BRIEF STATEMENT OF CONSOLIDATED FINANCIAL RESULTS FOR THE 3rd QUARTER OF THE FISCAL YEAR ENDING MARCH 2017

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 14, 2017

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, 2017
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 2017 (From April 1, 2016 to December 31, 2016)

(1) Consolidated Operating Results

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

	Net Sales		Operating Income		Ordinary Income		Net Income	
Q3 of the year ending	*Millions of yen*	%	*Millions of yen*	%	*Millions of yen*	%	*Millions of yen*	%
March 2017	15,686	2.5	1,686	37.6	1,601	31.2	625	7.0
March 2016	15,297	8.0	1,225	—	1,220	—	584	—

(Note) Comprehensive income: 3rd quarter of the fiscal year ending March 2017: ¥1,388 million (54.4%); 3rd quarter of fiscal year ending March 2016: ¥899 million (—%)

	Net Income per Share	Diluted Net Income per Share
Q3 of the year ending	*Yen*	*Yen*
March 2017	63.40	—
March 2016	57.32	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Ratio of Equity Capital	Net Assets Per Share
	Millions of yen	*Millions of yen*	%	*Yen*
Q3 of the year ending March 2017	25,934	18,091	62.2	1,634.44
Year ending March 2016	24,712	16,829	62.9	1,576.18

(Reference) Equity capital: 3rd quarter of fiscal year ending March 2017: ¥16,130 million; fiscal year ending March 2016: ¥15,556 million

2. Dividends

	Dividends per Share				
(Record dates)	1st Quarter	Interim	3rd Quarter	Year-end	Total
	yen	*yen*	*yen*	*yen*	*yen*
Year ending March 2016	—	5.00	—	5.00	10.00
Year ending March 2017	—	5.00	—		
Year ending March 2017 (Forecast)				5.00	10.00

(Note) Forecasts for dividends have not been modified since the time of the most recently announced business forecast.

3. Forecast for the Consolidated Results for the Year Ending March 2017 （from April 1，2016 to March 31，2017）

(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	20,700	2.7	1,600	4.3	1,470	△3.9	760	17.6	77.01

(Note)　Forecasts for dividends have been modified since the time of the most recently announced business forecast.

※ Notes

(1) Changes in significant subsidiaries (accompanying changes in scope of consolidation): None
Newly added subsidiaries: 0 companies (subsidiary’s name:)
Removed subsidiaries: 0 companies (subsidiary’s name:)

(2) Adoption of simplified accounting practices or specific procedures in preparation of the quarterly consolidated financial reports: Applicable
* For details, please refer to “2. Summary Information, (2) Adoption of Simplified Accounting Methods in the Preparation of Quarterly Financial Statements” on page 4 of the accompanying material.

(3) Changes in accounting policy, changes in accounting estimates, and restatements
(i) Changes accompanying revisions of accounting standards, etc.: Applicable
(ii) Changes other than the above: None
(iii) Changes in accounting estimates: None
(iv) Restatements: None
* For details, please refer to “2. Summary Information, (3) Changes in Accounting Principles, Procedures, and Disclosure Methods” on page 4 of the accompanying material.

(4) Outstanding shares (common shares)
(i) Outstanding shares at the end of the fiscal years (including treasury shares):
The 3rd quarter of the fiscal year ending March 2017: 11,960,000 shares
The fiscal year ending March 2016: 11,960,000 shares
(ii) Treasury shares at the end of the fiscal years:
The 3rd quarter of the fiscal year ending March 2017: 2,091,130 shares
The fiscal year ending March 2016: 2,090,390 shares
(iii) Average number of shares at the interim accounting period
The 3rd quarter of the fiscal year ending March 2017: 9,869,309 shares
The 3rd quarter of the fiscal year ending March 2016: 10,198,854 shares

* Indication of auditing procedures implementation status

This financial results report is exempt from quarterly review procedures under Japan’s Financial Instruments and Exchange Law. As of the time of disclosure of this report, the auditing procedure based on the Financial Instruments and Exchange Law has not been completed.

* 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. (3) Explanation Concerning Future Forecast Information on the Consolidated Financial Results, etc.” on page 4 of the accompanying material.

Contents

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 number of Internet users is continuing to rise against the backdrop of the growing popularity of ICT terminals such as smartphones and the further improvement and expansion of the Internet utilization environment. Moreover, in line with the increasing availability of equipment compatible with virtual reality (VR) and augmented reality (AR), the creation of VR- and AR-compatible contents and platforms is proceeding apace and the Internet service market is also expected to further expand in future.

In the music contents market, it is becoming commonplace for people to listen to music obtained via the Internet, and the environments in which people enjoy music are changing to encompass streaming and distribution of VR- and AR-compatible music videos. From now on, it will become even more important for the Faith Group to promptly provide services that match the tastes and lifestyles of consumers.

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 provide this to users after increasing its added value. Moreover, in the Content Business, we are continuing to focus our energies on constructing music service platforms and expanding and reinforcing our diverse music distribution businesses by making effective use of in-group business synergies.

Regarding the Faith Group’s business performance for the third quarter of the fiscal year ending March 2017, although the Content Business suffered declines in both revenue and profitability while the Point Service Business experienced a rise in revenue and a decline in profitability, in the Columbia Business sales of animation-related titles and game software and sales in Columbia’s artist management-related business were promising. As a result, the Group’s net sales increased by 2.5% compared with the same quarter of the previous fiscal year to ¥15,686 million, operating income increased by 37.6% year on year to ¥1,686 million, ordinary income increased by 31.2% year on year to ¥1,601 million, and net income attributable to the shareholders of the parent company for the quarter under review increased by 7.0% year on year to ¥625 million.

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, etc. We are proceeding with measures to enhance the added value of our contents, such as functional improvement and linkage with other services, by verifying the results of service contents and marketability, including with regard to existing businesses, while also proceeding with platformization in the interests of achieving income diversification.

We are positively conducting our sales activities for FaRao PRO related not only to providing commercial-use BGM but also to implementing functional expansion and improvements, such as shop branding solutions and announcement functions, which are necessary for shop operations. Recently, for Kawasaki Plaza—a brand store of Kawasaki Motors Corporation Japan—we produced and distributed an original channel designed to enhance the effectiveness of store exhibitions by selecting music based on an analysis of the emotions people feel when listening to music conducted using a technology based on affective science and engineering. We are continuously attempting to provide further improved services while introducing and expanding the use of FaRao PRO.

In addition, following the introduction of FaRao PRO in France, we have started the FaRao PRO business in Indonesia after establishing PT. Faith Neo Indonesia as a local subsidiary based in the capital of Jakarta. We are considering the global deployment of music content distribution and its associated distribution system as one of the pillars the Faith Group's future business growth, beginning with in the rapidly growing Asian countries. In future, we will endeavor to develop new music businesses 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. As a service that allows more artists to freely send out their musical works and information, we are aiming to acquire new users an expanding membership, and we will endeavor to improve the quality of the service by pursuing usability.

As a result of the above developments, and taking into account the ongoing positive deployment of new services in line with the changing market environment and the decline in sales of services to feature phone users, the Content Business recorded net sales of ¥3,330 million (an decrease of 4.1% year on year), and an operating loss of ¥9 million (compared with operating income of ¥137 million for the previous fiscal year).

Point Service Business

In the Point Service Business, despite a delay in the start up of new business, sales of new points issued by participating point card stores remained robust and the self liquidation business (*1) performed well, with the result that this business recorded net sales of ¥1,814 million, an increase of 3.1% year on year. However, due to increases selling and general administration expenses in connection with investment in talented human resources, operating income decreased by 52.1% year on year to ¥74 million.

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

Columbia Business

Amid the severe environment facing the music and video-related industry in line with the continuing shrinking of the music market, the Columbia 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.

Due mainly to higher sales of animation-related titles and game software titles and to an improved sales performance in the artist management-related business, overall sales by the Columbia Business totaled ¥10,541 million, an increase of 4.7% compared with the same quarter of the previous fiscal year. As for the profit and loss situation, due to increased sales of high-margin products launched in previous years, this business segment recorded an operating income for the first quarter under review of ¥1,620 million, an increase of 74.8% year on year.

*The product and service names appearing in this document are trademarks or registered trademarks of each company and each group.

(2) Explanation Concerning the Financial Position

Total assets as of December 31, 2016 increased by ¥1,221 million compared to the end of the previous consolidated fiscal year (March 31, 2016) to ¥25,934 million. This result was mainly due to increases in cash and deposits, and accounts and notes receivable.

Total liabilities decreased by ¥40 million compared to the end of the previous consolidated fiscal year to ¥7,842 million. This result was mainly due to repayment of loans.

Total net assets increased by ¥1,262 million compared to the end of the previous consolidated fiscal year to ¥18,091 million. This result was mainly due to the recording of a quarterly net income attributable to the shareholders of the parent company and to the payment of dividends.

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

The Company has revised its previous performance forecast for the full financial year, which was issued on November 7, 2016.

① Revised Consolidated Forecast for the Full Year Ending March 31, 2017
(April 1, 2016 ~ March 31, 2017)

	Net sales	Operating income	Ordinary income	Net income attributable to shareholders of parent company	Net income per share of common stock
	(Millions of yen)	*(Millions of yen)*	*(Millions of yen)*	*(Millions of yen)*	*(Yen)*
Previous forecast (A)	20,000	1,570	1,470	600	60.79
Revised forecast (B)	20,700	1,600	1,470	760	77.01
Difference (B - A)	700	30	—	160	
Increase/decrease rate (%)	3.5	1.9	—	26.7	
(Ref.) Actual results for the year ending March 31, 2016	20,163	1,534	1,529	646	63,86

② Reason for Revision

Regarding the forecast of financial results for the full year, due to favorable sales of animation-related titles in the Columbia Business's Sales/Digital Distribution Business as well as to a robust performance by the Point Service Business, the Faith Group's overall net sales are expected to be higher than was originally forecast.

Moreover, due to an anticipated gain on the sale of shares held by the Company and despite a scheduled partial impairment of assets, the net income attributable to the shareholders of the parent company is expected to exceed the previously announced forecast figure.

2. Summary Information

(1) Changes in Major Subsidiaries during the 3rd Quarter

Not applicable

(2) 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.

(3) Changes in Accounting Principles, Procedures, and Disclosure Methods

(Changes in Accounting Principles)

(Application of Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016)

In accordance with the revision to the Corporation Tax Act of Japan, with effect from the beginning of the first quarter of the current consolidated accounting year, the Company has applied the "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016" (Accounting Standard Board of Japan Practical Issues Task Force Solution No. 32, June 17, 2016). Accordingly, the Company has changed the depreciation method for facilities attached to buildings and structures acquired on and after April 1, 2016 from the declining-balance method to the straight-line method.

This change has no material impact on the Group's retained earnings or profitability in the 3rd quarter of the current consolidated accounting year.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Unit: thousands of yen)

	FY 2015 (As of March 31, 2016)	3rd Quarter of FY 2016 (As of Dec. 31, 2016)
(Assets)		
Current assets		
Cash and deposits	12,680,124	14,146,281
Accounts and notes receivable	2,388,481	2,551,171
Marketable securities	242,521	231,509
Commercial products	508,709	535,239
Products in progress	202,043	283,569
Primary materials and inventory goods	47,624	45,052
Corporation tax refund receivable, etc.	7,492	40,656
Deferred tax assets	12,341	8,618
Others	920,570	477,826
Allowance for doubtful accounts	△52,908	△19,483
Total current assets	16,957,000	18,300,443
Fixed assets		
Tangible fixed assets	2,894,315	2,828,209
Intangible fixed assets		
Goodwill	1,959,316	1,858,999
Others	874,354	901,857
Total intangible fixed assets	2,833,671	2,760,856
Investment and other assets		
Investment securities	1,753,502	1,709,515
Others	554,302	638,289
Allowance for doubtful accounts	△280,607	△303,198
Total investments and other assets	2,027,196	2,044,606
Total fixed assets	7,755,183	7,633,672
Total assets	24,712,183	25,934,115
(Liabilities)		
Current liabilities		
Accounts and notes payable	995,288	1,312,801
Short-term loans payable	686,120	686,120
Lease obligations	16,133	9,067
Accrued expenses payable	2,541,442	2,668,083
Income taxes payable	189,734	263,368
Reserve for bonuses	66,147	41,970
Reserve for point card certificates	33,874	46,992
Reserve for sales returns	92,333	75,130
Others	1,627,967	1,431,130
Total current liabilities	6,249,041	6,534,665
Fixed liabilities		
Long-term loans payable	816,650	541,820
Net defined retirement benefits	609,261	546,913
Lease obligations	8,028	2,401
Deferred tax liabilities	152,646	174,004
Others	46,744	42,464
Total fixed liabilities	1,633,331	1,307,604
Total liabilities	7,882,373	7,842,269

(Unit: thousands of yen)

	FY 2015 (As of March 31, 2016)	3rd Quarter of FY 2016 (As of Dec. 31, 2016)
(Net assets)		
Shareholders’ equity		
Common stock	3,218,000	3,218,000
Capital surplus	3,707,197	3,707,686
Retained earnings	11,480,657	12,007,705
Treasury stock	△3,038,502	△3,039,386
Total shareholders’ equity	15,367,352	15,894,005
Other accumulated comprehensive income		
Valuation difference on available-for-sale securities	198,282	251,998
Foreign currency translation adjustments	△8,446	△14,575
Cumulative adjustment for retirement benefit obligations	△928	△1,315
Total other accumulated comprehensive income	188,908	236,108
Stock acquisition rights	42,734	15,691
Holdings of non-controlling shareholders	1,230,815	1,946,041
Total net assets	16,829,810	18,091,846
Total liabilities and net assets	24,712,183	25,934,115

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

(Unit: thousands of yen)

	3rd Quarter of FY 2015 (April 1-Dec. 31, 2015)	3rd Quarter of FY 2016 (April 1-Dec. 31, 2016)
Net sales	15,297,589	15,686,616
Cost of sales	9,145,486	9,250,790
Gross profit	6,152,102	6,435,825
Selling, general and administrative expenses	4,926,507	4,749,698
Operating income	1,225,594	1,686,127
Non-operating income		
Interest income	2,687	660
Dividend income	5,473	5,137
Interest on securities	107	25
Gain on investment partnership management	10,840	23,598
Miscellaneous receipts	14,693	8,052
Total non-operating income	33,803	37,475
Non-operating expenses		
Interest paid	11,053	9,073
Loss on investment partnership management	3,162	—
Investment loss on equity method	22,151	104,338
Foreign exchange loss	956	719
Miscellaneous expenses	1,146	8,111
Total non-operating expenses	38,470	122,243
Ordinary income	1,220,927	1,601,359
Extraordinary income		
Gain on sales of fixed assets	990	—
Gain on change in equity	36,228	—
Gain on step acquisitions	13,186	—
Gain on reversal of subscription rights to shares	15,857	27,043
Others	1,512	—
Total extraordinary income	67,775	27,043
Extraordinary losses		
Loss on disposal of fixed assets	7,021	5,398
Impairment loss	13,234	—
Loss on reevaluation of investment securities	5,490	—
Provision for copyright-related losses	10,000	—
Others	4,140	500
Total extraordinary losses	39,886	5,898
Net income before income taxes	1,248,816	1,622,503
Corporate, local, and business taxes	239,192	279,171
Income taxes - deferred	△293	2,578
Current quarter net income	1,009,917	1,340,754
Current quarter net income attributable to non-controlling interests	425,360	715,012
Current quarter net income attributable to shareholders of the parent company	584,557	625,742

(Consolidated Statement of Comprehensive Income)

(Unit: thousands of yen)

	3rd Quarter of FY 2015 (April 1-Dec. 31, 2015)	3rd Quarter of FY 2016 (April 1-Dec. 31, 2016)
Net income for the current quarter	1,009,917	1,340,754
Other comprehensive income		
Valuation difference on other available-for-sale securities	△74,653	54,689
Foreign currency translation adjustments	△14,018	△5,804
Retirement benefit adjustments	△21,864	△758
Total other comprehensive income	△110,535	48,126
Comprehensive income	899,381	1,388,880
(Details)		
Comprehensive income attributable to shareholders of the parent company	484,151	672,941
Comprehensive income attributable to non-controlling interests	415,229	715,939

(3) Notes Concerning the Consolidated Financial Statements

(Notes Concerning the Premise of a Going Concern)

Not applicable

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

Not applicable

(Segment Information)

Ⅰ 3rd quarter of the previous consolidated fiscal year/FY 2015 (April 1, 2015 through Dec. 31, 2015)

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

(Unit: thousands of yen)

	Content	Point Service	Columbia	Total	Adjustment amount (Note 1)	Amount recorded in Consolidated Financial Statements (Note 2)
Net sales						
Sales to external customers	3,471,830	1,759,508	10,066,249	15,297,589	—	15,297,589
Intersegment sales or transfer amount	104,276	1,524	42,855	148,656	△148,656	—
Total	3,576,107	1,761,033	10,109,105	15,446,246	△148,656	15,297,589
Segment income	137,808	154,899	926,608	1,219,317	6,277	1,225,594

Notes: 1. The segment income adjustment amount of ¥6,277 thousand is calculated by eliminating intersegment transactions.

2. Segment income is 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 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	Columbia	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/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 (△) is 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.