

To Our Shareholders and Investors

**Consolidated Financial Statements for 2nd Quarter of
Fiscal Year ending March 2018
April 1, 2017 - September 30, 2017**



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 would exceed customer expectations. Especially in the recent years, we have actively planned and developed apps for the rapidly growing smartphone app market while also continuing to keep our place in the PC software markets in order to create new businesses which meet the changing times and fulfil the ever-changing needs of our customers. In regards to the second quarter of this consolidated fiscal year, we were able to launch the language learning software "Rosetta Stone" and also place focus on the sales of our postcard creation software lineups, "FUDEOH", "FUDEMAME" and "ATENA SHOKUNIN" and due to these strong marketing efforts, for the second quarter of this consolidated fiscal year, we were able to surpass our forecasts which we set forth.

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



SOURCENEXT Products and Services

"From Apps to Hardware, We Continue to "Source What's Next""

NEWS

A Translation Device Supporting over 50 Languages

On October 2017, SOURCENEXT announced the upcoming release of their first hardware product - "POCKETALK" a translation device which supports translations of over 63 different languages including English, Chinese, Korean, French, etc. The device also supports audio read-outs for most languages (21 languages supporting only text) and by using the global SIM Card, the device can be used in over 61 different countries, allowing more and more people around the world to communicate freely - by breaking the language barrier.



The input voice is sent to the cloud to be processed for voice recognition, then transcribed into text, after which it is translated and finally read out by the audio read-out. The innovative device has uses in various scenarios such as when attending foreign guests / visitors, when on a trip abroad (for personal time off or business).

POCKETALK™



Smartphone Apps

Providing Apps to the 3 Major Mobile Carriers

SOURCENEXT provides apps to the monthly subscription services of all 3 major mobile carriers in Japan, and have 89 titles accepted to these services.

Providing Since	Carrier Name	Service Name	Number of Apps Provided
March 2012	KDDI	"au SmartPass"	39
June 2013	NTT DoCoMo	"SugoToku Contents"	23
August 2014	Softbank Mobile	"App Pass"	27

(As of October 2017)



World's First Voice Messaging Service with LINE Integration

On May 2016, SOURCENEXT released a revolutionary new product "Smart RUSUDEN", which transcribes and allows users to READ their voice messages on Email and LINE (messaging service) instead of having to call and 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.



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

The World Famous, Language Learning Software "Rosetta Stone"



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 also 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.

Increased Shares in the Postcard Creation Software Category

In April 2016, we obtained the rights for "ATENA SHOKUNIN" (the top shareholder of the Mac postcard creation category) and in May 2017, we acquired full ownership of FUDEMAME Co., Ltd. - the developers of "FUDEMAME" the top shareholder of the Windows postcard creation category, which resulted in the SOURCENEXT group dominating the retail market shares of the postcard creation market with over 70% plus shares.



User Services

Over 15 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 15 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.



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 10 million users*.

(*) as of October 2017

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 to expand businesses into various sectors such as IoT.

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 actively partner with globally renowned IoT companies in order to promote our new POCKETALK translation device (supporting over 50 different languages), announced just this October.

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 the First Half of this Consolidated Fiscal Year (April 1, 2017 to September 30, 2017), we focused on the sales of the "Rosetta Stone" series products (acquired in March), sales of our postcard creation software and also on broadening our smartphone app line-up.

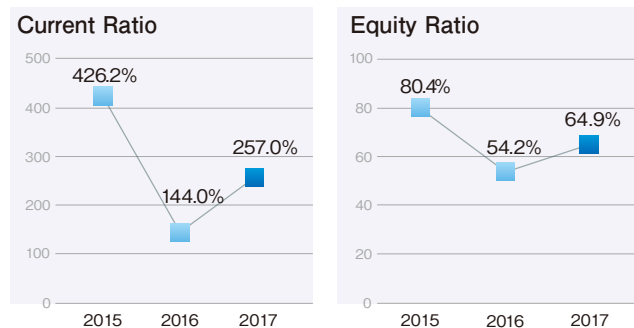
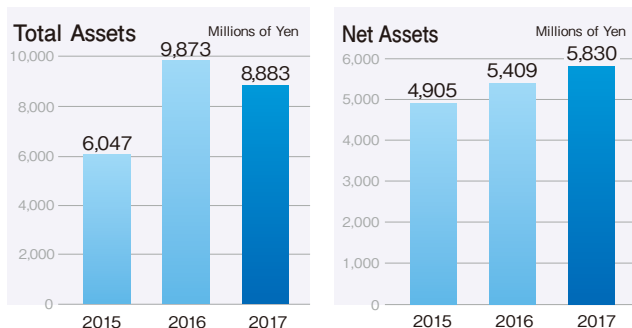
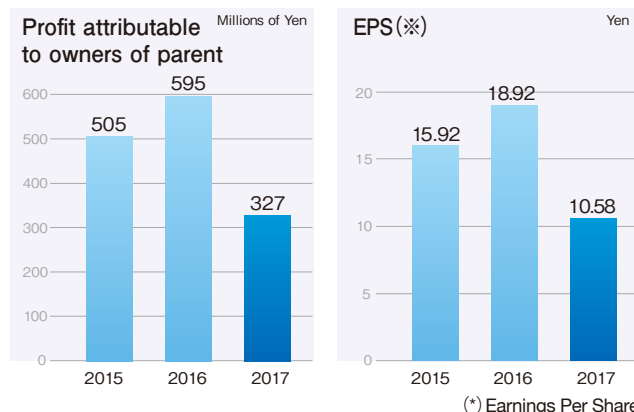
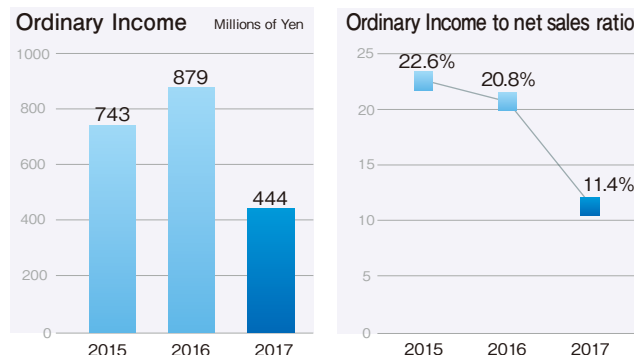
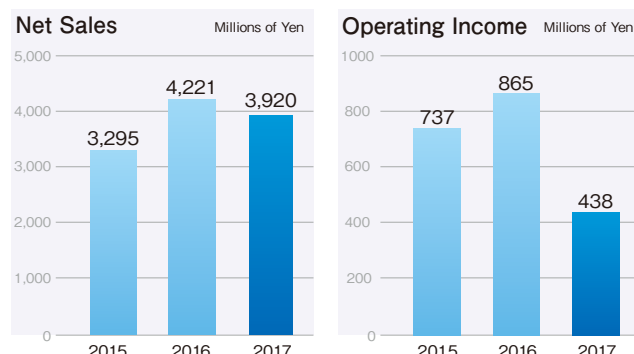
In the PC software category, we were able to boost sales by running a special cash back campaign for our popular security software "Virus Security" in which we celebrated the "cumulative 10 million units sold" mark, while in the postcard creation software market, we placed emphasis on promoting our 3 major brands "FUDEOH", "FUDEMAME" and "ATENA SHOKUNIN" in preparing for the upcoming end-of-year postcard season.

In the eSHOP, we launched new products such as the intermediate / advanced level versions of the "Rosetta Stone" products (developed in-house) and also actively promoted the "Corel" brand products.

In the smartphone app markets, we continued to provide new contents to the "all you can grab" app subscription markets of the 3 major mobile carriers (Docomo, au and Softbank) while also providing enhancements via updates to current existing titles as well. We were also able to release major updates to our "Smart RUSUDEN" (English name: "iGotcha") app and release brand new titles such as the "Super Security for Android TV".

In terms of sales, due to the fact that we didn't release new versions of our security software lineup and also not having the boost in sales from the "Windows 10 Upgrades" that we had last year, earnings were not as high as the same quarter last year, but results were close to our expectations: Net sales at 3.92 billion yen (7.1% decrease from last year), ordinary income at 438 million yen (49.4% decrease from last year), operating income at 444 million yen (49.4% decrease from last year) and this fiscal year's net income belonging to the shareholders of the parent company coming to 327 million yen (45.0% decrease from previous year).

Consolidated Business Performances



Quarterly Consolidated Financial Statements (Summary)

Consolidated Balance Sheets (As of Sep 30, 2017)

Assets		Liabilities	Thousands of Yen
Current assets	4,381,852	Current liabilities	1,704,863
Non-current assets	4,501,975	Non-current liabilities	1,348,776
Property, plant and equipment	272,267	Total liabilities	3,053,639
Intangible assets	3,288,186	Net Assets	
Investments and other assets	941,521	Shareholders' equity	5,481,631
		Accumulated other comprehensive income	283,654
		Subscription rights of share	64,902
		Total net assets	5,830,187
Total assets	8,883,827	Total liabilities and net assets	8,883,827

Consolidated Statements of Income (From April 1, 2017 to Sep 30, 2017)

	Thousands of Yen
Net sales	3,920,232
Cost of sales	1,110,767
Gross profit	2,809,465
Selling, general and administrative expenses	2,371,168
Operating income	438,296
Ordinary income	444,952
Profit before income taxes	439,068
Total Income taxes	111,371
Profit attributable to owners of parent	327,696

Consolidated Statements of Cash Flows (From April 1, 2017 to Sep 30, 2017)

	Thousands of Yen
Cash flows from operating activities	△297,062
Cash flows from investing activities	△686,507
Cash flows from financing activities	△903,180
Cash and cash equivalents at end of period	1,814,330

Capitalization Policy and Semester Forecasts

Currently, there are no adjustments that need to be made to the Consolidated Financial Forecasts issued on May 12, 2017.

In October this year, we made the announcement of our new hardware product, "POCKETALK" - an innovative translation device which supports over 50 different languages. Just by speaking in to the device, it determines the optimal translation engine for the selected language and reads out the translated text. With the Tokyo Olympics coming up in 2020 (and the number of inbound tourists expected to rise), the product has been given very high expectations and has attracted the interests of not only airports, hotels and other companies in the tourist industry but various companies outside the tourist industries as well.

With the third quarter marking the start of the postcard season in Japan, we plan to focus on the sales / marketing of the "FUDEOH", "FUDEMAME" and "ATENA SHOKUNIN" postcard creation software lineups. As for our flagship security products, we expect the needs of antivirus software will continue on at a steady pace. In addition to the above marketing activities, we plan to actively seek out acquisitions of new IP's (intellectual properties), to fully utilize our broad sales channels to increase sales even more and also continue to acquire more new users in order to further expand our market outreach.

Corporate Profile

Overview of Corporation (as of September 30, 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

Nonconsolidated: 102
(including 6 temporary staff / employees)
Consolidated: 150
(including 6 temporary staff / employees)

Description of Business

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

Members of the Board

(as of September 30, 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
Hideaki Kubori

Outside Auditor
Kunitake Ando

Standing Auditor
Shozaburo Takano

Standing Auditor
Masaaki Hirose

Outside Auditor
Tetsuya Kobayashi

Outside Auditor
Kakuji Takano

Present Shares (as of September 30, 2017)

Total Number of Authorized Shares
90,280,000 shares

Total Number of Issued Shares
31,732,000 shares

Number of Shareholders
7,789

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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