center for their electronic stock certificates, we have prepared an account (special account) at the above Tokyo Sumitomo Mitsui Trust Group. For address changes and referrals regarding these special accounts, please contact the above telephone number.

## Method of Notification

Notification will be made public electronically (<http://sourcenext.co.jp/>), but in any cases where notification via electronic publication is not possible, the information will be made public through the Nihon Keizai (Nikkei) Shimbun.

## Securities Code

4344

## Traded

Tokyo Stock Exchange (First Section)

## SOURCENEXT CORPORATION

Shiodome City Center 33F, 1-5-2 Shimbashi Minato-ku, Tokyo 105-7133

TEL: 81-3-6254-5231

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