

To Our Shareholders and Investors

Business Report for Fiscal Year ended March 2016
April 1, 2015 - September 30, 2015



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 suit the needs of our customers. With the release of the new "Windows 10" OS from Microsoft in this consolidated cumulative second quarter, our flagship PC software such as our security products showed very strong sales. As a result of these positive factors, our ordinary income and operating income for this consolidated cumulative quarter marked a new all-time high for the third year in a row (topping even the previous all-time high set on March 2015). I would like to send my deepest gratitude to all our valued shareholders and investors - for without your encouragement and support, this extraordinary feat would not have been possible.

Coming August 2016 marks the 20th anniversary of our company. I would like to express my deepest gratitude to all our shareholders and investors for your continued support and would like to assure you that we are committed more than ever before, to stay true to our slogan of "We Source What's Next" and to continue to create products which 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 "New Business Developments for the Changing Times"

Smartphone Apps

Apps Provided to All 3 Major Mobile Phone Carriers

Since 2012, SOURCENEXT has continued to focus on the planning and development of new Smartphone apps and has had numerous apps be accepted by the 3 major Japanese mobile phone carriers. Currently, we have 33 total titles provided to these carriers.

Providing Since	Carrier Name	Service Name	Number of Apps Provided
March 2012	KDDI	"au SmartPass"	26
June 2013	NTT DoCoMo	"SugoToku Contents"	20
August 2014	Softbank Mobile	"App Pass"	24

(data as of November 2015)

All-You-Can-Use Services

Opening the Doors to New Businesses

We not only market the "All You Can Use" service under our own "CHOU HODAI" and "Apps CHOU HODAI" brand, but also actively provide it as OEM to a wide variety of businesses. We are also able to customize the service to suit the needs of each sales channel, and for example - we provide a special "Kids Pack" (with apps such as Parental Control, educational apps) to businesses that are targeted for younger audiences.

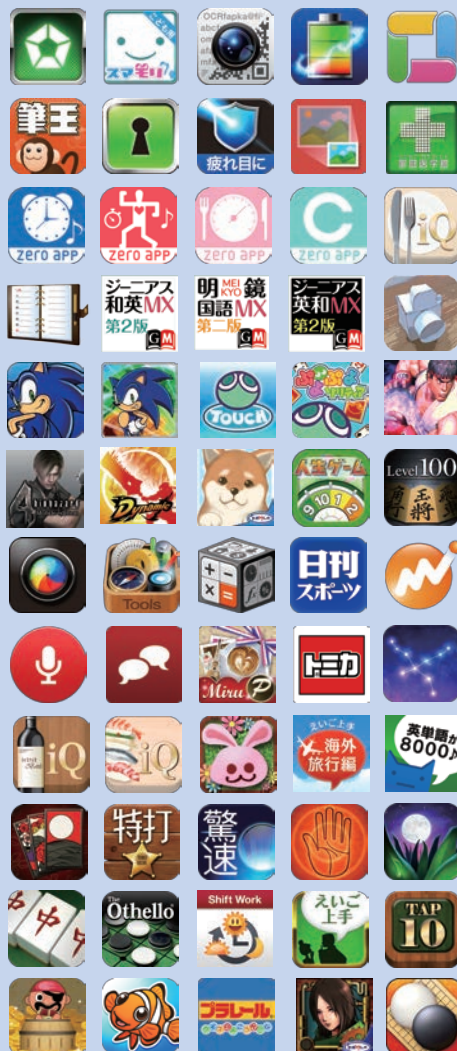
Names of Services and their Target User Base

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	



アプリ超ホーダイ[®] "Apps CHOU HODAI" logotype

A service which allows you to use over 100 of the most popular paid apps in an "all you can use" monthly subscription service.



超ホーダイ[®]
"CHOU HODAI" logotype

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".



PC Software

Sony Software Taking the No.1 Position in Shares

Starting from April 2015, we signed an agreement with Sony Creative Software, which gave us the rights to exclusively distribute their products in the Japanese region. In addition to download sales, we also began distributing the "Studio" series products through the retail channel starting June. In doing so, we were able to push Sony's market shares up to 32% in a single month, and helped them to take the No.1 position in the movie editing software category. In addition to this, on October we added another 5 titles to the SONY line up including the popular "Vegas" series.



Sony Creative Software Products

New Opportunities with the Windows 10 OS

On July 2015 the new Windows 10 OS was released by Microsoft - opening a new window of opportunities for our ZERO series products. Having its support period based on the official Microsoft OS Support period, our ZERO antivirus products do not require any renewals after certain periods, but when users upgrade their OS's to a newer one, they are required to upgrade their products to newer versions that supports these new OS's. Since the new Windows 10 OS is provided to users (on Windows 7 and 8) free-of-charge, we expect many users will be migrating to this new OS and we see this as a huge new business opportunity for us.

ZERO Series

The "OS Upgrade Service" which allows users to continue using their current products in the upgraded Windows 10 OS, is seeing very strong sales.



ZERO Virus Security
Over 9.4 million total users, and used in over 3,000 companies.



ZERO Super Security
Powered by the unbeatable Bitdefender engine, which has been presented the "Product of the Year 2014" award from AV-Comparatives.



AV-Comparatives is a non-profit institute based in Austria, which tests and evaluates security products from around the world.

Release of the new Backup Software, "Acronis"



On October 2015, we introduced "Acronis True Image Personal" (developed by the world famous backup software developer, Acronis) into our software line up - making this the second system backup software to be included in our lineup, following NovaBackup. This also meant that the No.1 and No.2 ranked backup software in the U.S. Review Site, "TopTenReviews" were now with SOURCENEXT. With the need for backup software on the rise with the introduction of the new Windows 10 OS, we expect the sales of these backup software to continue to grow.

New Cloud Services for the "My Number" System



MF Cloud My Number

Starting from 2016, a new "My Number" system will be introduced into Japan which will require businesses to manage unique ID's called "My Numbers" assigned to each individual. The new cloud service, "MF Cloud My Number" released on October 2015 (and developed by Money Forward - with a solid history for providing cloud based accounting services) allows businesses to efficiently and safely manage these My Numbers.

User Services

Over 12 Million Registered Users

Since year 2000, SOURCENEXT has been running an EC site within the company website and marketing various software and hardware products. The total number of registered users now exceed 12 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 stronger relationship with our customers.



Frequently Asked Questions

Q. What is your most popular product / service?

A. The "ZERO" security software series

In 2013, "Virus Security ZERO" was the No.1 selling PC software in Japan, now with a total of over 9.4 million users*.

(*) as of September 2015

Q. What are the most popular Smartphone apps in your line-up?

A. "Super Battery", "Speed Sweeper", "Super Tools" and "Happy Eyes" are among the most popular.

The most popular apps in the "au Smart Pass (KDDI)" service is "Super Battery" which has recorded over 520 thousand downloads, "Speed Sweeper" with over 1.53 million downloads, "Super Tools" with over 250 thousand downloads and "Happy Eyes" with 360 thousand downloads. All of these apps are also very popular with NTT Docomo's "SugoToku Contents" and SoftBank's "App Pass" services.

Q. What is your main objective in partnering with foreign companies?

A. To search out potential hit products from around the world, and to bring forth great products that inspire joy to users.

In order to carry out this objective, we have partners based in the U.S., China, India, Romania, Bangladesh, (to name a few) and also have our U.S. subsidiary based in the Silicon Valley.

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 of 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 thoughts on premium redemptions to shareholders?

A. We look upon it from a long-term perspective.

We, at SOURCENEXT, believe that our long-term rise in business performances will lead to higher corporate values and as a result, meet the expectations of our shareholders. Keeping this in mind, 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 of the corporation.

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.

We will continue to promote our smartphone apps to the major Japanese mobile carrier services and actively market our PC software, while also pursuing to obtain the intellectual property rights of products with high potentials - which will give us more control over product improvements / enhancements, help to increase customer satisfaction, and as a result, increase profits as a whole.

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 about 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

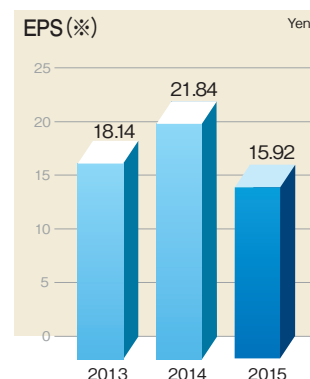
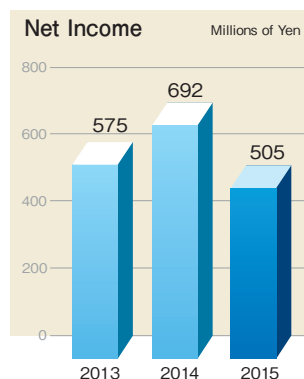
Quarterly Summary

In this consolidated cumulative second quarter, we focused on the development of PC software supported for the new "Windows 10" OS and also on the development and sales of apps for the rapidly growing smartphone app market.

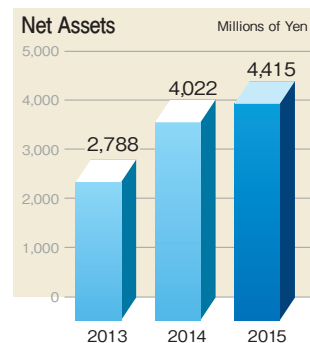
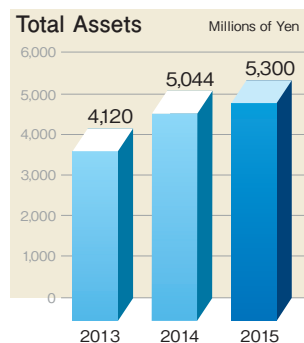
For PC software, we released the new Windows 10 supported versions of our flagship titles "Virus Security ZERO", "Super Security ZERO" and "FUDEOH", while also focusing on sales of backup software such as "NovaBACKUP" - which we especially saw a growing needs for from users upgrading to the new Windows 10 OS. In addition, we started the exclusive sales of Sony Creative Software's professional video editing software "Vegas" which also helped boost sales for this quarter.

In the Smartphone apps market, we continued to provide our apps to the 3 major carriers - "au SmartPass (KDDI)", "SugoToku Contents (NTT Docomo)" and "App Pass (SoftBank)", continuing to update and enhance current market released versions while also pushing to release more new apps to the services. We also pushed marketing for the "Apps CHOU HODAI" by introducing new app sets focused on specific targets (such as an "kids and elderly" packs) while also collaborating with and providing a billing / settlement system for partner companies.

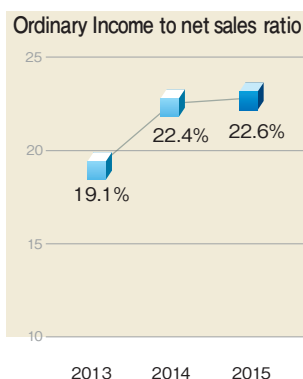
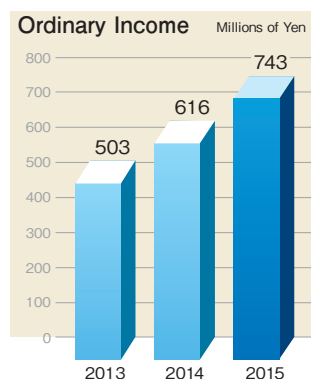
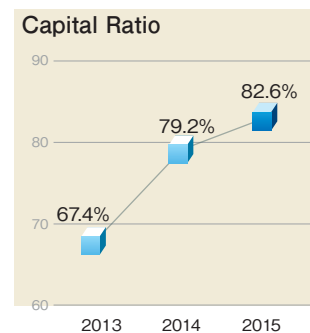
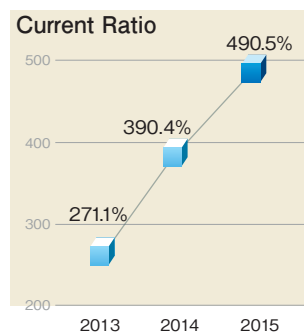
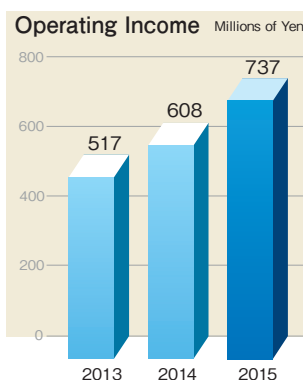
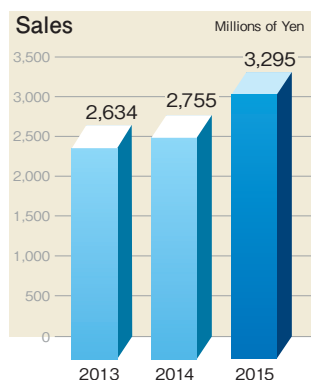
As a result of these marketing efforts, our operating income reached 737 million yen (21.3% increase from previous year), and our ordinary income marked 743 million yen (20.6% increase from previous year), making this the most profitable quarter for 3 years in a row. Also, as a result of the company's total losses carried forward having been paid off, corporate taxes and enterprise taxes are expected to rise, and we expect our net income to come in at 505 million yen (27.1% decrease from previous year).



(*) Earnings Per Share



Consolidated Business Performances



Consolidated Financial Statements (Summary)

Consolidated Balance Sheets

(As of Sep 30, 2015)

Thousands of Yen

< Assets >		< Liabilities >	
Current assets	41,43,435	Current liabilities	844,792
Noncurrent assets	1,157,497	Noncurrent liabilities	40,913
Property, plant and equipment	21,877	Total liabilities	885,706
Intangible assets	902,821	< Net Assets >	
Investments and other assets	232,797	Shareholders' equity	4,376,044
		Accumulated other comprehensive income	5,117
		Share warrant	34,063
		Total net assets	4,415,226
Total assets	5,300,932	Total liabilities and net assets	5,300,932

Consolidated Statements of Income

(From April 1, 2015 to Sep 30, 2015)

Thousands of Yen

Net sales	3,295,584
Cost of sales	914,875
Gross profit	2,396,891
Selling, general and administrative expenses	1,658,968
Operating income	737,923
Ordinary income	743,951
Income before income taxes and minority interest	743,754
Income taxes	238,450
Net income	505,303

Consolidated Statements of Cash Flows

(From April 1, 2015 to Sep 30, 2015)

Thousands of Yen

Cash flows from operating activities	508,004
Cash flows from investing activities	△167,824
Cash flows from financing activities	△121,533
Cash and cash equivalents at end of period	2,497,826

Forecasts for the Full Business Year

In regards to the consolidated earnings estimates for fiscal year ending March 2016, we estimate a net sales of 6.889 billion yen (13.1% increase from previous year), an operating income of 1.399 billion yen (7.4% increase from previous year), an ordinary income of 1.460 billion yen (7.2% increase from previous year), an net income of 905 million yen (25.5% decrease from previous year).

The expected dividend rate is expected to increase to 15% (a 5% increase from the previous 10%) with the year-end dividend expected at 4.28 yen per share.

In regards to the latter half of this fiscal year, we plan to focus mainly on marketing our flagship "ZERO" brand security software and "FUDEOH", as well as further expanding on the "CHOU HODAI" and "Apps CHOU HODAI" titles while continuing to develop and introduce new apps to the Smartphone market. In addition, we plan to further strengthen our ability to search out new prospective products from overseas markets with our U.S. subsidiary acting as the base for these operations.

Corporate Profile

Overview of Corporation (as of September 30, 2015)

Company Name

SOURCENEXT Corporation

Founded

August 2, 1996

Headquarter

Toranomon 33 Mori Building 6F, 3-8-21
Toranomon Minato-ku, Tokyo 105-0001

Capital

1,771 million yen

Number of Employees

96 (temporary staffs/employees: 3)

Description of Business

Planning, development and distribution
of software and hardware products

Members of the Board

(as of September 30, 2015)

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, 2015)

Total Number of Authorized Shares
90,280,000 shares

Total Number of Issued Shares
31,732,000 shares

Number of Shareholders
3,962

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://sourcnext.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

Toranomon 33 Mori Building 6F, 3-8-21 Toranomon Minato-ku, Tokyo 105-0001

TEL: 81-3-6430-6406

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