

# To Our Shareholders and Investors

**Business Report for Fiscal Year ended March 2014  
April 1, 2013 March 31, 2014**



## 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.

I would like to start off by informing you that our financial reports for this consolidated fiscal year, ended in the black with very positive results. By focusing our development on new products which are tailored to meet the needs of customers and working to bring our end-users closer together with developers, our ordinary income, operating income and net income for this consolidated quarterly period marked an all-time high. I would like to send my gratitude to all our valued shareholders and investors - for without your encouragement and support, this extraordinary feat would not have been possible.

Although we have been supported very strongly by our shareholders in the past, we have been unable to pay out dividends due to performances not meeting expectations, but with the recent rise in performance and also with improvements made in our financial standings, we expect that from the next quarter, we will be able to resume again with our dividends payout. I would like to convey my gratitude to our shareholders for their unending support and also their kind patience and understanding. I believe strongly that it is our responsibility to meet up to our shareholder's expectations by continuing to deliver consistent results and growth, and to respond to these expectations through stable dividend payouts.

We hope to continue on with our mission of spreading joy and excitement to people around the world and to become "the most exciting company in the world", by creating new values in the software market, all from a customer's point of view.

I would like to express my warmest gratitude to all our shareholders and investors for your kind understanding and encouragement, and look forward to your continued support in the coming future. Thank you very much.



SOURCENEXT Corporation  
President and CEO  
**Noriyuki Matsuda**

# SOURCENEXT Products and Service "New Business Developments for the Changing Times"

## PC Software

### No.1 in Units Sold per PC Software Vendor for 2013



Due to the strong sales in security software, postcard software and also the introduction of new hit titles, SOURCENEXT was able to achieve the No.1 position in the "number of software units sold" for year 2013.

Based on surveys conducted by GfK Japan in major domestic electronic retail stores.

### Increasing the Market Share for Security Software

It's a widely known fact that the genre of PC software with the largest number of users is the security software market. Since November 2013, we unified the three security software in our product line-up under a single "ZERO" brand in order to better spread our "no annual renewal fee" concept, and to increase overall market share.

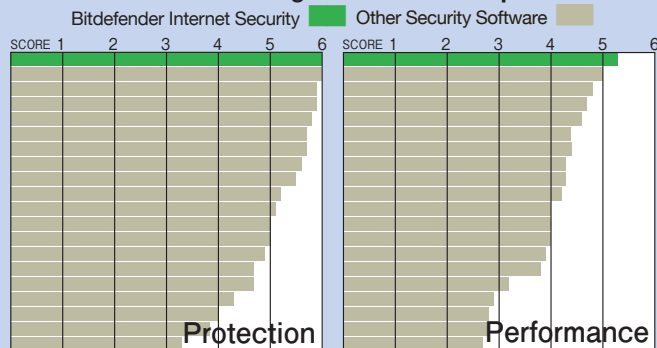


### Simply the BEST

"Bitdefender Internet Security" which uses the same engine to power our top line security product, "Super Security ZERO", dominated AV-Test's 2013 Awards for the home security products division by placing No.1 in both "Protection" and "Performance".



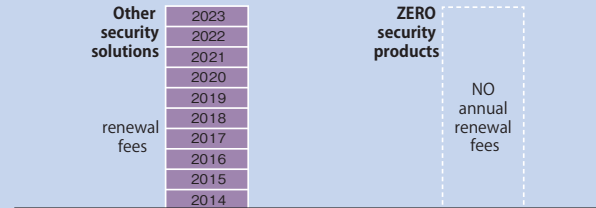
### 2013's annual average scores for each product



AV-TEST is an independent third-party testing institution based in Germany, which tests and evaluates security products from around the world. The tests which they run are based on a score of 6 (with 6 being highest) and the product which achieves the highest average score for the year, is presented this prestigious award.

### No annual renewal fees = no expiration dates

The "ZERO" brand allows users to take advantage of the world's finest antivirus solutions at no annual renewal fees. Developed "from a customer's perspective" and with various products to choose from, it allows users to select the perfect security solution which fit their specific needs. No annual renewal fees = no expiration dates.



- Expires within 1 year or 3 years
- Update stopped unless renewal fees paid. PC left in danger.
- Doesn't expire until the end of official Microsoft Support Period of the OS in use.

### "All you can grab PC Software"

Starting from May 2013, SOURCENEXT began providing their software (over 80 titles) as part of an "All you can grab PC Software" service to ISP's in Japan. Currently, the service is being offered through 5 ISP's, including NTT East Japan. While most publishers would only be able to provide a limited number of titles to such services, SOURCENEXT's strengths is that it has the capabilities to provide numerous titles covering a very wide variety of genres.



### New Product: "Happy Eyes"

The "Happy Eyes" is an entirely new product released on November 2013, which is designed to relieve the stress caused to eyes from PC / smartphone displays. Since release, it has been very well received by users all around. Being a multi-platform product, it allows users to install on PC, smartphone or tablets and use the license on up to 3 devices.



Image of product on PC



Image of product on smartphone



A special promotional video featuring dancer / choreographer, Papaya Suzuki as "Blue Light-Man"

## Smartphone Apps



"Super Battery"  
(Main Window)

### Continuously Growing Android App Market

This year, we continued to see considerable growth in our smartphone app business, which has grown to become a one of a strongest sources of income for the company. Android apps have led the way with 21 apps now available in the product line up, and we have focused on making these apps more readily available by providing them through monthly subscription services of major mobile phone carriers.



### KDDI au "Smart Pass"

For KDDI's popular monthly subscription service, "au Smart Pass", we have provided apps such as "Super Battery" (battery management app), "KYOUSOKU Memory" (memory management app), "Ultra Work Shift Calendar" (scheduler app) and many more (13 apps total).

### NTT DOCOMO "SUGO-TOKU Contents"

For NTT DOCOMO's monthly subscription service, "Sugo Toku Contents", we have provided apps such as "Super Camera" (multifunctional camera app with over 81 different features), "Super Tools" (tool app which comes with over 20 different unique and useful tools) and "ThinkFree" (Office app), which have all been well received.

### Apps for iOS

#### CHOUJIMAKU

LEFT: Catalog window where users select the products to download.  
RIGHT: 「The X Revolution - The iPod Revolution」 being played on iPad in full-screen mode.



「Download: The True Story Of The Internet - Search Wars」 「Human Body: Pushing The Limits - Brain Power」 「Download: The True Story Of The Internet - Ebay / Amazon」 「When We Left Earth: The NASA Missions - Ordinary Supermen」 「The X Revolution - The iPod Revolution」 「We Built This City - New York」 Still Images and summary ©2009 Discovery Communications, LLC. Discovery and logo are trademarks of Discovery Communications, LLC., used under license. All rights reserved.

## New Business Models

### Cross-Border Collaborations

For overseas IT venture companies, Japan is considered an extremely attractive market, being No.2 in the world in terms of "least number of illegal software copying". Our U.S. subsidiary, SOURCENEXT, Inc. continues to seek out new potential overseas partners, not only from the Silicon Valley, but from around the world and aim to promote synergy through these cross-border collaborations.



EVERNOTE



Dropbox

### Packaging Unique Cloud Services

To many Japanese users, using foreign payment systems or making payments by credit card to take advantage of overseas services is a rather bothersome obstacle to overcome. At SOURCENEXT, we take away this hassle by allowing users to purchase these services as packaged products, straight over the counter.



AirDroid

Edit and manage data inside your smartphone from your PC



splashtop

Remotely control your smartphone / tablet devices via PC



Super Photo Movie (Animoto)

Automatically creates beautifully produced movies from your photos

### The Most Popular Games from around the World

On March 2014, the apps "Angry Birds", "World of Goo", "Genius E to J / J to E Dictionary MX + Meikyou Kokugo MX + Shinkangorin MX" were selected to be pre-installed in the new "Tapme + (plus)" kids tablet. Among these many titles we offered, "Angry Birds" is one of the most popular games in the world, with over 2 billion downloads worldwide.



## User Services

### New Services to Our 10 Million Subscribers

At SOURCENEXT, we feel it is very important to build a strong relationship with our customers, and in order to provide the best possible services to our registered users, we continue to invest in making new enhancements to our user services.





## Frequently Asked Questions

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

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

In 2013, "Virus Security ZERO" was the No.1 selling PC software in Japan, and now has a total of over 8.9 million users\*.

(\* as of April 2014)

**Q. What are the most popular titles on the "au Smart Pass" and DOCOMO's "SugoToku Contents"?**

**A. "Super Battery" and Super Tools"**

"Super Battery" is one of the most popular apps on the au Smart Pass with over 2 million total downloads. Other apps such as "KYOUSOKU Memory", "Happy Eyes", "Super Tools" and "Super Camera" follow close behind with all 5 titles ranking in within the monthly Top 50 apps.

Similarly, in DOCOMO's Sugo Toku Contents, apps such as "Super Tools", "Super Camera", "Ultra Calculator" and "Happy Eyes" are likewise very popular among users.

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

**A. To find potential hit products from around the world, and to provide it to the market with new values added.**

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 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 end 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 for the corporation.

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

**A. We plan to concentrate on expanding and further building up on our contents for smartphones.**

In the PC software market, our strategy is to further expand on the sales of the "ZERO" series, "FUDEOH" and "Happy Eyes", which have all seen strong growth in both retail and online sales. In the area of smartphone apps, we aim to develop a new hit title which will follow in the success of "Super Battery", one of our strongest selling apps provided through mobile carrier's monthly subscription services. In addition, we also plan to search out and bring forth even more new, innovative contents from around the world.

**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 corporate goal is "to become the world's most EXCITING company" and we define this term "EXCITING" to mean "truthful, appreciated, and interesting". To be truthful - not just to laws, policies and corporate standards but to be truthful in the sense of social responsibility and moral standards.

From our full-time employees to our part-time staffs, each and every persons who enter our company are required to first take an e-Learning (web-based testing) course which teaches them of the importance of upholding compliance. In addition to this, we conduct a special Compliance Training course on an annual basis in which a designated committee educates the entire staff upon compliance regulations and the present corporate policies (all employees are required to participate in this course).

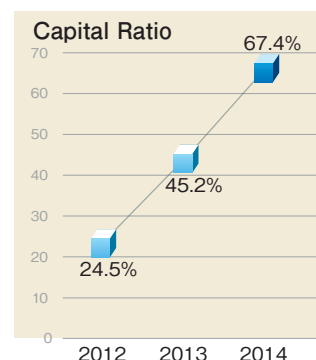
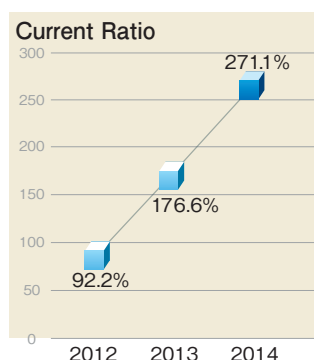
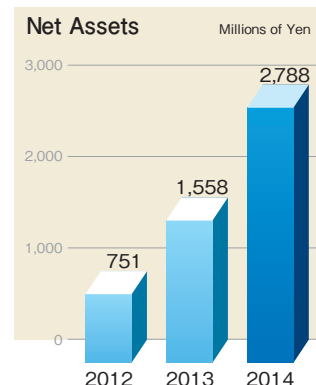
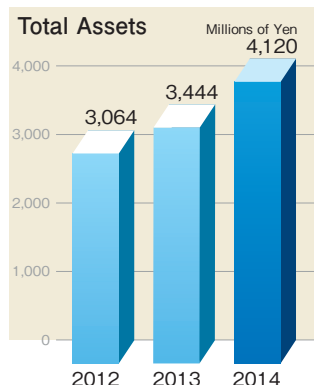
Corporate obligations set forth by law, are also upheld accordingly and we have a "Corporate Ethics Hotline" (run by an independent third party that has no stakes in our company) set up where all our employees are able to contact and anonymously report any unethical acts they find in the company.

## Financial Highlights

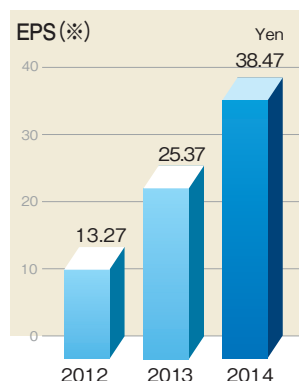
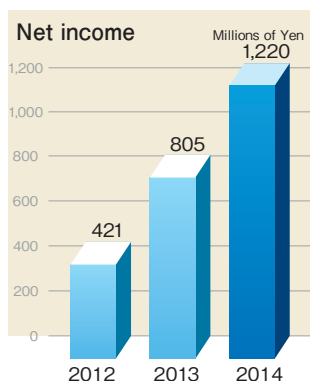
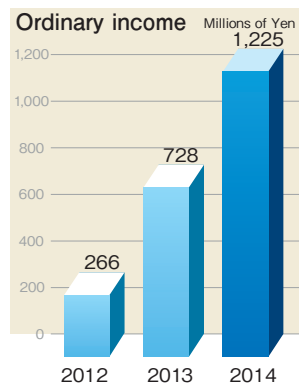
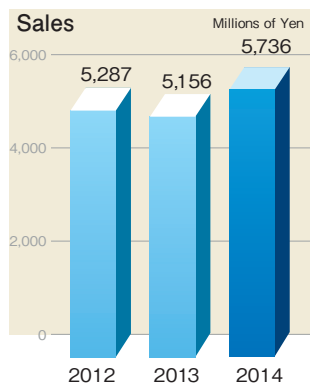
In this consolidated fiscal year, we placed our fundamental focuses on improving our ordinary income and balance sheet through the active marketing and sales of our PC software and Android based smartphone apps.

First, in the area of PC software, we emphasized on marketing our flagship products such as "Virus Security ZERO", "Super Security ZERO" and "FUDEOH" to domestic Japanese markets, while also actively searching out new, potential software from foreign markets. We were also able to introduce many of our own in-house developed products such as "Happy Eyes" and "Heart-Capturing Wedding Photo Movies" which both showed very strong sales.

In the area of smartphone apps, we added 7 new titles to the "au Smart Pass" (a monthly subscription based service offered by KDDI, since 2012) which makes this our 13th title in their service, and furthermore, we expanded our outreach by providing 9 of our apps to NTT DOCOMO's "SugoToku Contents" (also a monthly subscription service started by Docomo on May 2013) as well. As a result of these marketing efforts, our operating income marked 1.245 billion yen (61.2% increase from previous quarter), our ordinary income at 1.225 billion yen (68.2% increase from previous quarter) and our net income at 1.22 billion yen (51.6% increase from previous quarter), making this the most profitable quarter in the history of the company.



### Consolidated Business Performances



(\*) (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.

# Consolidated Financial Statements

## Consolidated Balance Sheets

(As of Mar 31, 2014)

Thousands of Yen

< Assets >		< Liabilities >	
Current assets	3,156,896	Current liabilities	1,164,290
Noncurrent assets	963,410	Noncurrent liabilities	167,680
Property, plant and equipment	24,124	Total liabilities	1,331,970
Intangible assets	836,177	< Net Assets >	
Investments and other assets	103,108	Shareholders' equity	2,777,847
		Accumulated other comprehensive income	1,101
		Share warrant	9,386
		Total net assets	2,788,335
Total assets	4,120,306	Total liabilities and net assets	4,120,306

## Consolidated Statements of Income

(From April 1, 2013 to March 31, 2014)

Thousands of Yen

Net sales	5,736,406
Cost of sales	1,500,067
Gross profit	4,236,339
Selling, general and administrative expenses	2,990,626
Operating income	1,245,713
Ordinary income	1,225,535
Income before income taxes and minority interest	1,242,854
Income taxes	22,175
Net income	1,220,678

## Consolidated Statements of Cash Flows

(From April 1, 2013 to Mar 31, 2014)

Thousands of Yen

Cash flows from operating activities	1,410,125
Cash flows from investing activities	▲151,278
Cash flows from financing activities	▲412,354
Cash and cash equivalents at end of period	1,807,418

### Forecasts for the Next Quarter

In regards to the consolidated earnings estimates for fiscal year ending March 2015, we estimate a net sales of 6.153 billion yen (7.3% increase from previous quarter), an operating income of 1.303 billion yen (4.6% increase from previous quarter), an ordinary income of 1.302 billion yen (6.3% increase from previous quarter), and a net income of 0.836 billion yen (31.5% increase from the previous quarter).

As for other key financial events, on April 2014, we made the decision to pay off all our syndicated loans prior to due date, and have also paid off all our other debts payable on May the same year. Due to this, our company is currently operating under zero liabilities with interest, as well as with zero debts.

Dividends were resumed again for the first time since March 2008, marking the first time in 7 years that dividends were paid out. For the next quarter, the expected dividend rate is 10% with the year-end dividend expected at 3.59 yen per share.

In regards to future plans, we plan to further strengthen and promote the sales of our flagship products and also focus on the development and sales of new titles and smartphone based apps.

## Corporate Profile

### Overview of Corporation (as of March 31, 2014)

#### 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

81 (temporary staffs/employees: 3)

#### Description of Business

Planning, development and distribution  
of software and hardware products

#### Members of the Board (as of March 31, 2014)

President and CEO  
Noriyuki Matsuda

Executive Managing Director  
Satomi Matsuda

Director  
Fumihiko Aoyama

Director  
Tomoaki Kojima

Outside Director  
Masaharu Ikuta

Outside Director  
Hiroshi Takasawa

Standing Auditor  
Shozaburo Takano

Outside Auditor  
Hideaki Kubori

Outside Auditor  
Tetsuya Kobayashi

#### Present Shares (as of March 31, 2014)

Total Number of Authorized Shares  
90,280,000 shares

Total Number of Issued Shares  
31,732,000 shares

Number of Shareholders  
4,129

### Corporate Philosophy

Meaning of company name:

**"To create the next source"**

SOURCENEXT Corporation Business Strategies

Goals of Business

**To spread joy and happiness to the people  
around the world through products**

Corporate Goals

**To become the world's  
most EXCITING company.**

The 3 requirements of "EXCITING"  
**Must be truthful**  
**Must be appreciated**  
**Must be interesting**

Action Guidelines

**To think from a customer's perspective and to be  
self-driven in achieving goals.**

**Speed**

**Originality**

**Universality**

**Reliability**

**Challenge**

**Efficiency**



# 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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