

BRIEF STATEMENT OF CONSOLIDATED FINANCIAL RESULTS FOR THE 3rd QUARTER OF THE FISCAL YEAR ENDING MARCH 2018

This is an English translation of summarized consolidated financial results prepared for the convenience of non-resident shareholders. Should there be any inconsistency between the translation and the official Japanese text, the latter shall prevail.

February 13, 2018

Faith, Inc. (Stock code 4295, Listed on TSE 1st section)

(URL <http://www.faith.co.jp/>)

Representative: Hajime Hirasawa, CEO/President

Contact: Jiro Saeki, CFO/Director Tel: +81-3-5464-7633

Date of Submission of Securities Report: February 14, 2018

Starting Date of the Dividend Payment: —

Preparation of Supplementary Materials for Quarterly Financial Results: None

Information Meeting for Quarterly Financial Results to be Held: None

Amounts are rounded down to the nearest JPY 1 million.

1. Results for the 3rd Quarter of the Fiscal Year Ending March 2018 (From April 1, 2017 to December 31, 2017)

(1) Consolidated Operating Results

(Percentages indicate changes compared with the same quarter of the previous fiscal year.)

Q3 of the year ending	Net Sales		Operating Income		Ordinary Income		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 2018	16,344	4.2	1,319	△21.7	1,229	△23.2	862	37.9
March 2017	15,686	2.5	1,686	37.6	1,601	31.2	625	7.0

(Note) Comprehensive income: 3rd quarter of the fiscal year ending March 2018: ¥1,086 million (△21.8%);
3rd quarter of fiscal year ending March 2017: ¥1,388 million (54.4%)

	Net Income per Share	Diluted Net Income per Share
Q3 of the year ending	Yen	Yen
March 2018	71.71	—
March 2017	63.40	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Ratio of Equity Capital
Q3 of the year ending	Millions of yen	Millions of yen	%
March 2018	26,260	19,061	72.5
Year ending March 2017	26,959	18,066	59.5

(Reference) Equity capital: 3rd quarter of fiscal year ending March 2018: ¥19,026 million; fiscal year ending March 2017: ¥16,052 million

2. Dividends

(Record dates)	Dividends per Share				
	1 st Quarter	Interim	3 rd Quarter	Year-end	Total
Year ending March 2017	yen	yen	yen	yen	yen
Year ending March 2017	—	5.00	—	5.00	10.00
Year ending March 2018	—	5.00	—	—	—
Year ending March 2018 (Forecast)	—	—	—	5.00	10.00

(Note) These figures have not been modified since the time of the most recently announced dividend forecast.

3. Forecast for the Consolidated Results for the Year Ending March 2018 (from April 1, 2017 to March 31, 2018)

(Percentages indicate changes compared with the previous fiscal year.)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to the Shareholders of the Parent Company		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	22,100	6.3	1,310	△25.5	1,300	△15.5	800	39.9	64.18

(Note) These figures have not been modified since the time of the most recently announced business result forecast.

* Notes

(1) Changes in significant subsidiaries (accompanying changes in scope of consolidation): None

Newly added subsidiaries: 0 companies

Removed subsidiaries: 0 companies

(2) Adoption of simplified accounting practices or specific procedures in preparation of the quarterly consolidated financial reports: Applicable

* For details, please refer to “2. Consolidated Financial Statements and Important Explanatory Notes, (3) Notes Concerning the Consolidated Financial Statements (Adoption of Simplified Methods in the Preparation of the Quarterly Financial Statements)” on page 9 of the accompanying material.

(3) Changes in accounting policy, changes in accounting estimates, and restatements

(i) Changes accompanying revisions of accounting standards, etc.: None

(ii) Changes other than the above: None

(iii) Changes in accounting estimates: None

(iv) Restatements: None

(4) Outstanding shares (common shares)

(i) Outstanding shares at the end of the term (including treasury shares):

The 3rd quarter of the fiscal year ending March 2018: 13,831,091 shares

The fiscal year ending March 2017: 11,960,000 shares

(ii) Treasury shares at the end of the term:

The 3rd quarter of the fiscal year ending March 2018: 69,332 shares

The fiscal year ending March 2017: 2,091,180 shares

(iii) Average number of shares during the interim accounting period:

The 3rd quarter of the fiscal year ending March 2018: 12,032,464 shares

The 3rd quarter of the fiscal year ending March 2017: 9,869,309 shares

(Note) The major changes, namely the increase of 1,871,091 shares in the number of outstanding shares (including treasury shares) and the decrease of 1,124,149 shares in the number of treasury shares at the end of the 3rd quarter of the fiscal year ending March 2018, were due to the implementation of a share exchange with Nippon Columbia Co., Ltd. effective as of August 1, 2017.

* This financial results report is exempt from quarterly review procedures.

* Statement regarding the proper use of financial forecasts and other special remarks

(Notice regarding statements concerning the future)

Statements concerning the future, such as performance forecasts, etc., described in the present material are based on information currently available to the Company and on certain assumptions judged as reasonable by the Company. The Company's actual performance may differ substantially from these forecasts as a result of various factors beyond the Company's control. For details of cautions, etc., employed in making performance forecasts and the assumptions underlying performance forecasts, please refer to “1. Qualitative Information Concerning the Settlement of Accounts for the 3rd Quarter, (3) Explanation Concerning Future Forecast Information on the Consolidated Financial Results, etc.” on page 4 of the accompanying material.

(To obtain supplemental documents relating to financial results)

Supplemental materials related to the Company's quarterly and other financial results are posted on the company website.

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1. Qualitative Information Concerning the Settlement of Accounts for the 3rd Quarter

(1) Explanation Concerning the Operating Results

In the Japanese domestic information communication field, the popularization of smartphones is continuing to advance together with the increasing diversification of devices. In the first half of FY2017, smartphone shipments increased by 12.9% compared with the first half of the previous year to 13,730,000 units (*1). Moreover, the number of users accessing the Internet from a smartphone increased by 11% during the same period to 61,930,000 people, exceeding the number who accessed the Internet from a PC during the peak year of 2011 for the first time (*2). Against the backdrop of the rising Internet utilization rate and the increasing diffusion of smartphone ownership, the switchover to services designed for the digital era is expected to further accelerate. Accordingly, it is becoming increasingly important for service providers to respond swiftly to the needs of users in keeping with the times.

*1. *Mobile-phone shipments in the Japanese domestic market in the 1st half of FY 2017*, compiled by MM Research Institute

*2. *Digital Trends 2017 First Half*, compiled by the Nielson Company

In the current environment, the Faith Group is continuing to utilize the results of the efforts it has been pouring into content digital distribution ever since its establishment, and is forging ahead with its Multi-Content and Multi-Device Strategy of creating environments in which people can enjoy a wide diversity of contents whenever and wherever they choose. We are also strengthening the development of new services in response to the changing market environment such as platforms that collect and organize the information flooding the Internet and then providing this to users after increasing its added value.

Regarding the Faith Group's business performance for the third quarter of the consolidated fiscal year ending March 2018, net sales increased by 4.2% compared with the same quarter of the previous fiscal year to ¥16,344 million, operating income decreased by 21.7% year on year to ¥1,319 million, ordinary income decreased by 23.2% to ¥1,229 million, and net income attributable to the shareholders of the parent company increased by 37.9% to ¥862 million.

Moreover, Faith, Inc. (hereinafter "the Company") gained ownership of all the shares of Nippon Columbia Co., Ltd. by means of a share exchange that was implemented on August 1, 2017 following the granting of approval of the share exchange contract by the annual general meetings of both companies, which took place on June 29, 2017 in the case of the Company and on June 23, 2017 in the case of Nippon Columbia Co., Ltd. With this, we have facilitated the centralization of our business strategy, speeding up decision making, promoting the efficient utilization of both companies' available resources including know-how and human resources, strengthening our creative response in the face of the huge changes currently enveloping the music industry, and allowing us to strive to further improve our corporate value.

Information on each business segment is as follows.

Content Business

In the Content Business, the Faith Group is actively pursuing the development of new products in response to the market environment including the ongoing popularization of smartphones, changing music listening styles. In this business, the Company is proceeding with measures to enhance the added value of its contents, such as functional improvement and linkage between various services, by verifying the results of service contents and marketability, including with regard to existing businesses, while also moving ahead with platformization in the interests of achieving income source diversification.

We are actively developing our FaRao PRO business by pursuing the functional expansion necessary for in-store operations such signage and security camera functions, in addition to commercial-use BGM and announcement functions using the Internet. For instance, we have begun providing FaRao PRO services in France and Indonesia based on our Japanese service, and we are also promoting new developments such as the collective introduction of FaRao PRO at the facilities of an Indonesian hotel chain. In future, we will endeavor to create and activate new BGM markets both in Japan and overseas.

In Fans', our platform of services for artists, we are enhancing the functions essential to artists' musical

activities such as official website construction, music and video distribution, sales of artist goods, and fan club operation. In providing a service that allows more artists to freely send out their musical work and information, we are aiming to acquire new users and expand membership, and we will endeavor to improve the quality of the Fans' service by pursuing usability.

As a result of the above developments, taking into account the ongoing positive deployment of new services in keeping with the changing market environment and the decline in sales of services to feature phone users, the Content Business recorded net sales of ¥3,171 million, a decrease of 4.8% year on year, and an operating loss of ¥118 million, compared with an operating loss of ¥9 million for same period of the previous fiscal year.

Point Service Business

In the Point Service Business, sales of points issued by existing participating point card stores remained robust, thanks in part to measures such as double point sales. In addition, the self-liquidation business (*3) performed well, with the result that this business recorded net sales of ¥2,009 million, an increase of 10.7% year on year. However, as a result of increased costs in line with an expansion of personnel and office facilities in connection with investment in talented human resources, operating income decreased by 17.8% year on year to ¥61 million.

*3. A campaign in which users can purchase various goods at a discount by saving points in the form of seals.

Label Business

Amid the severe environment facing the music and video-related industry in line with the continuing shrinkage of the music market, the Label Business proceeded with its strategy of strengthening new future-oriented businesses in order to overcome the present situation in which it remains dependent on sales of package products for which the market remains sluggish.

Regarding this segment's performance, sales of J-Pop and education titles, which contributed significantly to sales revenue in the previous fiscal year, recorded year-on-year declines, while animation and game titles performed favorably. Moreover, the inclusion of record label company Dreamusic Inc. as newly consolidated subsidiary of the Faith Group boosted overall Label Business sales. As a result, net sales reported in this segment were ¥11,163 million, an increase of 5.9% compared with the same period of the previous fiscal year, and operating income was ¥1,374 million, a year-on-year decrease of 15.2%.

*Product and service names appearing in this document are trademarks or registered trademarks of Faith, Inc. either in Japan or in other countries.

(2) Explanation Concerning the Financial Position

Total assets as of December 31, 2017 decreased by ¥699 million compared to the end of the previous consolidated fiscal year to ¥26,260 million. This result was due mainly to decreases in cash and deposits and in accounts and notes receivable.

Total liabilities decreased by ¥1,693 million compared to the end of the previous consolidated fiscal year to ¥7,199 million. This result was due mainly a decrease in accounts and notes payable and to the repayment of loans.

Total net assets increased by ¥994 million compared to the end of the previous consolidated fiscal year to ¥19,061 million. This was due mainly to the recording of a quarterly net income attributable to the shareholders of the parent company and to a decrease in treasury stock, etc.

As a result of the above, the equity ratio improved by 13.0 percentage points to 72.5%.

(3) Explanation Concerning Future Forecast Information on the Consolidated Financial Results, etc.

Performance forecasts are made based on information currently available to the Company, but there is a possibility that the actual performance figures will differ significantly from the forecast figures due to a variety of factors. In addition, regarding the current performance forecast for the consolidated full financial year, although operating income and net income attributable to shareholders of the parent company for the third quarter has already exceeded the full-year performance forecast values, during the fourth quarter we expect to incur game product production costs and advertising expenses in the Label Business. Accordingly, the full-year forecast remains unchanged from the forecast issued on October 31, 2017.

2. Consolidated Financial Statements and Important Explanatory Notes

(1) Consolidated Balance Sheet

	(Unit: thousands of yen)	
	FY 2016 (March 31, 2017)	3rd Quarter of FY 2017 (December 31, 2017)
(Assets)		
Current assets		
Cash and deposits	14,268,853	13,501,723
Accounts and notes receivable	2,659,104	2,481,049
Marketable securities	230,572	230,433
Commercial products	561,536	494,896
Products in progress	356,686	477,961
Primary materials and inventory goods	49,983	65,733
Corporation tax refund receivable, etc.	27,454	21,809
Deferred tax assets	100,976	96,123
Other current assets	639,750	590,676
Allowance for doubtful accounts	△18,863	△19,787
Total current assets	18,876,055	17,940,618
Fixed assets		
Tangible fixed assets	2,831,617	2,777,688
Intangible fixed assets		
Goodwill	1,833,611	1,745,375
Other intangible fixed assets	855,577	788,642
Total intangible fixed assets	2,689,188	2,534,017
Investment and other assets		
Investment securities	2,137,412	2,583,613
Deferred tax assets	26,208	26,215
Other investment and other assets	718,609	756,165
Allowance for doubtful accounts	△319,539	△357,875
Total investments and other assets	2,562,690	3,008,119
Total fixed assets	8,083,496	8,319,825
Total assets	26,959,552	26,260,444
(Liabilities)		
Current liabilities		
Accounts and notes payable	1,233,646	983,871
Short-term loans payable	852,119	661,819
Lease obligations	6,582	1,885
Accrued expenses payable	2,756,629	2,596,323
Income taxes payable	327,800	235,999
Reserve for bonuses	78,300	37,695
Reserve for point card certificates	43,570	9,353
Reserve for sales returns	96,748	86,212
Other current liabilities	2,164,786	1,480,704
Total current liabilities	7,560,185	6,093,865
Fixed liabilities		
Long-term loans payable	464,530	297,346
Net defined retirement benefits	621,382	573,401
Lease obligations	1,446	904
Deferred tax liabilities	195,107	188,675
Other fixed liabilities	50,320	45,241
Total fixed liabilities	1,332,787	1,105,568
Total liabilities	8,892,972	7,199,433

	(Unit: thousands of yen)	
	FY 2016 (March 31, 2017)	3rd Quarter of FY 2017 (December 31, 2017)
(Net assets)		
Shareholder's equity		
Common stock	3,218,000	3,218,000
Capital surplus	3,705,680	3,019,222
Retained earnings	11,953,901	12,674,778
Treasury stock	△3,039,450	△99,272
Total shareholder's equity	15,838,131	18,812,728
Other accumulated comprehensive income		
Valuation difference on available-for-sale securities	267,014	259,014
Foreign currency translation adjustments	△11,513	△13,280
Cumulative adjustment for retirement benefit obligations	△41,119	△31,987
Total other accumulated comprehensive income	214,381	213,747
Stock acquisition rights	15,691	—
Non-controlling interests	1,998,376	34,534
Total net assets	18,066,579	19,061,010
Total liabilities and net assets	26,959,552	26,260,444

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income
(Consolidated Statement of Income)

	(Unit: thousands of yen)	
	3rd Quarter of FY 2016 (April 1-Dec.31, 2016)	3rd Quarter of FY 2017 (April 1-Dec. 31, 2017)
Net sales	15,686,616	16,344,272
Cost of sales	9,250,790	9,959,356
Gross profit	6,435,825	6,384,916
Selling, general and administrative expenses	4,749,698	5,065,128
Operating income	1,686,127	1,319,787
Non-operating income		
Interest income	660	1,070
Dividend income	5,137	4,503
Interest on securities	25	40
Gain on investment partnership management	23,598	15,367
Foreign exchange gains	—	958
Miscellaneous receipts	8,052	15,989
Total non-operating income	37,475	37,931
Non-operating expenses		
Interest paid	9,073	6,398
Loss on equity method investment	104,338	69,719
Cost of exchange from business combination	—	50,852
Foreign exchange losses	719	—
Miscellaneous expenses	8,111	1,018
Total non-operating expenses	122,243	127,989
Ordinary income	1,601,359	1,229,729
Extraordinary income		
Gain on sales of investment securities	—	116,982
Gain on change in equity	—	5,859
Gain on reversal of subscription rights to shares	27,043	15,691
Other extraordinary income	—	754
Total extraordinary income	27,043	139,287
Extraordinary losses		
Loss on disposal of fixed assets	5,398	6,617
Impairment loss on goodwill	—	23,421
Other extraordinary losses	500	—
Total extraordinary losses	5,898	30,039
Net income or net loss before income taxes	1,622,503	1,338,977
Corporate, local, and business taxes	279,171	249,887
Income taxes - deferred	2,578	2,155
Current quarter net income	1,340,754	1,086,934
Current quarter net income attributable to non-controlling interests	715,012	224,107
Current quarter net income attributable to shareholders of the parent company	625,742	862,826

(Consolidated Statement of Comprehensive Income)

	(Unit: thousands of yen)	
	3rd Quarter of FY 2016	3rd Quarter of FY 2017
	(April 1-Dec.31, 2016)	(April 1-Dec. 31, 2017)
Current quarter net income	1,340,754	1,086,934
Other comprehensive income		
Valuation difference on other available-for-sale securities	54,689	△9,573
Foreign currency translation adjustments	△5,804	△1,760
Retirement benefit adjustments	△758	10,915
Total other comprehensive income	48,126	△419
Comprehensive income	1,388,880	1,086,515
(Details)		
Comprehensive income attributable to shareholders of the parent company	672,941	862,191
Comprehensive income attributable to non-controlling interests	715,939	224,323

(3) Notes Concerning the Consolidated Financial Statements

(Note Concerning the Premise of a Going Concern)

Not applicable

(Note in the Case of Significant Changes in the Amount of Shareholders' Equity)

Effective as of August 1, 2017, the Company implemented a share exchange for the purpose of converting its consolidated subsidiary Nippon Columbia Co., Ltd. into a wholly owned subsidiary with the Company as the wholly owning parent company. Primarily as a result of this share exchange, during the consolidated cumulative 3rd quarter accounting period of the current fiscal year, the Company's capital surplus declined by ¥686,457 thousand and the value of treasury shares held declined by ¥2,940,178 thousand, so that at the end of the current 3rd quarter accounting period, the capital surplus was ¥3,019,222 thousand and the value of treasury shares held was ¥99,272 thousand.

(Adoption of Simplified Methods in the Preparation of the Quarterly Financial Statements)

Tax expenses for the Company and a portion of its consolidated subsidiaries are calculated by making a reasonable estimate of the effective tax rate after applying tax effect accounting to the amount of quarterly net income before tax deduction for the consolidated financial year including the current 3rd quarter accounting period, and then multiplying the amount of quarterly net income before tax deduction by the current estimated effective tax rate.

(Segment Information)

I 3rd quarter of the previous consolidated fiscal year/FY 2016 (April 1, 2016 through Dec. 31, 2016)

1. Information on sales and profit or loss by reportable segment

(Unit: thousands of yen)

	Content	Point Service	Label	Total	Adjustment amount (Note 1)	Amount recorded in Consolidated Financial Statements (Note 2)
Net sales						
Sales to external customers	3,330,555	1,814,397	10,541,663	15,686,616	—	15,686,616
Intersegment sales or transfer amount	84,634	—	32,861	117,496	△117,496	—
Total	3,415,190	1,814,397	10,574,525	15,804,112	△117,496	15,686,616
Segment income or loss (△)	△9,675	74,184	1,620,024	1,684,532	1,594	1,686,127

Notes: 1. The segment income or loss (△) adjustment amount of ¥1,594 thousand is calculated by eliminating intersegment transactions.

2. Segment income or loss amounts are adjusted with operating income in the quarterly consolidated profit and loss statement.

2. Information regarding impairment loss on fixed assets or goodwill by segment reported

This information is omitted since there is no critical impairment loss on fixed assets or significant change in amount of goodwill.

II 3rd quarter of the current consolidated fiscal year/FY 2017 (April 1, 2017 through Dec. 31, 2017)

1. Information on sales and profit or loss by reportable segment

(Unit: thousands of yen)

	Content	Point Service	Label	Total	Adjustment amount (Note 1)	Amount recorded in Consolidated Financial Statements (Note 2)
Net sales						
Sales to external customers	3,171,650	2,009,106	11,163,515	16,344,272	—	16,344,272
Intersegment sales or transfer amount	78,160	—	7,979	86,139	△86,139	—
Total	3,249,810	2,009,106	11,171,495	16,430,412	△86,139	16,344,272
Segment income or loss (△)	△118,866	61,012	1,374,094	1,316,241	3,546	1,319,787

Notes: 1. The segment income or loss (△) adjustment amount of ¥3,546 thousand is calculated by eliminating intersegment transactions.

2. Segment income or loss amounts are adjusted with operating income in the quarterly consolidated profit and loss statement.

2. Information regarding impairment loss on fixed assets or goodwill by segment reported

This information is omitted since there is no critical impairment loss on fixed assets or significant change in amount of goodwill.