

The Third Quarter Consolidated Financial Results for the Fiscal Year Ended March 31, 2015
(Japanese Accounting Standards)

February 4, 2015

Company name: SHOFU INC.
 Listing: Tokyo Stock Exchange (First section)
 Code number: 7979
 URL: <http://www.shofu.co.jp/>
 Representative: Noriyuki Negoro, President
 Contact: Wataru Fujishima, Senior Managing Director
 Scheduled date for filing of quarterly securities report: February 12, 2015
 Scheduled commencement date of dividend payment: None
 Supplementary documents for quarterly financial results: None
 Quarterly financial results briefing: None

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Third Quarter of Fiscal Year Ended March 31, 2015 (April 1, 2014 – December 31, 2014)

(1) Consolidated Operating Results

(% indicates changes from previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended December 31, 2014	14,660	11.6	1,206	64.2	1,251	56.0	764	61.5
Nine months ended December 31, 2013	13,137	12.9	734	179.0	802	201.0	473	-

(Note) Comprehensive income: Nine Months ended December 31, 2014 1,797 million yen (41.6%)
 Nine Months ended December 31, 2013 1,269 million yen (-%)

	Third Quarter Net income per share	Third Quarter Fully diluted net income per share
	Yen	Yen
Nine months ended December 31, 2014	47.96	47.65
Nine months ended December 31, 2013	29.72	29.56

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Nine months ended December 31, 2014	25,791	21,392	82.7	1,336.72
Year ended March 31, 2014	24,039	19,747	81.9	1,235.34

(Reference) Shareholder's equity: Nine Months ended December 31, 2014 21,327 million yen
 Year ended March 31, 2014 19,687 million yen

2. Dividends

	Dividends per share				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2014	-	8.00	-	10.00	18.00
Year ended March 31, 2015	-	8.00			
Year ending March 31, 2015 (Forecasts)			-	10.00	18.00

(Notes) Revision to the dividend forecast during the current quarter: None

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2015. (April 1, 2014 – March 31, 2015)

(% indicates changes from previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Year ending March 31, 2015	19,667	7.7	1,410	42.9	1,339	36.8	944	86.5	59.21

(Notes) Revision during the current quarter to the performance forecasts: None

*Notes

- (1) Changes in significant subsidiaries during the period (change in scope of consolidation): None
- (2) Adoption of accounting methods specific to the preparation of quarterly financial statements: Yes

(3) Changes in accounting principles, procedures, or indication methods:

- (a) Changes in accounting standards: Yes
- (b) Changes other than (a) above: None
- (c) Changes in accounting estimates: None
- (d) Retrospective restatements: None

(Notes) For details, please refer to the “Changes to accounting policies; changes to and restatements of accounting estimates” section on page 3

(4) Number of shares outstanding (common stock)

(a) Number of shares outstanding at end of period (including treasury stock).

As of December 31, 2014: 16,114,089 shares

As of March 31, 2014: 16,114,089 shares

(b) Number of shares of treasury stock at end of period

As of December 31, 2014: 159,150 shares

As of March 31, 2014: 177,030 shares

(c) Average number of shares during the period

As of December 31, 2014: 15,949,685 shares

As of December 31, 2013: 15,935,077 shares

*Implementation status of audit procedures

This quarterly earnings report is not subject to audit procedures under the Financial Instruments and Exchange Act. At the time of disclosing these consolidated financial statements, audit procedures specified in the Financial Instruments and Exchange Act have not been completed with respect to the financial statements.

*Explanation concerning the appropriate use of business forecasts, and other special items

The forecasts and other statements regarding the future included in this report are based on currently available information and certain assumptions. Actual results may differ from forecasts for a variety of reasons. With respect to the preconditions for the forecasts, please refer to the “Qualitative information related to the company’s consolidated business outlook” section on page 3.

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1. Qualitative information related to financial results for the quarter under review

(1) Qualitative information related to the company's consolidated business performance

During the first nine months of the current consolidated fiscal year (from April 1, 2014, to December 31, 2014), the Japanese economy made gradual progress toward recovery as the government's economic measures and the Bank of Japan's monetary easing led to improvement in corporate earnings and employment, despite the impact of a reactionary decline in demand following the temporary robust rush in demand before the increase in the consumption tax rate in Japan. However, concerns over the future direction of the economy remained due to factors such as concern over a rise in raw materials costs following yen depreciation, the slowdown of economic growth in emerging nations, and signs of deceleration in European economies.

Against this backdrop, the SHOFU Group posted net sales of 14,660 million yen for the first nine months of the consolidated fiscal year under review, an increase of 1,522 million yen or 11.6% from the corresponding period of the previous consolidated fiscal year. Overseas sales were 4,480 million yen, accounting for 30.6% of net sales, a year-on-year increase of 756 million yen or 20.3%.

Despite an increase in selling, general and administrative expenses of 554 million yen or 8.5% from the corresponding period of the previous consolidated fiscal year, increased sales and a decline in the cost to sales ratio led to operating income of 1,206 million yen, a year-on-year increase of 471 million yen or 64.2%. Although a decline in non-operating income such as foreign exchange profits led to a smaller increase in income, ordinary income amounted to 1,251 million yen, a year-on-year increase of 449 million yen or 56.0%. An impairment loss was recorded as extraordinary losses on noncurrent assets that are scheduled to be sold, resulting in net income, net of tax expenses, of 764 million yen, a year-on-year increase of 291 million yen or 61.5%.

(Dental business)

Domestic sales in the dental business increased year on year as sales were bolstered by the launch of new products during the previous consolidated fiscal year such as "SOLIDEX HARDURA," light-cured hard resin for dental crowns; "PRG Protect Seal" high polymer material for dental temporary sealing; and CAD/CAM-related new products. Overseas sales in the dental business also increased year on year due to steady progress in every region, especially in North America, Central and South America and China, in addition to a favorable effect from the weakening yen.

As a result of these factors, net sales in the dental business for the first nine months of the consolidated fiscal year under review increased 1,584 million yen or 13.5% from the corresponding period of the previous consolidated fiscal year to 13,318 million yen. Although selling, general and administrative expenses increased, an increase of net sales offset the higher expenses, resulting in operating income of 1,195 million yen, a year-on-year increase of 508 million yen or 74.0%.

(Nail care business)

In the nail care business, in order to explore new markets, the Company released "by Nail Labo," the Company's first new gel nail system for general consumers in the first nine months of the consolidated fiscal year under review. Also, sales of "Presto Bambina," a new gel nail system launched during the previous consolidated fiscal year, contributed to sales, leading to a year-on-year increase in sales of gel nail products. However, sales of the flagship product "Nail de Dance" decreased year on year due to the contracting acrylic market and the impact of price competition.

As a result of these factors, net sales in the nail care business for the first nine months of the consolidated fiscal year under review were 1,277 million yen, a decrease of 62 million yen or 4.7% from the corresponding period of the previous consolidated fiscal year. Selling, general and administrative expenses increased due to sales activity costs and other factors, resulting in an operating loss of 13 million yen, a year-on-year decrease of 38 million yen.

(Other businesses)

SHOFU PRODUCTS KYOTO INC., a Group company, uses its dental abrasives manufacturing technology to manufacture and sell industrial abrasives. Net sales for the first nine months of the consolidated fiscal year under

review increased by 0.9 million yen or 1.4% from the corresponding period of the previous consolidated fiscal year to 64 million yen, whereas operating income decreased by 4 million yen or 20.3% year on year to 17 million yen due to a rise in the cost to sales ratio.

Note: Effective from July 1, 2014, SHOKEN INC. changed its name to SHOFU PRODUCTS KYOTO INC.

(2) Qualitative information related to the company's consolidated financial position

Total assets at the end of the first nine months of the consolidated fiscal year under review increased 1,752 million yen from the end of the previous consolidated fiscal year to 25,791 million yen.

The increase was principally due to increases in buildings and structures, as well as an increase in investment securities due to rising market value.

Liabilities increased by 107 million yen from the end of the previous consolidated fiscal year to 4,399 million yen principally due to increases in other noncurrent liabilities such as deferred tax liabilities.

Net assets increased by 1,644 million yen from the end of the previous consolidated fiscal year to 21,392 million yen principally due to increases in retained earnings and valuation difference on available-for-sale securities.

As a result of these factors, the equity ratio was 82.7%, an increase of 0.8 percentage point from the end of the previous consolidated fiscal year.

(3) Qualitative information related to the company's consolidated business outlook

With regard to the forecast for the consolidated fiscal year ending March 31, 2015, no revision has been made to the forecast announced on October 29, 2014.

2. Items related to summary information (other)

(1) Important subsidiary developments during the first nine months of the consolidated fiscal year under review

None

(2) Application of special accounting processing in the compilation of quarterly financial statements

Calculation of tax expenses

To calculate tax expenses, we made a reasonable estimate of the effective tax rate after applying the tax effect accounting to income before income and other taxes for the current consolidated fiscal year and then multiplied income before income and other taxes for the first nine months of the consolidated fiscal year under review by the estimated effective tax rate. However, in case the use of the estimated effective tax rate to calculate tax expenses would result in an unreasonable figure, the statutory tax rate is used instead.

(3) Changes to accounting policies; changes to and restatements of accounting estimates

(Changes to accounting policies)

Effective from the first quarter of the current consolidated fiscal year (from April 1, 2014 to June 30, 2014), the Company has adopted the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012; hereinafter, the "Retirement Benefit Standard") and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012; hereinafter, the "Retirement Benefit Guidance") with regard to the provisions in the main clause of Paragraph 35 of the Retirement Benefit Standard and the main clause of Paragraph 67 of the Retirement Benefit Guidance. According to this change, the Company reviewed the method to calculate retirement benefit obligations and service costs, and changed the method for attributing projected retirement benefits to periods from the straight-line basis to the benefit formula basis. The Company also changed the method to determine the discount rate from the one that uses a discount rate based on the period of bonds approximate to the average remaining service periods of employees to the one that uses multiple discount rates determined according to the estimated periods of retirement benefit payments.

As for application of the Retirement Benefit Standard, etc. in line with the transitional treatment provided in Paragraph 37 of the Retirement Benefit Standard, the effect of the change in the calculation method of retirement

benefit obligations and service costs was added to or deducted from retained earnings at the beginning of the first nine months of the current consolidated fiscal year.

As a result, net defined benefit asset at the beginning of the first nine months of the current consolidated fiscal year increased by 176 million yen, and retained earnings increased by 114 million yen. In addition, operating income, ordinary income and income before income and other taxes for the first nine months of the consolidated fiscal year under review each increased by 13 million yen.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Previous fiscal year (as of March 31, 2014)	End of Third Quarter of Fiscal 2015 (as of December 31, 2014)
Assets		
Current assets		
Cash and deposits	5,266	4,282
Notes and accounts receivable-trade	2,910	2,442
Short term investment securities	117	36
Merchandises and finished goods	2,803	3,357
Work in process	615	638
Raw materials and supplies	750	961
Other	931	1,157
Allowance for doubtful accounts	(96)	(79)
Total current assets	13,298	12,797
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	6,544	7,270
Accumulated depreciation	(4,175)	(4,350)
Buildings and structures, net	2,369	2,920
Other	8,274	8,439
Accumulated depreciation	(4,762)	(5,022)
Other, net	3,511	3,417
Total property, plant and equipment	5,881	6,337
Intangible assets	161	216
Investments and other assets		
Investment securities	3,622	4,952
Net defined benefit asset	551	753
Other	534	742
Allowance for doubtful accounts	(10)	(8)
Total investments and other assets	4,698	6,439
Total noncurrent assets	10,741	12,994
Total assets	24,039	25,791

(Millions of yen)

	Previous fiscal year (as of March 31,2014)	End of Third Quarter of Fiscal 2015 (as of December 31, 2014)
Liabilities		
Current liabilities		
Accounts payable-trade	501	711
Income taxes payable	356	237
Provision for directors' bonuses	53	32
Other	1,890	1,474
Total current liabilities	2,801	2,454
Noncurrent liabilities		
Net defined benefit liability	110	106
Other	1,380	1,838
Total noncurrent liabilities	1,490	1,944
Total liabilities	4,291	4,399
Net assets		
Shareholders' equity		
Capital stock	4,474	4,474
Capital surplus	4,576	4,576
Retained earnings	9,697	10,287
Treasury stock	(162)	(146)
Total shareholders' equity	18,586	19,192
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	968	1,737
Foreign currency translation adjustment	43	328
Remeasurements of defined benefit plans	88	68
Total accumulated other comprehensive income	1,101	2,134
Subscription rights to shares	60	65
Total net assets	19,747	21,392
Total liabilities and net assets	24,039	25,791

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income

(Millions of yen)

	Third Quarter of Fiscal 2014 (from April 1, 2013 to December 31, 2013)	Third Quarter of Fiscal 2015 (from April 1, 2014 to December 31, 2014)
Net sales	13,137	14,660
Cost of sales	5,841	6,338
Gross profit	7,295	8,322
Selling, general, and administrative expenses	6,561	7,116
Operating income	734	1,206
Non-operating income		
Interest income	15	10
Dividend income	51	57
Membership fee income	99	96
Foreign exchange profits	110	73
Other	64	57
Total non-operating income	341	295
Non-operating expenses		
Interest expenses	6	0
Sales discounts	121	123
Membership fee	122	114
Other	21	10
Total non-operating expenses	273	249
Ordinary income	802	1,251
Extraordinary income		
Gain on sale fixed assets	-	12
Total extraordinary income	-	12
Extraordinary losses		
Impairment loss	-	144
Total extraordinary losses	-	144
Income before income and other taxes	802	1,119
Income taxes	328	354
Income before minority interests	473	764
Net income	473	764

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Third Quarter of Fiscal 2014 (from April 1, 2013 to December 31, 2013)	Third Quarter of Fiscal 2015 (from April 1, 2014 to December 31, 2014)
Income before minority interests	473	764
Other comprehensive income		
Valuation difference on available-for-sale securities	387	768
Foreign currency translation adjustment	408	284
Remeasurements of defined benefit plans net of tax	-	(19)
Total other comprehensive income	796	1,032
Comprehensive income	1,269	1,797
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	1,269	1,797
Comprehensive income attributable to minority interests	-	-

(3) Notes Relating to Assumptions for the Going Concern

Not applicable.

(4) Notes to Significant Changes in the Amounts of Shareholders' Equity

Not applicable.

(5) Segment Information, etc

Previous fiscal year (April 1, 2013—December 31, 2013)

1. Information regarding sales, gains (losses) by reportable segment

(Millions of yen)

	Reporting segment				Adjustment *1	Consolidated financial statements *2
	Dental Business	Nail care business	Other businesses	Total		
Net sales						
(1) Sales to external customers	11,733	1,340	63	13,137	-	13,137
(2) Internal sales or transfers	-	0	3	3	(3)	-
Total	11,733	1,340	66	13,140	(3)	13,137
Segment profit (loss)	687	24	21	733	0	734

*1 The ¥0 million adjustment to segment profit/loss serves to cancel out transactions between segments.

*2 Segment profit (loss) equals the operating income on quarterly consolidated financial statements.

Fiscal year under review (April 1, 2014—December 31, 2014)

1. Information regarding sales, gains (losses) by reportable segment

(Millions of yen)

	Reporting segment				Adjustment *1	Consolidated financial statements *2
	Dental Business	Nail care business	Other businesses	Total		
Net sales						
(1) Sales to external customers	13,318	1,277	64	14,660	-	14,660
(2) Internal sales or transfers	-	0	4	4	(4)	-
Total	13,318	1,277	69	14,665	(4)	14,660
Segment profit(loss)	1,195	(13)	17	1,199	6	1,206

*1 The ¥6 million adjustment to segment profit/loss serves to cancel out transactions between segments.

*2 Segment profit (loss) equals the operating income on quarterly consolidated financial statements.

2. Items related to changes in reporting segments

As noted in the section “Changes to accounting policies,” following the change in the method to calculate retirement benefit obligations and service costs effective from the first quarter of the current consolidated fiscal year (from April 1, 2014, to June 30, 2014), the method used to calculate these items for each business segment have been changed in the same manner.

Due to this change, segment profit for the first nine months of the current consolidated fiscal year in the dental business increased by 13 million yen, whereas segment profit in the nail care business decreased by 0

million yen.

3. Information related to impairment loss on noncurrent assets or goodwill by reporting segment
(Significant impairment loss related to noncurrent assets)

In the dental business and other businesses segments, due to relocation of the head office of SHOFU PRODUCTS KYOTO INC., a consolidated subsidiary of the Company, the book value of the land and buildings of its former head office to be disposed of was written down to the recoverable amount and the decreased amount was posted as an impairment loss under extraordinary losses.

The posted impairment loss for the first nine months of the consolidated fiscal year under review (from April 1, 2014, to December 31, 2014) was 125 million yen in the dental business segment and 19 million yen in the other businesses segment.