

The Second Quarter Consolidated Financial Results for the Fiscal Year Ended March 31, 2017
(Japanese Accounting Standards)

November 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: November 11, 2016
 Scheduled commencement date of dividend payment: November 30, 2016
 Supplementary documents for quarterly financial results: Yes
 Quarterly financial results briefing: Yes (for analysts and institutional investors)

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

1. Consolidated Financial Results for the Second Quarter of Fiscal Year Ended March 31, 2017 (April 1, 2016 – September 30, 2016)

(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 | % |
| Six months ended September 30, 2016 | 11,052 | Δ4.7 | 800 | Δ5.0 | 509 | Δ38.3 | 301 | Δ39.3 |
| Six months ended September 30, 2015 | 11,600 | 18.2 | 842 | Δ11.4 | 825 | Δ8.2 | 495 | Δ22.1 |

(Note) Comprehensive income: Six Months ended September 30, 2016 Δ166 million yen (- %)

Six Months ended September 30, 2015 452 million yen (Δ57.2%)

| | Second Quarter Net income (loss) per share | Second Quarter Fully diluted net income (loss) per share |
|-------------------------------------|--|--|
| | Yen | Yen |
| Six months ended September 30, 2016 | 18.91 | 18.78 |
| Six months ended September 30, 2015 | 31.05 | 30.86 |

(2) Consolidated Financial Position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|-------------------------------------|-----------------|-----------------|--------------|----------------------|
| | Millions of yen | Millions of yen | % | Yen |
| Six months ended September 30, 2016 | 27,486 | 21,051 | 76.2 | 1,319.39 |
| Year ended March 31, 2016 | 28,305 | 21,500 | 75.7 | 1,340.00 |

(Reference) Shareholder's equity: Six Months ended September 30, 2016 20,957 million yen

Year ended March 31, 2016 21,414 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, 2016 | - | 8.00 | - | 10.00 | 18.00 |
| Year ended March 31, 2017 | - | 8.00 | - | - | - |
| Year ending March 31, 2017 (Forecasts) | - | - | - | 12.00 | 20.00 |

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

(Notes) Year-end dividends for the fiscal year ended March 31, 2017 include commemorative dividend of 2.0 yen.
 (The 95th anniversary of company's founding)

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2017 (April 1, 2016 – March 31, 2017)

(% 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, 2017 | 22,304 | Δ2.9 | 1,514 | Δ3.5 | 1,164 | Δ16.4 | 788 | Δ0.1 | 49.54 |

(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 September 30, 2016: 16,114,089 shares

As of March 31, 2016: 16,114,089 shares

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

As of September 30, 2016: 230,175 shares

As of March 31, 2016: 132,879 shares

(c) Average number of shares during the period

As of September 30, 2016: 15,925,633 shares

As of September 30, 2015: 15,971,281 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 half of the consolidated fiscal year (from April 1, 2016 to September 30, 2016), the Japanese economy continued to be on a moderate recovery trend as a result of factors including the government's economic measures and improved employment and income conditions. However, the effects of the UK decision to leave the EU, concerns about an economic slowdown in emerging nations and rapid fluctuations in exchange rates have continued to make future business conditions unclear.

Under such circumstances, the Company Group posted net sales of 11,052 million yen for the first half of the consolidated fiscal year under review, a decrease of 548 million yen (4.7%) from the corresponding period of the previous consolidated fiscal year. Overseas sales accounted for 4,416 million yen (40.0% of net sales), a decrease of 375 million yen (7.8%).

Concerning profits, selling, general and administrative expenses decreased 25 million yen (0.4%) from the corresponding period of the previous fiscal year, but operating income fell to 800 million yen, a decrease of 42 million yen (5.0%). In addition, the impact of exchange rates had a negative effect on non-operating income, yielding ordinary income of 509 million yen, a decrease of 316 million yen (38.3%). Profit attributable to owners of parent, after deducting tax expenses, was 301 million yen, a decrease of 194 million yen (39.3%).

(Dental business)

Domestically, in spite of contributions to sales from "Block HC Cem," a dental adhesive resin cement, and "PEN Bright," a dental polymerization light irradiator, which were introduced to the market during the first half of the consolidated fiscal year under review, as well as from CAD/CAM-related new products, sales decreased from the corresponding period of the previous consolidated fiscal year due to increasing competition in the market. Overseas, despite solid sales performance mainly in North America, Central and South America, and China, sales decreased year on year due to the effects of foreign exchange resulting from a stronger yen.

As a result of these factors, although net sales for the first half of the consolidated fiscal year under review decreased by 474 million yen (4.5%) from the corresponding period of the previous consolidated fiscal year to 10,095 million yen, operating income increased 19 million yen (2.5%) from the corresponding period of the previous consolidated fiscal year to 812 million yen due to a decline in selling, general and administrative expenses.

(Nail care business)

Market conditions in the nail care business are harsh as intensifying price competition continues in the domestic market and sales trended at low levels. Additionally, regarding gel products, although the Company worked to achieve a recovery by strengthening sales promotions, including the release of new color options in our range of color gels, we were unable to escape the effects of a voluntary partial recall of color gels that began in September 2015, and sales levels still fell short of the previous fiscal year. Overseas, sales of LED gel "Presto" were robust in America and Taiwan.

As a result of these factors, net sales for the first half of the consolidated fiscal year under review decreased by 77 million yen (7.8%) from the corresponding period of the previous consolidated fiscal year to 913 million yen, resulting in an operating loss of 26 million yen, a year-on-year decrease of 59 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 increased 3 million yen (10.2%) from the corresponding period of the previous consolidated fiscal year to 43 million yen, and operating income remained largely unchanged from the corresponding period of the previous consolidated fiscal year at 12 million yen.

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

Total assets at the end of the first half of the consolidated fiscal year under review decreased by 818 million yen

from the end of the previous consolidated fiscal year to 27,486 million yen.

The primary decrease in assets was in notes and accounts receivable-trade and merchandises and finished goods.

Liabilities decreased by 369 million yen to 6,435 million yen. Primary factors were decreases in accounts payable-trade and long-term loans payable.

Net assets decreased by 448 million yen from the corresponding period of the previous consolidated fiscal year to 21,051 million yen. The primary factor was a decrease in foreign currency translation adjustment.

As a result of the above, the capital-to-assets ratio rose to 76.2%, an increase of 0.6 points from the end of the previous consolidated fiscal year.

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

The performance forecast for the fiscal year ending March 31, 2017, announced on May 13, 2016, has been revised. For more details, please refer to "Notice Regarding the Revision of Performance Forecast," announced on October 28, 2016.

Performance forecast for the full-year of the fiscal year ending March 31, 2017

(Millions of yen)

| | Previous forecast (A) | Revised forecast (B) | Increase/decrease (B-A) | Increase/decrease ratio |
|---|-----------------------|----------------------|-------------------------|-------------------------|
| Net sales | 24,649 | 22,304 | Δ2,345 | Δ9.5% |
| Operating income | 1,669 | 1,514 | Δ154 | Δ9.3% |
| Ordinary income | 1,520 | 1,164 | Δ355 | Δ23.4% |
| Profit attributable to owners of parent | 1,084 | 788 | Δ295 | Δ27.2% |

The main foreign exchange rates are revised as follows.

| | | | |
|---------------|---------|------------|--|
| US Dollar | 1 USD = | 103.98 yen | (120.00 yen at beginning of fiscal year) |
| Euro | 1 EUR = | 116.46 yen | (127.00 yen at beginning of fiscal year) |
| British Pound | 1 GBP = | 139.38 yen | (185.00 yen at beginning of fiscal year) |
| Chinese Yuan | 1 RMB = | 16.32 yen | (19.00 yen at beginning of fiscal year) |

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)

In line with revisions to the Corporation Tax Act, the "Practical Solution on a change in depreciation method due to Tax Reform 2016" (Practical Issues Task Force (PITF) No. 32; June 17, 2016) has been applied from the quarter under review, and the method of depreciation for facilities attached to buildings and structures acquired on or after April 1, 2016 has been changed from the declining-balance method to the straight-line method.

The effect on the quarterly consolidated financial statements for the first half of the consolidated fiscal year under review was insignificant.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

| | Previous fiscal year (as of March 31, 2016) | End of Second Quarter of Fiscal 2016 (as of September 30, 2016) |
|-------------------------------------|--|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 4,413 | 4,449 |
| Notes and accounts receivable-trade | 3,185 | 2,907 |
| Short term investment securities | 80 | 20 |
| Merchandises and finished goods | 3,885 | 3,683 |
| Work in process | 863 | 868 |
| Raw materials and supplies | 872 | 929 |
| Other | 1,080 | 879 |
| Allowance for doubtful accounts | 114 | 102 |
| Total current assets | 14,265 | 13,635 |
| Noncurrent assets | | |
| Property, plant and equipment | | |
| Buildings and structures | 7,982 | 7,933 |
| Accumulated depreciation | 4,715 | 4,774 |
| Buildings and structures, net | 3,266 | 3,159 |
| Other | 9,144 | 9,091 |
| Accumulated depreciation | 5,683 | 5,696 |
| Other, net | 3,460 | 3,394 |
| Total property, plant and equipment | 6,727 | 6,553 |
| Intangible assets | | |
| Goodwill | 649 | 552 |
| Other | 1,113 | 957 |
| Total intangible assets | 1,762 | 1,510 |
| Investments and other assets | | |
| Investment securities | 4,508 | 4,799 |
| Net defined benefit asset | 669 | 651 |
| Other | 381 | 344 |
| Allowance for doubtful accounts | 9 | 7 |
| Total investments and other assets | 5,549 | 5,787 |
| Total non-current assets | 14,039 | 13,851 |
| Total assets | 28,305 | 27,486 |

(Millions of yen)

| | Previous fiscal year (as of March 31,2016) | End of Second Quarter of Fiscal 2016 (as of September 30, 2016) |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable-trade | 647 | 492 |
| Current portion of long-term loans payable | 385 | 504 |
| Income taxes payable | 115 | 182 |
| Provision for directors' bonuses | 44 | 24 |
| Other | 1,856 | 1,761 |
| Total current liabilities | 3,049 | 2,965 |
| Noncurrent liabilities | | |
| Long-term loans payable | 1,729 | 1,479 |
| Net defined benefit liability | 177 | 172 |
| Other | 1,847 | 1,817 |
| Total noncurrent liabilities | 3,755 | 3,469 |
| Total liabilities | 6,804 | 6,435 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 4,474 | 4,474 |
| Capital surplus | 4,576 | 4,576 |
| Retained earnings | 10,600 | 10,741 |
| Treasury shares | 122 | 252 |
| Total shareholders' equity | 19,530 | 19,541 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 1,781 | 1,964 |
| Foreign currency translation adjustment | 137 | 535 |
| Remeasurements of defined benefit plans | 34 | 12 |
| Total accumulated other comprehensive income | 1,884 | 1,416 |
| Subscription rights to shares | 73 | 82 |
| Minority interests | 11 | 12 |
| Total net assets | 21,500 | 21,051 |
| Total liabilities and net assets | 28,305 | 27,486 |

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

(Millions of yen)

| | Second Quarter of Fiscal 2015 (from April 1, 2015 to September 30, 2015) | Second Quarter of Fiscal 2016 (from April 1, 2016 to September 30, 2016) |
|--|--|--|
| Net sales | 11,600 | 11,052 |
| Cost of sales | 4,984 | 4,504 |
| Gross profit | 6,615 | 6,547 |
| Selling, general, and administrative expenses | 5,773 | 5,747 |
| Operating income | 842 | 800 |
| Non-operating income | | |
| Interest income | 4 | 3 |
| Dividend income | 35 | 42 |
| Membership fee income | 54 | 54 |
| Foreign exchange profits | 21 | - |
| Other | 51 | 50 |
| Total non-operating income | 167 | 150 |
| Non-operating expenses | | |
| Interest expenses | 9 | 5 |
| Sales discounts | 84 | 83 |
| Membership fee | 64 | 68 |
| Foreign exchange losses | - | 263 |
| Other | 27 | 20 |
| Total non-operating expenses | 185 | 441 |
| Ordinary income | 825 | 509 |
| Extraordinary income | | |
| Gain on sales of investment securities | 35 | - |
| Total extraordinary income | 35 | - |
| Extraordinary loss | | |
| Loss on sales of investment securities | 25 | - |
| Total extraordinary losses | 25 | - |
| Income before income taxes and minority interests | 835 | 509 |
| Income taxes | 333 | 206 |
| Profit | 501 | 302 |
| Profit attributable to non-controlling interests | 5 | 1 |
| Profit attributable to owners of parent | 495 | 301 |

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

| | Second Quarter of Fiscal 2015 (from April 1, 2015 to September 30, 2015) | Second Quarter of Fiscal 2016 (from April 1, 2016 to September 30, 2016) |
|--|--|--|
| Profit | 501 | 302 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 187 | 182 |
| Foreign currency translation adjustment | 157 | 674 |
| Remeasurements of defined benefit plans, net of tax | 18 | 22 |
| Other comprehensive income | 48 | 469 |
| Comprehensive income | 452 | 166 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 448 | 167 |
| Comprehensive income attributable to non-controlling interests | 4 | 0 |

(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, 2015 – September 30, 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 | 10,570 | 990 | 39 | 11,600 | - | 11,600 |
| (2) Internal sales or transfers | - | 0 | 3 | 3 | Δ3 | - |
| Total | 10,570 | 990 | 42 | 11,603 | Δ3 | 11,600 |
| Segment profit (loss) | 792 | 32 | 12 | 838 | 4 | 842 |

*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.

Fiscal year under review (April 1, 2016 – September 30, 2016)

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 | 10,095 | 913 | 43 | 11,052 | - | 11,052 |
| (2) Internal sales or transfers | - | 0 | 3 | 4 | Δ4 | - |
| Total | 10,096 | 913 | 46 | 11,056 | Δ4 | 11,052 |
| Segment profit (loss) | 812 | Δ26 | 12 | 798 | 2 | 800 |

*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. Matters regarding changes, etc. by reportable segment

As stated in Changes to Accounting Policies, in line with revisions to the Corporation Tax Act, the method of depreciation for facilities attached to buildings and structures acquired on or after April 1, 2016 has been changed from the declining-balance method to the straight-line method. Therefore, the method for depreciation in business segments has been changed in the same manner.

The effect of the above change on segment profit (loss) for the first half of the consolidated fiscal year under review was insignificant.