

To Our Shareholders and Investors

Business Report for Fiscal Year ended March 2017

April 1, 2016 - March 31, 2017



Greetings

Onto New and Further Expansions

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 this consolidated fiscal year, we focused on the release of the new "Windows 10 supported" versions of our flagship security products. In addition, at the end of the year (peak seasons for postcard sending), the sales of our flagship postcard creation software, "FUDEOH" along with "ATENA SHOKUNIN" (the newly acquired postcard creation software for Macs, acquired on April 2016) and the market leading Windows postcard creation software "FUDEMAME" (to which we received the exclusive retail selling rights) contributed greatly to creating new revenues for us. We also began the sales of "Rosetta Stone" (the world leader in the language learning software) in our online shop, and in March of 2017, we obtained the unlimited trademark usage rights for "Rosetta Stone" in Japan, as well as the exclusive selling rights in Japan, and the rights to make changes to their digital download product. In addition, we also signed an agreement on April 2017, to acquire Rosetta Stone Japan Ltd. which now make them our wholly owned subsidiary. Due to these marketing activities, our operating income and ordinary income for this consolidated fiscal year has reached an all time record high for the fourth consecutive year.

I would like to express my deepest gratitude to all our shareholders and investors for their continued support and would like to assure you that we will continue to strive to meet our shareholders' expectations and to stay true to our slogan - "Creating products that inspire joy and move the world".

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



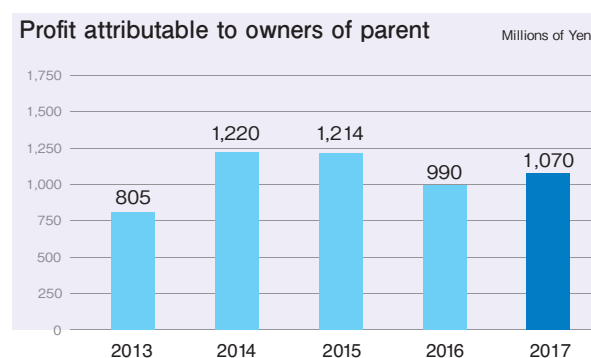
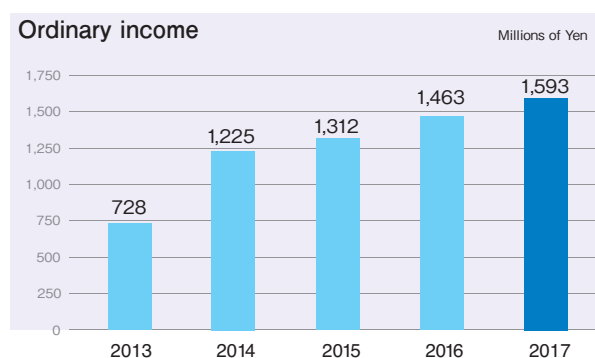
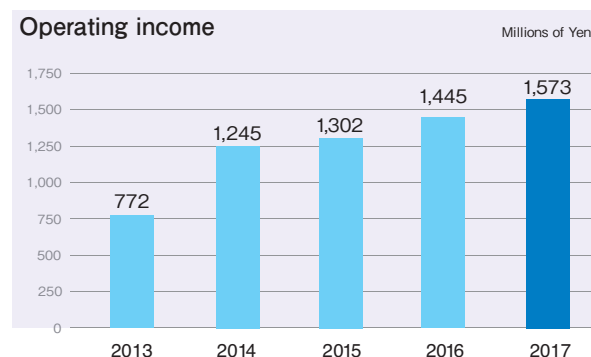
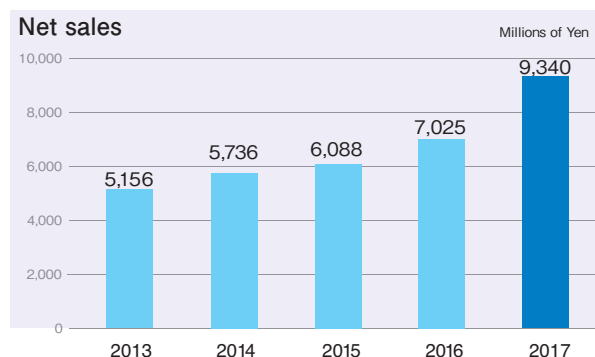
Consolidated Business Highlights

Main Highlights

Recorded the Highest Operating Income / Ordinary Income for third year in a row

Ordinary Income Increased by 15%. Dividend Payout of 6.19 Yen

(Dividend Ratio: 15%, with special commemorative dividend of 1 yen)



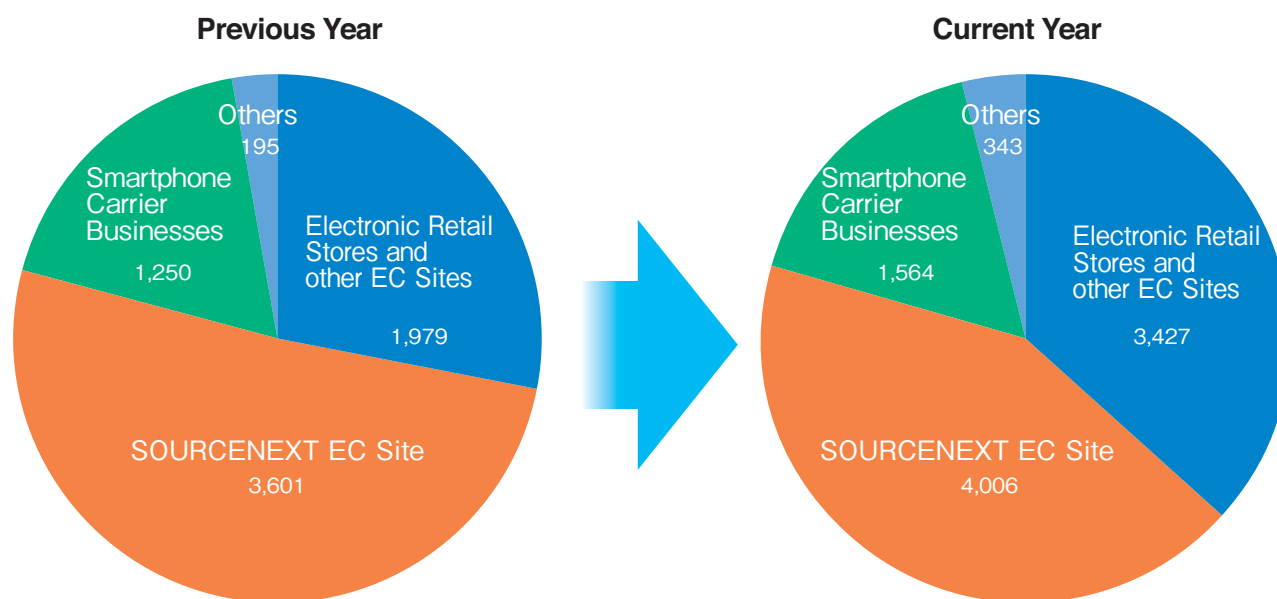
Forecasts for Next Fiscal Year

	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Yen	Yen
	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Earnings per share	Annual dividends per share
Six months ending September 30, 2017	3,819	358	360	255	8.25	—
Full year	9,444	1,717	1,720	1,195	38.63	5.79

Sales per Channel

Main Highlights

Started dealing "FUDEMAME" to electronic retail stores and increased sales with effective marketing activities carried out in mobile phone carrier businesses

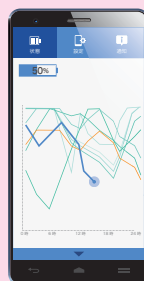


CHANNELS



SOURCENEXT EC Site

Our website has an online store (SOURCENEXT eSHOP) within the site, which is one of our strongest sales channels, with over 14 million registered users.



Smartphone Carrier Businesses

We provide many apps to the monthly subscription services of the 3 major mobile phone carriers in Japan.



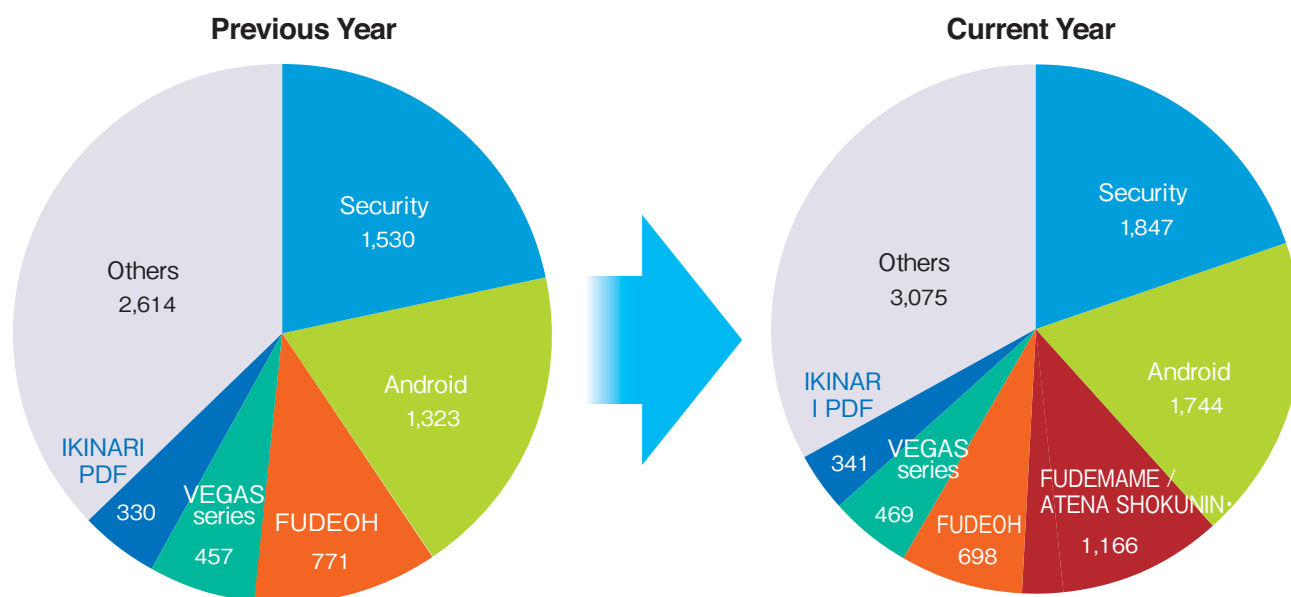
Electronic Retail Stores and other EC Sites

Some of our oldest and most distinguished sales channels since the founding of the company.

Sales per Product Category

Main Highlights

40% increase in sales of postcard creation software category due to the introduction of FUDEMAME and ATENA SHOKUNIN to the product line ups.



PRODUCTS



Antivirus Software

The popular "ZERO" series with no annual renewal fees



Postcard Creation Software

Marketshares increased dramatically with the addition of "FUDEMAME" and "ATENA SHOKUNIN".



Video Editing Software

The "VEGAS" video editing software is currently one of our most popular line ups.



Android Apps

Improvements / enhancements being continuously carried out for current flagship titles, as well as additions of new titles.

Products and Services

Providing Various Products and Services with Focus on Smartphone Apps

Smartphone Apps

Providing Apps to All 3 Major Mobile Carriers

SOURCENEXT provides apps to the monthly subscription services of all 3 major mobile carriers in Japan, and have 87 titles accepted to these services.

Providing Apps Since	Carrier	Service Name	Number of Apps Provided
March 2012	KDDI	"au SmartPass"	38
June 2013	NTT DoCoMo	"SugoToku Contents"	23
August 2014	Softbank Mobile	"App Pass"	26

(As of May 2017)

New Services

A Voice Messaging Service you can READ

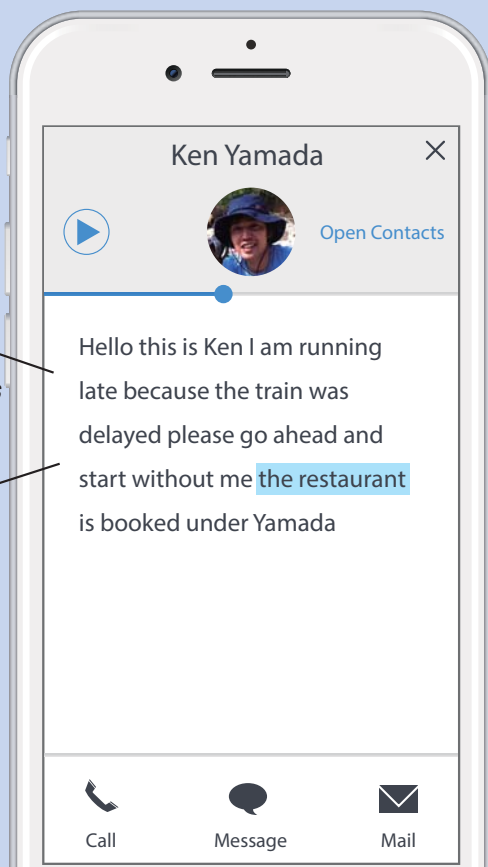
On May 2016, SOURCENEXT released a revolutionary new product "Smart RUSUDEN", which transcribes and allows users to READ their voice messages instead of having them dial up the messaging services to play back the voice messages. In January 2017, "iGotcha" the English localized version was released to the U.S. App market - opening doors to an entirely new market.



Smart RUSUDEN



iGotcha



"the restaurant is booked under Yamada"

All-You-Can-Use Services

A New Way of Providing Apps

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.

Service Name	Platform	Provided To
CHOU HODAI	For PC Users	Internet Service Providers, Cable TV service providers, MVNO
CHOU HODAI Business	For Enterprise Users	Smartphone dealers, PC schools, Smartphone / PC shops, etc.
Apps CHOU HODAI	For Smartphone Users	



アプリ超ホーダイ®

"Apps CHOU HODAI" logotype



超ホーダイ®

"CHOU HODAI" logotype



PC Software

Removing the Language Barriers

We obtained the rights to sell the world renowned language learning software, "Rosetta Stone" (a unique program which covers 24 different languages and teaches users foreign languages without using their mother language) and have actively marketed the products to people in Japan. In April 2017, we acquired the Japanese subsidiary of Rosetta Stone and also signed an agreement for the transfer of shares. We plan to leverage the Rosetta Stone brand name to introduce new products and services into the market, which we feel will become a new pillar of revenue for us in the years to come.



Taking Advantage of the "Windows 10" Business Opportunities

With Microsoft offering free upgrades to their new "Windows 10" OS (until end of July 2016), sales of our "Windows 10 Upgrade Services" for our ZERO series anti-virus products have also shown strong sales. Also, the new License Policy for the ZERO series (installations tied to a single device, but with no expirations) and the new "5 device" line up has been very well taken by the market and has shown strong sales.



ZERO Virus Security

A cumulative total of 9.9 million users, and being used in over 3,000 companies.



ZERO Super Security

Powered by the unbeatable Bitdefender engine, which has been presented the "Outstanding Product Award 2016" award from AV-Comparatives.



AV-Comparatives (Austria) is an independent testing institute which conduct tests and evaluate security products from around the world.

Increased Shares in the Postcard Creation Software Category

In April 2016, we obtained the rights to "ATENA SHOKUNIN" (the top shareholder of the Mac postcard creation category) and in April 2017, we obtained the exclusive selling rights for "FUDEMAME" (the top shareholder of the Windows postcard creation category) - resulting in a dominant 70% plus market share of the postcard creation software.




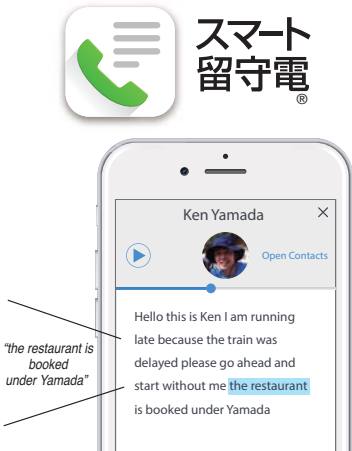



User Services







Over 14 Million Registered Users

Since year 2000, SOURCENEXT have been running an EC site and marketing various software and hardware products. The total number of registered users now exceed 14 million, and we believe that these registered users are our most valuable assets, and by providing better services to each individual registered users on a personal level, we will be able to increase repeat users and continue to build a strong relationship with our customers.



YEARLY TOPICS

2016 April	May	July	August
<p>2016.04</p> <p>Obtained the Rights for "ATENA SHOKUNIN"</p>  <p>We obtained the program copyrights / trademark rights for the No.1 selling Mac postcard creation software, "ATENA SHOKUNIN".</p>	<p>2016.05</p> <p>Launched "Smart RUSUDEN"</p> <p>A revolutionary voice messaging product that transcribes the voice messages you receive into text.</p>  <p>"the restaurant is booked under Yamada"</p>	<p>2016.07</p> <p>Office Relocation</p>  <p>Relocated our office to the Shiodome City Center.</p> <p>2016.07</p> <p>Obtained Exclusive Retail Selling Rights for FUDEMAME Products</p>  <p>We obtained the exclusive selling rights for "FUDEMAME" (No.1 in the number of units sold in the postcard creation category for 18 years straight) and increased our market share in the postcard category to over 70%.</p>	<p>2016.08</p> <p>Obtained Shares of TOBILA Systems</p>  <p>Signed an Agreement with the current shareholders of TOBILA Systems to obtain 12.1% of total outstanding shares. We hope to collaborate with them, and by taking advantage of their robust database, create new competitive products.</p>

December	2017 January	March	April
<p>2016.12</p> <p>Acquired MIXA (wholly owned subsidiary)</p>  <p>MIXA is a company which has been creating digital data such as photos and illustrations for various creative uses for over 22 years. We plan to leverage their abundant image resources and their expertise to develop and bring forth new products which utilize these resources.</p>	<p>2017.01</p> <p>Entered into the U.S. App Market with Launch of "iGotcha"</p>  <p>We made our first, full-fledged entry into the U.S. app market by launching "iGotcha", the English localized version of "Smart RUSUDEN".</p> <p>2017.01</p> <p>Award of Excellence awarded in 3 Categories of "BCN AWARD 2017"</p>  <p>We were awarded the "Award of Excellence" from the BCN AWARD 2017 in three different categories: "Training Software Category", "Document Management Software Category" and "Mobile Software Category".</p>	<p>2017.03</p> <p>Obtained Selling Rights for Rosetta Stone in Japan Development of New Rosetta Brand Products for New Global Expansions</p>  <p>Obtained the exclusive selling rights in Japan, unlimited trademark rights in Japan and also the rights to make changes to their digital download product. With this agreement, SOURCENEXT now has the rights to not only sell the Rosetta Stone brand products exclusively in Japan, but also has the rights to sell their newly developed Rosetta brand products outside of Japan.</p>	<p>2017.04</p> <p>Acquired FUDEMAME (wholly owned subsidiary)</p>  <p>Signed an agreement with FUDEMAME Co., Ltd. to obtain the rights to their No.1 selling postcard creation software, "FUDEMAME".</p> <p>2017.04</p> <p>Acquired Shares from BJIT Limited</p>  <p>BJIT Limited are the development partners based in Bangladesh, who help to develop many of our flagship Android apps. With this deal, SOURCENEXT now owns 11.24% of the shares issued by BJIT.</p>

Consolidated Financial Statements (Summary)

Consolidated Balance Sheets

Millions of Yen

	As of March 31, 2016	As of March 31, 2017
Assets		
1 Current assets	4,716	6,398
Cash and deposits	2,677	3,699
Non-current assets	1,331	3,474
Property, plant and equipment	27	286
Intangible assets	881	2,697
Investments and other assets	421	490
Total assets	6,047	9,873
Liabilities		
Current liabilities	1,106	4,443
Non-current liabilities	35	19
Total liabilities	1,141	4,463
Net Assets		
Shareholders' equity	4,861	5,345
Accumulated other comprehensive income	2	4
Share warrant	41	59
Total net assets	4,905	5,409
Total liabilities and net assets	6,047	9,873

Current Ratio	426.2%	144.0%
Quick Ratio	382.2%	120.3%
Equity Ratio	80.4%	54.2%

Consolidated Statements of Income

Millions of Yen

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
2 Net sales	7,025	9,340
Cost of sales	1,987	3,231
3 Gross profit	5,038	6,109
Selling, general and administrative expenses	3,592	4,536
Operating income	1,445	1,573
4 Ordinary income	1,463	1,593
Profit before income taxes	1,463	1,577
Total income taxes	472	507
Profit attributable to owners of parent	990	1,070

Consolidated Statements of Cash Flows

Millions of Yen

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
5 Cash flows from operating activities	1,623	1,918
6 Cash flows from investing activities	△600	△2,751
7 Cash flows from financing activities	△121	1,353
Effect of exchange rate change on cash and cash equivalents	△4	1
Net increase in cash and cash equivalents	898	522
Cash and cash equivalents at beginning of period	2,278	3,176
Cash and cash equivalents at end of period	3,176	3,699

1 Current Assets

Mainly, there was an increase in cash and deposits, as well as an increase in the intangible assets which came from the Rosetta Stone deal. Due to these reasons, the floating assets increased by 1.681 billion yen as compared to the previous consolidated fiscal year.

2 Net Sales

The sales for the "Windows 10 upgrade" of our flagship software, "ZERO Virus Security" and "ZERO Super Security" contributed greatly to sales in the first half. The exclusive retail dealership of the market leading software, "FUDEMAME" helped boost sales in the latter half of the year (in postcard peak seasons) along with the current selling titles "FUDEOH" and "ATENA SHOLININ" and has helped create new revenues for us. As a result of these marketing activities, our net sales increased by 33.0% compared to last year and marked 9.34 billion yen.

3 Gross Profit

Continuing on from the previous year, there was an increase in sales from our online shop and the increase in the number of high value-added products such as the Android apps provided to the 3 major Japanese mobile carriers. As a result, the gross profits increased by 21.3% from last fiscal year, to 6.109 billion yen.

4 Ordinary Income

There was an increase in the selling expenses and administrative expenses which were not expected in the beginning of the period, that came from the increase in promotion costs for the sales of "FUDEMAME" and also from fees relating to the Rosetta Stone and FUDEMAME deals. As a result, our ordinary income ended at 1.593 billion yen, an 8.8 percent compared to last year, and with the ordinary income ratio at 17.1%.

5 Cash Flow from Operations

Increase in assets from the cash flow from operations marked 1.402 billion yen. The reasons for increase were due to the 545 million yen accounts payable, the 114 million yen net income before income taxes, while the reasons for decrease were due to the rise in sales credit by 458 million yen and rise in advanced payments by 383 million yen.

6 Cash Flow from Investments

Cash flow from investments decreased by 2.751 billion yen. The reasons for the decrease were due to the 1.55 billion yen spendings made on the intangible assets, related to the Rosetta Stone deal, and also the 284 million yen spendings made on physical fixed assets coming from the office relocation.

7 Cash Flow from Financial Activities

Cash flow from financial activities increased by 1.353 billion yen. The reason for the increase was due to the short-term debts of and the reasons for the decrease was due to the dividend pay out.

Sales based on Different Channels

Smartphone Businesses (Mobile Carriers)

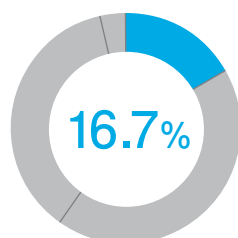
New Apps and Strong Promotions Lead to Increased Sales

In this sales channel, we focused mainly on providing contents to the monthly subscription services run by the 3 major domestic mobile carriers and as a result of these activities, in this consolidated fiscal year, our net sales ended at 1.564 billion yen (25.1% increase from last year)

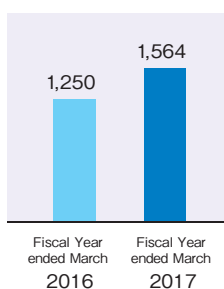
- au Smart Pass (KDDI): 38 apps provided (last year: 26 apps)
*Also began providing "WiFi Security" to the "au Smart Pass Premium"
- App Pass (SoftBank): 26 apps provided (last year: 24 apps)
- SugoToku Contents (NTT DoCoMo): 5 sites / 23 apps (last year: 5 sites / 22 apps)

Net Sales 1.56 billion yen (25.1% increase from last year)

Sales distribution ratio



Sales (units: million yen)



Electronic Retail Stores and Other EC Sites

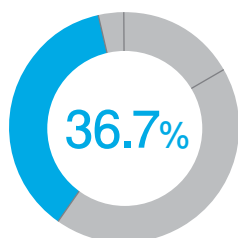
Exponential Increases in the Shares for Postcard Creation Software

In this sales channel, we focus on selling our consumer products to electronic retail stores and also to other (non-SOURCENEXT) EC sites. The below are the activities carried out in this consolidated fiscal year and the net sales resulted in 3.427 billion yen (73.1% increase from last year)

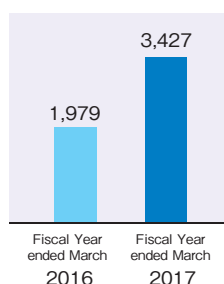
- Increased sales by focusing on promoting the Windows 10 supported version of the ZERO security products.
- Postcard creation software
Dominated the postcard creation software category with the 3 line ups, "FUDEOH", "FUDEMAME" and "ATENA SHOKUNIN"
- Actively released new products such as the "Vegas" video editing software and "IKINARI PDF" PDF editing software.

Net Sales 3.427 billion yen (73.1% increase from last year)

Sales distribution ratio



Sales (units: million yen)



SOURCENEXT eSHOP (EC site)

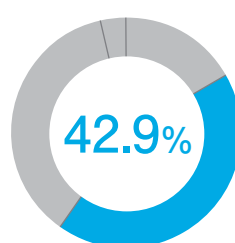
Strong Sales in Windows 10 Related Products and "Rosetta Stone" Products

In this sales channel, we mainly focused on selling our software products and PC-related hardware products through our "SOURCENEXT eSHOP" (online store) and due to the strong sales of the below listed products, net sales resulted in 4.006 billion yen (11.3% increase from last year).

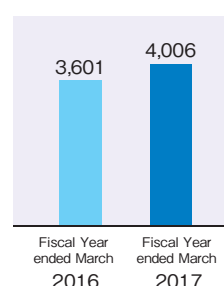
- Windows 10 upgrade services of our "ZERO" security products (service which allows users to use the security products on Windows 10)
- Postcard creation software
Created special portal sites for "FUDEOH", "FUDEMAME" and "ATENA SHOKUNIN"
- Special campaigns run for "Rosetta Stone" products.
- New versions launched for popular line ups
IKINARI PDF: PDF creation / editing software
Vegas: Professional video editing software

Net Sales 4.006 billion yen (11.3% increase from last year)

Sales distribution ratio



Sales (units: million yen)



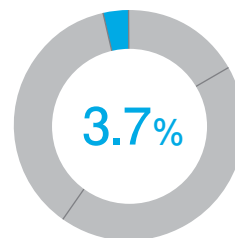
Others

In this sales channel, we actively promoted the PC software / App "all you can use" services to MVNO smartphone dealers and SIM related businesses, enterprise, educational / governmental sectors and due to the steady sales of the below products, the Net Sales from these other sales channels resulted in 343 million yen (76.8% increase from last year).

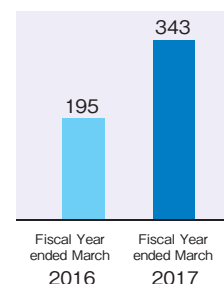
- Launch of "Smart RUSUDEN"
(a revolutionary app which transcribes and allows users to READ their voice messages)
- Launching of "iGotcha" in the U.S. Markets
Participated in various expos in the U.S. and in Europe to help promote the launch of "iGotcha", the English localized version of "Smart RUSUDEN"

Net Sales 343 million yen (76.8% increase from last year)

Sales distribution ratio



Sales (units: million yen)



TOPICS

Ranked 9th in "Great Place to Work®"



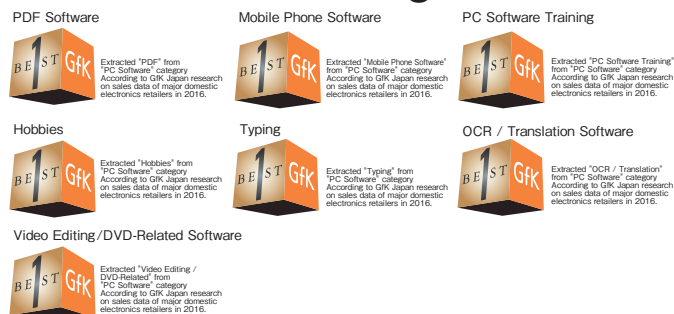
The "Great Place to Work®" is one of the largest institutions in the world which runs surveys and awards companies that are determined to be great workplaces by their workers. In the "Great Place to Work" Ranking (for companies with 100-999 workers) in the Japanese region, SOURCENEXT was ranked 9th in 2017.

Ranked 4th in "Great Place to Work® For Women"



In addition to ranking 9th in the "Great Place to Work" Ranking, SOURCENEXT was also ranked 4th in the "Great Place to Work for Women" Ranking (for companies with 100-999 workers) in the Japanese region in 2017.

No.1 in the Number of Units Sold in 7 Categories



No.1 in number of units sold for 2016, based on software vendors. Extracted "PDF/OCR, translation" from "Business" category, "Hobbies/Mobile/Typing" extracted from "Practical Use", "Video Editing/DVD-Related" extracted from "Graphic", "PC Software Training" extracted from "Educational" category. According to GfK Japan research on sales data of major domestic electronics retailers in 2016.

Product Enhancements based on Direct Customer Feedback

We periodically hold customer workshops targeted towards new users, in order to help users get better acquainted with our products and to explain more in detail about how to use our products. We then take the feedbacks that we get from users at these workshops to improve and enhance our current products.



The "How to Create Frame-by-Frame Videos" workshop, held for elementary school kids (in August)

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 9.9 million users*.

(*) as of April 2017

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.

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 2017 was 15% with a special commemorative dividend (1 yen), celebrating our 20th anniversary. For the March 2018 dividend payouts, we aim to set the dividend payouts to 15%, taking into consideration our financial results. We plan to continue taking these various business factors into consideration and aim to have a stabilized dividend payout for the coming future.

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 as well as enhance product integrations with new devices such as smartwatches.

Corporate Profile

Overview of Corporation (as of March 31, 2017)

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

102 (temporary staffs/employees : 4)

Description of Business

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

Members of the Board

(as of March 31, 2017)

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 March 31, 2017)

Total Number of Authorized Shares
90,280,000 shares

Total Number of Issued Shares
31,732,000 shares

Number of Shareholders
4,767

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' Notes

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

- Windows, Windows Vista are trademarks or registered trademarks of Microsoft Corporation in the United States and/or other countries.
- iPhone, iPad are trademarks or registered trademarks of Apple Inc.
- The names of other companies, products and services are the property of their respective owners.