

**The Third Quarter Consolidated Financial Results for the Fiscal Year Ended March 31, 2016**  
(Japanese Accounting Standards)

February 4, 2016

Company name: SHOFU INC.  
 Listing: Tokyo Stock Exchange (First section)  
 Code number: 7979  
 URL: <http://www.shofu.co.jp/>  
 Representative: Noriyuki Negoro, President  
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 Scheduled date for filing of quarterly securities report: February 12, 2016  
 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, 2016 (April 1, 2015 – December 31, 2015)

(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, 2015	17,050	16.3	1,202	Δ0.3	1,124	Δ10.1	720	Δ5.8
Nine months ended December 31, 2014	14,660	11.6	1,206	64.2	1,251	56.0	764	61.5

(Note) Comprehensive income: Nine Months ended December 31, 2015 843 million yen (Δ53.1%)  
 Nine Months ended December 31, 2014 1,797 million yen (41.6%)

	Third Quarter Net income (loss) per share	Third Quarter Fully diluted net income (loss) per share
	Yen	Yen
Nine months ended December 31, 2015	45.13	44.86
Nine months ended December 31, 2014	47.96	47.65

(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, 2015	29,216	22,353	76.2	1,393.66
Year ended March 31, 2015	29,442	21,781	73.7	1,360.19

(Reference) Shareholder's equity: Nine Months ended December 31, 2015 22,272 million yen  
 Year ended March 31, 2015 21,701 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, 2015	-	8.00	-	10.00	18.00
Year ended March 31, 2016	-	8.00			
Year ending March 31, 2016 (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, 2016. (April 1, 2015 – March 31, 2016)

(% 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, 2016	23,526	19.5	1,507	30.0	1,392	24.9	912	57.0	57.13

(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

(4) Number of shares outstanding (common stock)

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

As of December 31, 2015: 16,114,089 shares

As of March 31, 2015: 16,114,089 shares

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

As of December 31, 2015: 132,829 shares

As of March 31, 2015: 159,400 shares

(c) Average number of shares during the period

As of December 31, 2015: 15,974,279 shares

As of December 31, 2014: 15,949,685 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 consolidated fiscal year (from April 1, 2015 to December 31, 2015), the Japanese economy was on a moderate recovery trend as corporate earnings and employment conditions continued to improve against a backdrop of the government's economic measures and the Bank of Japan's monetary easing. However, factors such as the strained situation in the Middle East and the deceleration in economies of emerging countries such as China, were unable to eliminate future economic uncertainties.

Under such circumstances, the SHOFU Group posted net sales of 17,050 million yen for the first nine months of the consolidated fiscal year under review, an increase of 2,390 million yen (16.3%) from the corresponding period of the previous consolidated fiscal year, owing to factors such as contributions of sales from Merz Dental GmbH, which was newly included in the SHOFU Group. Overseas sales accounted for 7,098 million yen (41.6% of net sales), an increase of 2,618 million yen (58.4%).

Concerning profits, a rise in expenses in line with the consolidation of Merz Dental GmbH led to an increase in selling, general and administrative expenses of 1,493 million yen (21.0%) from the corresponding period of the previous consolidated fiscal year, resulting in an operating income of 1,202 million yen, a decrease of 4 million yen (0.3%) from the corresponding period of the previous consolidated fiscal year. Furthermore, the effects of foreign exchange negatively affected non-operating income. As a result, ordinary income was 1,124 million yen, a decrease of 126 million yen (10.1%) from the corresponding period of the previous consolidated fiscal year. As a result of recording gain on sales of investment securities and expenses related to the voluntary recall of finished goods, etc. in the nail care business under extraordinary income, profit attributable to owners of parent, after deducting tax expenses, was 720 million yen, a decrease of 44 million yen (5.8%).

(Dental business)

Domestic sales in the dental business decreased year on year as a result of demand declining for CAD/CAM-related products which were popular last quarter, despite robust sales of products such as "Eye Special C-II," a small digital camera designed exclusively for dentistry, and "SOLIDEX HARDURA," light-cured hard resin for dental crowns. Overseas sales increased year on year due to solid performance from regions such as North America, Central and South America, Europe, and China, in addition to the contribution of sales from Merz Dental GmbH.

As a result of these factors, net sales of the first nine months of the consolidated fiscal year under review increased by 2,271 million yen (17.1%) from the corresponding period of the previous consolidated fiscal year to 15,589 million yen. However, due to the addition of consolidated subsidiaries and other factors, selling, general and administrative expenses increased, in turn causing a decrease in operating income of 36 million yen (3.1%) to 1,159 million yen.

(Nail care business)

Market conditions in the nail care business are harsh as intensifying price competition continues in the domestic market. Under such circumstances, domestic sales fell compared to the corresponding period of the previous consolidated fiscal year due to the voluntary recall of a part of the mainstay "Presto" LED gel goods. On the other hand, sales of "Presto" LED gel were robust in the United States and Asian regions such as Taiwan.

As a result of these factors, net sales during the first nine months of the consolidated fiscal year under review increased by 121 million yen (9.5%) from the corresponding period of the previous

consolidated fiscal year to 1,399 million yen, and operating income returned to profit of 18 million yen, an increase of 32 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 in the “other businesses” segment for the first nine months of the consolidated fiscal year under review decreased by 3 million yen (5.3%) from the corresponding period of the previous consolidated fiscal year to 61 million yen, and operating income increased by 0.5 million yen (3.1%) to 17 million yen.

(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 decreased 225 million yen from the end of the previous consolidated fiscal year to 29,216 million yen.

The primary decrease in assets was in cash and deposits.

Liabilities decreased 797 million yen to 6,863 million yen. The primary factor was a decrease in short-term loans payable.

Net assets increased 571 million yen to 22,353 million yen. The primary factor was an increase in retained earnings.

As a result of the above, the capital-to-assets ratio rose to 76.2%, an increase of 2.5 points 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, 2016, no revision has been made to the forecast announced on October 30, 2015.

2. Items related to summary information (other)

(1) Important subsidiary developments during the quarter 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 the application of tax effect accounting to current net income before tax for the current consolidated fiscal year and then multiplied the current net income before tax for the quarter under review by the estimated effective tax rate. However, where use of the estimated effective tax rate to calculate tax expenses would result in an unreasonable figure, we have used the legal effective tax rate instead.

(3) Changes to accounting policies, estimates and restatements

(Changes to accounting policies)

Beginning with the first quarter of the consolidated fiscal year under review, the Accounting Standard for Business Combinations (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013, hereinafter the “Business Combinations Accounting Standard”), the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, September 13, 2013, hereinafter the “Consolidated Financial Statements Accounting Standard”), and the Accounting Standard for Business Divestures (ASBJ Statement No. 7, September 13, 2013,

hereinafter the “Business Divestures Accounting Standard”), etc., have been applied, and method of recording acquisition-related expenses has been changed to be recorded during the consolidated fiscal year in which they were incurred. Additionally, for business combinations occurring on or after April 1, 2015, method of recording revised allocations of acquisition cost due to the finalization of the temporary accounting treatment has been changed to be reflected in the consolidated financial statements of the corresponding quarter in which said business combination occurs. The presentation of net income, etc., has been changed as well as the presentation of minority interests, which has been changed to non-controlling interests. In order to reflect these changes in presentation, reclassifications have been made in the quarterly consolidated financial statements and consolidated financial statements for the first nine months of the previous consolidated fiscal year and the previous consolidated fiscal year.

With regard to the Business Combinations Accounting Standard, etc., the Company complies with the transitional treatments stated in Paragraph 58-2 (4) of the Business Combinations Accounting Standard, Paragraph 44-5 (4) of the Consolidated Financial Statements Accounting Standard, and Paragraph 57-4 (4) of the Business Divestures Accounting Standard from April 1, 2015 onwards.

Furthermore, during the first nine months of the consolidated fiscal year under review, the effect on the quarterly consolidated financial statements was insignificant.

### 3. Quarterly Consolidated Financial Statements

#### (1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Previous fiscal year (as of March 31, 2015)	End of Third Quarter of Fiscal 2015 (as of December 31, 2015)
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	4,724	4,250
Notes and accounts receivable-trade	2,673	2,730
Short term investment securities	36	85
Merchandises and finished goods	3,484	4,067
Work in process	674	850
Raw materials and supplies	781	971
Other	3,333	1,148
Allowance for doubtful accounts	Δ81	Δ86
<b>Total current assets</b>	<b>15,625</b>	<b>14,017</b>
<b>Noncurrent assets</b>		
Property, plant and equipment		
Buildings and structures	7,705	8,131
Accumulated depreciation	Δ4,402	Δ4,800
Buildings and structures, net	3,302	3,330
Other	8,232	9,182
Accumulated depreciation	Δ5,018	Δ5,663
Other, net	3,213	3,518
Total property, plant and equipment	6,516	6,849
Intangible assets		
Goodwill	-	683
Other	229	1,103
Total intangible assets	229	1,787
Investments and other assets		
Investment securities	5,278	5,139
Net defined benefit asset	1,065	1,085
Other	735	346
Allowance for doubtful accounts	Δ8	Δ9
Total investments and other assets	7,070	6,561
<b>Total non-current assets</b>	<b>13,816</b>	<b>15,198</b>
<b>Total assets</b>	<b>29,442</b>	<b>29,216</b>

	(Millions of yen)	
	Previous fiscal year (as of March 31, 2015)	End of Third Quarter of Fiscal 2015 (as of December 31, 2015)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable-trade	660	672
Short-term loans payable	3,000	-
Current portion of long-term loans payable	8	255
Income taxes payable	136	97
Provision for directors' bonuses	60	32
Other	1,645	1,688
<b>Total current liabilities</b>	5,510	2,745
<b>Noncurrent liabilities</b>		
Long-term loans payable	111	1,860
Net defined benefit liability	106	106
Other	1,933	2,150
<b>Total noncurrent liabilities</b>	2,150	4,117
<b>Total liabilities</b>	7,660	6,863
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	4,474	4,474
Capital surplus	4,576	4,576
Retained earnings	10,102	10,532
Treasury shares	△146	△122
<b>Total shareholders' equity</b>	19,007	19,461
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	2,082	2,178
Foreign currency translation adjustment	340	388
Remeasurements of defined benefit plans	271	243
<b>Total accumulated other comprehensive income</b>	2,693	2,811
<b>Subscription rights to shares</b>	72	67
<b>Non-controlling interests</b>	8	13
<b>Total net assets</b>	21,781	22,353
<b>Total liabilities and net assets</b>	29,442	29,216



**(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, 2014 to December 31, 2014)	Third Quarter of Fiscal 2015 (from April 1, 2015 to December 31, 2015)
<b>Net sales</b>	14,660	17,050
<b>Cost of sales</b>	6,338	7,238
<b>Gross profit</b>	8,322	9,811
<b>Selling, general, and administrative expenses</b>	7,116	8,609
<b>Operating income</b>	1,206	1,202
<b>Non-operating income</b>		
Interest income	10	6
Dividend income	57	60
Membership fee income	96	86
Foreign exchange profits	73	-
Other	57	75
<b>Total non-operating income</b>	295	228
<b>Non-operating expenses</b>		
Interest expenses	0	11
Sales discounts	123	124
Membership fee	114	111
Other	10	58
<b>Total non-operating expenses</b>	249	305
<b>Ordinary income</b>	1,251	1,124
<b>Extraordinary income</b>		
Gain on sales of non-current assets	12	21
Gain on sales of investment securities	-	35
<b>Total extraordinary income</b>	12	56
<b>Extraordinary losses</b>		
Impairment loss	144	-
Loss on sales of investment securities	-	25
Expenses for voluntary recall of the products	-	51
<b>Total extraordinary losses</b>	144	76
<b>Income before income taxes and minority interests</b>	1,119	1,105
<b>Income taxes</b>	354	378
<b>Profit</b>	764	726
<b>Profit attributable to non-controlling interests</b>	-	5
<b>Profit attributable to owners of parent</b>	764	720

**Quarterly Consolidated Statements of Comprehensive Income**

(Millions of yen)

	Third Quarter of Fiscal 2014 (from April 1, 2014 to December 31, 2014)	Third Quarter of Fiscal 2015 (from April 1, 2015 to December 31, 2015)
<b>Profit</b>	764	726
<b>Other comprehensive income</b>		
Valuation difference on available-for-sale securities	768	96
Foreign currency translation adjustment	284	48
Remeasurements of defined benefit plans, net of tax	Δ19	Δ27
<b>Total other comprehensive income</b>	1,032	116
<b>Comprehensive income</b>	1,797	843
<b>Comprehensive income attributable to</b>		
<b>Comprehensive income attributable to owners of parent</b>	1,797	838
<b>Comprehensive income attributable to non-controlling interests</b>	-	4

(3) Notes relating to assumptions for the going concern

None

(4) Notes to significant changes in the amounts of shareholders' equity

None

(5) Segment information, etc.

Previous fiscal year (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 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. Information regarding impairment loss of noncurrent assets and goodwill, etc., by reportable segment  
(Significant impairment loss of noncurrent assets)

In the dental business and other businesses segments, in line with the relocation of the headquarter of the consolidated subsidiary SHOFU PRODUCTS KYOTO INC., the carrying amount of the former headquarters' land and buildings, etc., to be disposed of is reduced to the recoverable amount, the difference recorded as impairment loss under extraordinary loss.

During the first nine months of the consolidated fiscal year under review, impairment loss under the dental business was 125 million yen, and 19 million yen under other businesses.

Fiscal year under review (April 1, 2015 – December 31, 2015)

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	15,589	1,399	61	17,050	—	17,050
(2) Internal sales or transfers	—	0	4	4	Δ4	—
Total	15,589	1,399	65	17,055	Δ4	17,050
Segment profit (loss)	1,159	18	17	1,195	6	1,202

\*1 The 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. Information regarding assets by reportable segment

(Significant increase in assets resulting from acquisition of a subsidiary)

During the first quarter of the consolidated fiscal year under review, the acquisition of stock in Merz Dental GmbH and its subsequent inclusion in the scope of consolidation have caused segment assets in the dental business to increase 2,096 million yen from the final day of the previous consolidated fiscal year.

3. Information regarding impairment loss of noncurrent assets and goodwill, etc., by reportable segment  
(Important changes in goodwill amounts)

In the dental business segment, due to the acquisition of stock in Merz Dental GmbH during the first quarter of the consolidated fiscal year under review, and its inclusion into the scope of consolidation, goodwill increased by 683 million yen for the first nine months of the consolidated fiscal year under review.