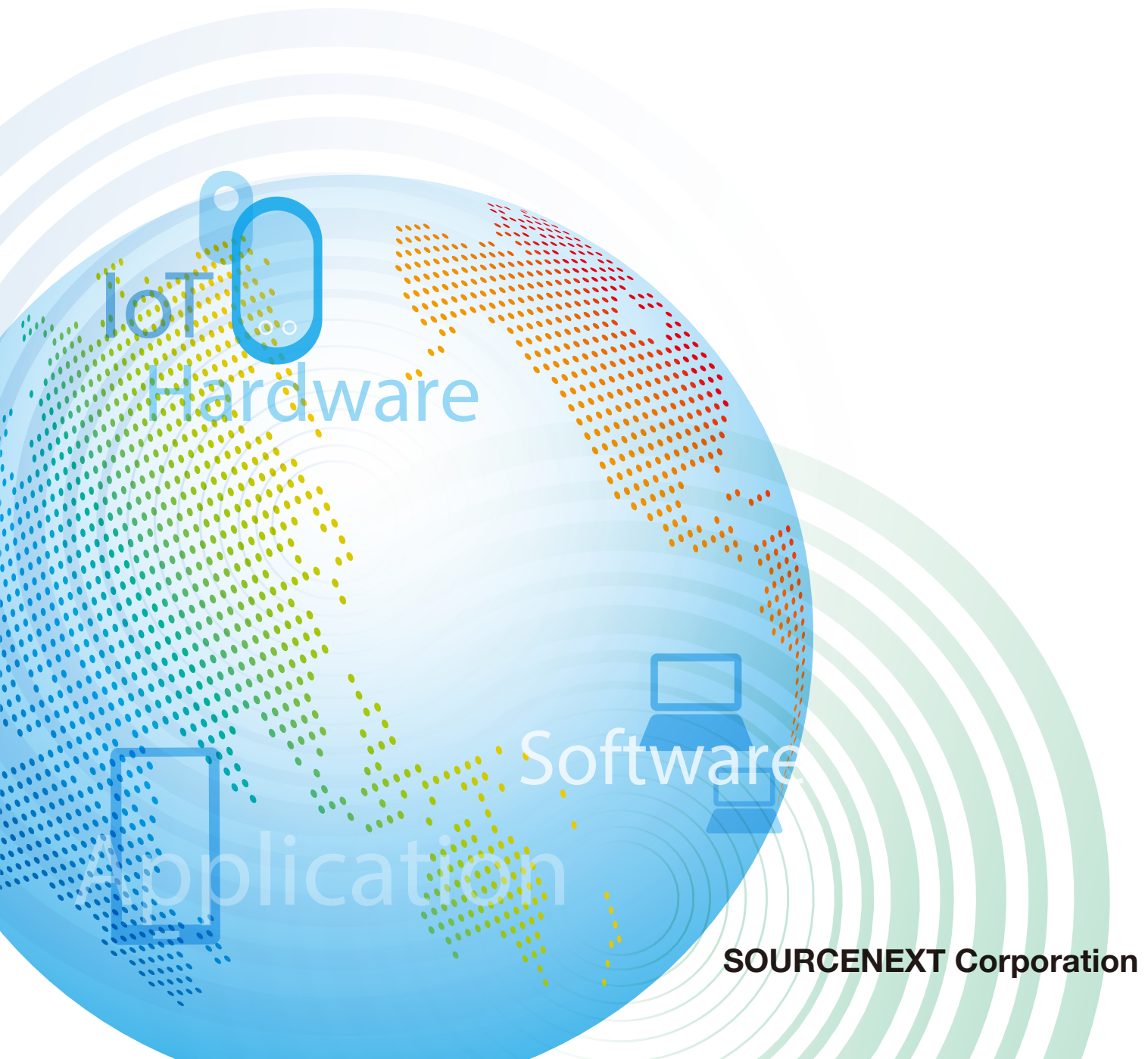


# To Our Shareholders and Investors

Business Report for First Half of Fiscal Year ending March 2019  
April 1, 2018 - September 30, 2018



## 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. Currently we are expanding our business in the IoT products field while also continuing to keep our place in the smartphone app and PC software markets in order to create new businesses which meet the changing times and fulfil the ever-changing needs of our customers. In the first half of this fiscal year, we launched “POCKETALK W,” a new model of our “POCKETALK” translation device which represents a significant evolution from the original model. We have received a considerable response since announcing the original “POCKETALK” in October 2017, and the launch of the new model was accompanied by increased exposure through advertising on TV and radio, in magazines, on public transport, and through other media, which has increased awareness of the product. In addition to seeing an increase in individual users, this has also led to the product being introduced by a steadily expanding group of other users, such as corporations in the railway and retail industries, restaurants, regional tourism organizations, and others. As a result, net sales for the current half were 5.743 billion yen (46.5% increase from the previous fiscal year), operating profit was 507 million yen (15.8% increase from the previous fiscal year), and ordinary profit was 516 million yen (16.1% increase from the previous fiscal year).

I would like to express my deepest gratitude to all our shareholders for your continued support, while providing our assurance that we will persist with our aim of expanding into global markets from a customer perspective in a manner that inspires joy and moves people of the world through our products, under our slogan and origin of our company name, “We Source What’s Next.”

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.



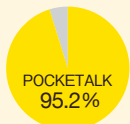
SOURCENEXT Corporation  
President and CEO  
**Noriyuki Matsuda**

# “From Apps to Hardware, We Continue to ‘Source What’s Next’ ”

## Hardware

### The New Model “POCKETALK W”, an AI Translation Device that Delivers ‘Wow’ Moments

Hot on the heels of our original model, which went on sale in December last year, we launched the new model “POCKETALK W” in September. It is capable of translating 74 different languages, including English, Chinese, Korean, and French. Even if you cannot speak your conversation partner’s language, this device can act as your “personal interpreter” and enable you to converse more freely in various languages and break down language barriers. “POCKETALK W” has been produced entirely by SOURCENEXT, from development through to manufacturing, and it represents our first step into hardware manufacturing.



Audio-based translation device market share for September 2018  
Source: BCN Inc.



Won the “Innovation Award in Mobile Computing” at ShowStoppers during IFA 2018, the world’s largest consumer electronics show held in Germany in August.



Selected as No.1 in Nikkei Inc.’s new product rankings for the third quarter of 2018.



### Usable in 109\* different countries / regions

Includes an embedded global SIM (3G/4G Mobile Data) that can be used worldwide (built-in mobile data version only). Usable straight out of the box – just go through the initial set up and no additional setup is necessary when going from country to country.

\*As of November 2018



### Highly accurate translations

The device draws on the latest in optimal cloud-based translation engines, specific to each language, thereby enabling it to render more natural translations.



The TV commercial features Sanma Akashiya, a popular comedian and TV personality.

## Smartphone Apps

### Providing Apps to the 3 Major Mobile Carriers

SOURCENEXT provides apps to the monthly subscription services of all 3 major carriers in Japan, and have 92 titles accepted to these services.

Providing Apps Since	Carrier	Service Name	Number of Apps Provided
March 2012	KDDI	"au SmartPass"	36
June 2013	NTT DoCoMo	"SugoToku Contents"	25
August 2014	Softbank Mobile	"App Pass"	31

(As of November 2018)

Example of apps provided



### World’s First Voice Messaging Service with LINE Integration

The number of service contracts has been increasing with respect to the “Smart RUSUDEN” voice message to text service that enables users to read their voice messages either on the spot, or through Email or LINE (messaging service).

Smart RUSUDEN



on LINE





## Products and Services / Hardware

### All-You-Can-Use Services

#### A New Way of Providing Apps

SOURCENEXT is leveraging our unique ability to handle a large number of apps from a wide range of fields to focus on providing flat-rate, “all-you-can-use” services. In addition to selling this as our own product, our sales channels have been expanding to wide-ranging business sectors as a result of actively providing apps on an OEM basis.

Service Name	Platform	Provided To
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

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



超ホーダイ

#### CHOU HODAI

This service enables 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” top-performing antivirus software. It is available under one-year, three-year and monthly subscription plans.



### User Services

#### Over 16 Million Registered Users

Since the year 2000, SOURCENEXT has been running an EC site and marketing various software and hardware products. The total number of registered users now exceeds 16 million. By providing better services to each individual registered user on a personal level, we are increasing the number of repeat users, making the site one of our biggest sources of revenue.



### PC Software

#### The World Famous, Language Learning Software “Rosetta Stone”

We obtained the rights to sell the world-renowned language learning software, “Rosetta Stone” which covers 24 different languages and also acquired the Japanese subsidiary of Rosetta Stone in June 2017. In addition to actively developing new products, we are working on providing it as an online program that can also be used on smartphones and tablets and selling it at a more affordable price.



#### Increased Shares in the Postcard Creation Software Category

SOURCENEXT captured no less than 70% market share on a Group-wide basis through sales of the top-selling “FUDEMAME” product of subsidiary FUDEMAME Co., Ltd., SOURCENEXT product “FUDEOH,” and “ATENA SHOKUNIN,” which has the top share of the Mac postcard creation category.



#### “ZERO,” Antivirus Software Voted Most Likely to be Recommended to a Friend

In a survey to rank software by their vendors conducted by BCN, the “ZERO” series of antivirus software with no renewal fee, has earned top ranking in 2018 as the software whose customers are most likely to recommend it to a friend. This comes immediately after “ZERO” earned top ranking two years in a row (2016, 2017) for security software products that customers consistently turn to.



#### ZERO Virus Security

A cumulative total of 10 million users, and being used in over 3,000 companies. Celebrating its 15th anniversary in November 2018.



#### ZERO Super Security

This product is equipped with the Bitdefender engine, which won the “Product of The Year” award from AV-Comparatives upon having achieved top scores four years in a row.

# Financial Highlights

## Summary for Current Period

During the first half of this fiscal year (April 1, 2018 to September 30, 2018), in September, we launched “POCKETALK W,” a new model of our “POCKETALK” translation device which represents a significant evolution from the original model. The launch was accompanied by increased exposure through advertising on TV and radio, in magazines, on public transport, and through other media, which has increased awareness of the product. In addition to seeing an increase in individual users, this has also led to the product being introduced by a steadily expanding group of other users, such as corporations in the railway and retail industries, restaurants, regional tourism organizations, and others. As a result, there was a big increase in sales.

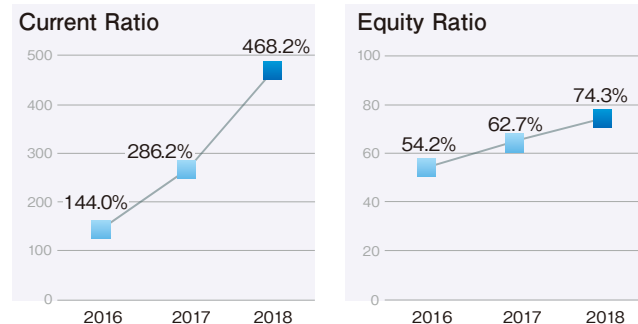
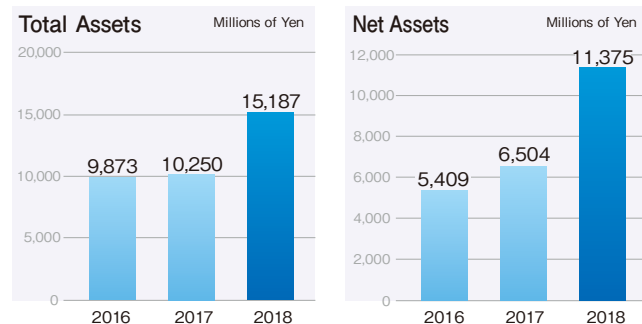
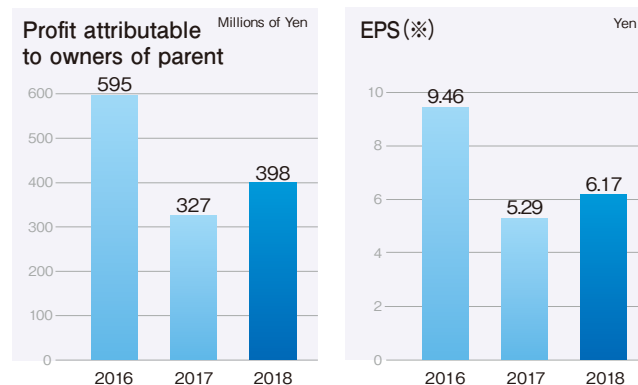
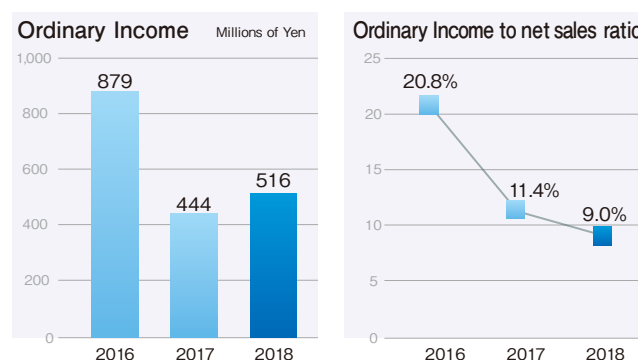
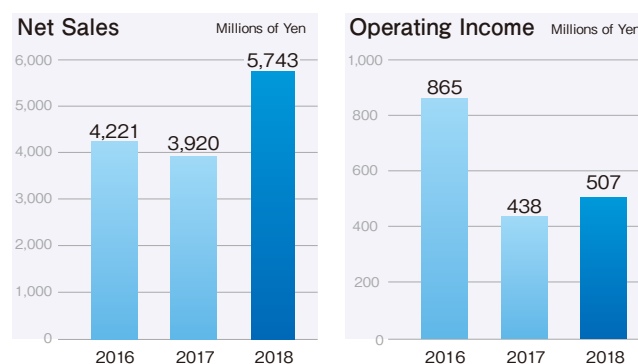
However, delays to the start of mass production of “POCKETALK W” meant the scheduled launch in August was pushed back to September, and this, combined with a succession of large typhoons hitting Japan, caused delays in transporting the devices by air. This meant that we received a significantly smaller number of shipments in September than expected. As a result, we were unable to secure the amount of inventory we initially expected to have, and sales were less than forecast.

Regarding our existing businesses, we were able to expand sales of our flagship products for postcard creation software “FUDEOH,” “FUDEMAME,” and “ATENA SHOKUNIN” ahead of the upcoming season for sending New Year greetings postcards in Japan.

As a result, net sales were 5.743 billion yen (46.5% increase from the previous fiscal year), operating profit was 507 million yen (15.8% increase from the previous fiscal year), ordinary profit was 516 million yen (16.1% increase from the previous fiscal year) and profit attributable to owners of parent was 398 million yen (21.7% increase from the previous fiscal year).

Additionally, as a result of a partial exercise of the 9th and 10th series share acquisition rights issued by the Company in June 2018 (share acquisition rights with exercise price amendment clause by means of third-party allotment), capital stock is now 3.509 billion yen (97.5% increase from the previous fiscal year) and capital surplus is 4.089 billion yen (153.0% increase from the previous fiscal year).

## Consolidated Business Performances



# Quarterly Consolidated Financial Statements (Summary)

## Consolidated Balance Sheets (As of September 30, 2018)

Assets		Liabilities	Thousands of Yen
Current assets	11,204,873	Current liabilities	2,393,317
Non-current assets	3,982,524	Non-current liabilities	1,418,592
Property, plant and equipment	226,396	Total liabilities	3,811,909
Intangible assets	3,093,093	<b>Net Assets</b>	
Investments and other assets	663,034	Shareholders' equity	11,280,807
		Accumulated other comprehensive income	10,183
		Share acquisition rights	84,497
		Total net assets	11,375,488
Total assets	15,187,398	Total liabilities and net assets	15,187,398

## Consolidated Statements of Income (From April 1, 2018 to September 30, 2018)

	Thousands of Yen
Net sales	5,743,224
Cost of sales	2,114,502
Gross profit	3,628,722
Selling, general and administrative expenses	3,121,184
Operating profit	507,537
Ordinary profit	516,438
Profit before income taxes	627,181
Total income taxes	228,318
Profit attributable to owners of parent	398,863

## Consolidated Statements of Cash Flows (From April 1, 2018 to September 30, 2018)

	Thousands of Yen
Cash flows from operating activities	(395,813)
Cash flows from investing activities	447,944
Cash flows from financing activities	4,244,355
Cash and cash equivalents at end of period	6,208,182

## Capitalization Policy and Full-year Forecasts

Currently, there are no adjustments that need to be made to the consolidated financial forecasts issued on May 15, 2018.

In addition to promoting “POCKETALK W” through electronics retailers and the SOURCENEXT eSHOP, we are actively working to cultivate a greater number of new business users, including a variety of corporations such as public transport and retail companies, and tourism organizations. Furthermore, we will not only promote the new model in Japan, but also in overseas markets including the United States and Europe.

In regard to existing products, we will actively promote our three postcard creation software “FUDEMAME,” “FUDEOH,” and “ATENA SHOKUNIN” through electronics retailers and the SOURCENEXT eSHOP in preparation for the season for sending New Year greetings postcards in Japan.

Additionally, we have established a new business through our subsidiary SOLVE, which is an online store selling made-to-order shirts. Going forward, we will further raise both the amount of profit generated and profitability of the Company by continually improving our products and services through the active enhancement of our line-up of products developed in-house and the acquisition of high-quality, convenient content offerings from all over the world. Therefore, our full-year consolidated financial forecasts remain unchanged from the most recent announcement.

## Frequently Asked Questions

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

**A. The “POCKETALK” translation device and “ZERO” security software series.**

Our “POCKETALK” bidirectional translation device and “ZERO” security software series are popular. “POCKETALK” became a massive hit product as soon as it launched in December 2017. In September 2018, we launched the new “POCKETALK W” model and it has already gained a good reputation, winning the top spot in Nikkei Inc.’s new product rankings for July to September 2018. Moreover, “ZERO Virus Security” has a cumulative total of 10 million users\*. (\*) as of November 2018

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

**A. We are committed to firmly maintaining a policy of paying stable dividends.**

The basic dividend policy is to implement the distribution of profits with comprehensive consideration of performance, the dividend payout ratio and the amount of investment required for medium- and long-term corporate growth. For the fiscal year ended March 31, 2018, the Company has paid out dividends on the basis of a 15% dividend payout ratio. For the fiscal year ending March 31, 2019, the Company also plans to pay dividends on the basis of a 15% dividend payout ratio upon considering business conditions. Going forward, we are committed to firmly maintaining a policy of paying stable dividends while taking business conditions into account.

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

**A. We will rapidly expand our “POCKETALK” business.**

We will place further focus on sales of our “POCKETALK” bidirectional translation device, for which we released a new model in September 2018. This will involve actively promoting expansion of channels that include sales to corporate and overseas users, in addition to our existing market geared to consumers in Japan. Moreover, in the overall IoT field we will work to broaden our product lineup by actively forming partnerships with leading companies worldwide.

**Q. Does SOURCENEXT have an established regulatory compliance program?**

**A. Yes, we have established a culture of treating compliance with utmost importance.**

In our corporate philosophy of “becoming the most exciting company in the world,” we define “exciting” to mean “being genuinely good,” “creating happiness,” and “having fun,” and we are fostering a culture that expects our people to do the right thing. Moreover, in addition to requiring our employees to undergo training and do a test at the time of entering the company and once a year thereafter, regardless of the form of their employment with the company, we also teach via other methods such as through the activities of committees composed of employees. Furthermore, as a response for actions that arouse suspicions as to whether they are within laws and regulations, we have established the “Corporate Ethics Hotline” that provides the means for all employees to make an anonymous report to the company via an independent organization with no relationship of interest with our company.

# Corporate Profile

## Overview of Corporation

(as of September 30, 2018)

### Company Name

SOURCENEXT Corporation

### Founded

August 2, 1996

### Headquarter

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

### Capital

3,509 million yen

### Number of Employees

Nonconsolidated: 114  
(including 5 temporary staff / employees)  
Consolidated: 143  
(including 5 temporary staff / employees; excluding  
1 seconded employee)

### Description of Business

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

### Members of the Board

(as of September 30, 2018)

President and CEO  
Noriyuki Matsuda  
Executive Vice President  
Satomi Matsuda  
Managing Director  
Tomoaki Kojima  
Managing Director  
Kousuke Fujimoto  
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, 2018)

Total Number of Authorized Shares  
180,560,000 shares  
Total Number of Issued Shares  
67,760,200 shares  
Number of Shareholders  
19,400

## 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, Limited

## Shareholder Registry Administrator Office

1-4-4 Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Bank, Limited,  
Stock Transfer Agency Business Planning Dept.

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

Sumitomo Mitsui Trust Bank, Limited, Stock Transfer Agency Business Planning 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 Higashi-Shimbashi, Minato-ku, Tokyo 105-7133  
TEL: 81-3-6254-5231