The First Quarter Consolidated Financial Results for the Fiscal Year Ended March 31, 2014
(Japanese Accounting Standards)

August 2, 2013

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, Managing Director (Finance, Personnel, General Affairs and Nail care business)
Scheduled date for filing of quarterly securities report: August 9, 2013
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 First Quarter of Fiscal Year Ended March 31, 2014 (April 1,2013 – June 30,2013)

(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	%
Three months ended June 30, 2013	4,124	9.1	46	(48.8)	70	(10.5)	(57)	-
Three months ended June 30, 2012	3,781	(1.9)	90	(44.8)	78	(47.7)	(40)	-

(Note) Comprehensive income: Three Months ended June 30, 2013 186 million yen (—%)
Three Months ended June 30, 2012 (244) million yen (—%)

	First Quarter Net income (loss) per share	First Quarter Fully diluted net income (loss) per share
	Yen	Yen
Three months ended June 30, 2013	(3.62)	-
Three months ended June 30, 2012	(2.49)	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Three months ended June 30, 2013	23,029	18,678	80.9	1,169.53
Three months ended June 30, 2012	22,817	18,662	81.6	1,169.09

(Reference) Shareholder's equity: Three Months ended June 30, 2013 18,639 million yen
Three Months ended June 30, 2012 18,623 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 31,2013	-	8.00	-	11.00	19.00
Year ended March 31,2014	-				
Year ending March 31,2014 (Forecasts)		8.00	-	10.00	18.00

(Notes) Revision to the dividend forecast during the current quarter: None
Year-end dividends for the fiscal year ended March 31, 2013, include a commemorative dividend of 1.0 yen. (For the 90th anniversary of company's founding)

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2014. (April 1, 2013 – March 31, 2014)

(% 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
Six months ending September 30,2013 (cumulative)	8,454	9.0	239	51.8	167	66.6	61	-	3.85
Year ending March 31,2014	17,168	4.8	715	(18.1)	570	(23.9)	340	1034.2	21.39

(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: None
(b) Changes other than (a) above: Yes
(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 June 30, 2013: 16,114,089 shares
As of March 31, 2013: 16,114,089 shares
(b) Number of shares of treasury stock at end of period
As of June 30, 2013: 176,537 shares
As of March 31, 2013: 184,497 shares
(c) Average number of shares during the period
As of June 30, 2013: 15,931,557 shares
As of June 30, 2012: 16,075,024 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.

Accompanying Materials－Contents

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

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

Despite movement toward a gradual recovery in the Japanese economy during the first quarter of the consolidated fiscal year (from April 1 to June 30, 2013) ("the quarter under review") as a result of factors including a weakening of the yen and rising stock prices driven by high market expectations for monetary easing and other economic policies, uncertainty with regard to the future direction of the economy remains amid a lack of improvement in the employment and income picture and lingering concern over a downturn in overseas economies due to the European credit crisis and other challenges.

Against this backdrop, the Shofu Group posted net sales of 4,124 million yen for the quarter under review, an increase of 343 million yen (9.1%) from the corresponding quarter of the previous consolidated fiscal year. Overseas sales accounted for 1,132 million yen (27.4%) of net sales, an increase of 225 million yen (24.8%).

Aggressive investment in areas such as research and development drove up selling, general and administrative expenses 236 million yen (11.8%) over the corresponding quarter of the previous consolidated fiscal year, causing operating income to fall 44 million yen (48.8%) to 46 million yen. However, an improvement in non-operating income due to the impact of exchange rates and other factors yielded ordinary income to 70 million yen, a decline of 8 million yen (10.5%). After subtraction of tax expenses, the result of these factors was a quarterly loss of 57 million yen, a decline of 17 million yen.

(Dental business)

Domestically, dental business sales rose from the corresponding quarter of the previous consolidated fiscal year as the launch during the quarter under review of new products such as BeautiCem SA, a resin cement for dental adhesive use, and Air-Flow Master Piezon, a multipurpose ultrasonic dental treatment device, contributed to sales. Net sales also increased steadily in North America, Central and South America, and Europe as the weakening yen delivered a financial tailwind in support of increased income.

As a result of these factors, net sales during the quarter under review increased 319 million yen (9.5%) from the corresponding quarter of the previous consolidated fiscal year to 3,670 million. However, an increase in selling, general and administrative expenses drove down ordinary income 84 million yen (68.1%) to 39 million yen.

(Nail care business)

While continued growth is forecast for the market for nail care products, competition on price and quality is expected to intensify. In June, we created a Nail Care Division at the Shofu Head Office as a way to put in place and strengthen business structures extending from product development and quality control to manufacturing and sales.

Net sales during the quarter under review increased 26 million yen (6.4%) from the corresponding quarter of the previous consolidated fiscal year to 432 million yen due in part to growth in overseas sales. Elimination of amortization of goodwill and various effects of higher sales offset an operating loss of 0.6 million yen as profits rose 42 million yen.

(Other businesses)

Group company Shoken Inc. uses technology for manufacturing dental abrasives to manufacture and sell industrial abrasives. Net sales during the quarter under review fell 1 million yen (7.9%) from the corresponding quarter of the previous consolidated fiscal year to 21 million yen, and operating income fell 1 million yen (21.3%) to 6 million yen.

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

Total assets at the end of the quarter under review rose 211 million yen from the end of the previous consolidated fiscal year to 23,029 million yen. The increase is principally due to increases in merchandise and finished goods.

Liabilities increased 196 million yen from the end of the previous consolidated fiscal year to 4,351 million yen due principally to increases in unpaid expenses and other current liabilities.

Net assets rose 15 million yen from the end of the previous consolidated fiscal year to 18,678 million yen as increases in valuation difference on available-for-sale securities and foreign currency translation adjustment offset a decline in retained earnings.

As a result of these factors, the equity ratio fell 0.7 points from the end of the previous consolidated fiscal year to 80.9%.

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

There have been no changes to the initial consolidated forecast for the fiscal year ending March 31, 2014, as announced on May 13, 2013.

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; changes to and restatements of accounting estimates

(Changes to accounting policies)

Shofu has traditionally converted earnings and expenses of its overseas consolidated subsidiaries into yen using the spot exchange rate in effect on the last day of the fiscal year. However, we began using the average exchange rate for the period in question to convert these figures into yen starting with the quarter under review based on our judgment that use of the average exchange rate was more conducive to the appropriate disclosure of information than use of the exchange rate at a single point in time. This judgment reflects the growing importance of overseas consolidated subsidiaries to our bottom line.

Since the company is required to retain financial statements and other documents for a period of 10 years, it is not possible to retroactively apply this change any further than that into the past. Consequently, use of an average exchange rate in converting overseas earnings and expenses to yen has been applied from April 1, 2003.

This change to our accounting policies has been retroactively applied, and quarterly and annual consolidated financial statements for the previous fiscal year reflect the new method.

As a result of the retroactive application of the new method, net sales for the first quarter of the previous consolidated fiscal year increased 9 million yen, while gross profit and operating profit increased 13 million yen and 6 million yen, respectively. At the same time, ordinary profit and income before income taxes both fell 1 million yen. Additionally, due to the cumulative effect of changes on net assets at the beginning of the previous consolidated fiscal year, retained earnings as of the end of the previous fiscal year increased 28 million yen, while foreign currency translation adjustment as of the beginning of the previous fiscal year fell 28 million yen.

3. Quarterly Consolidated Financial Statements

(1)Quarterly Consolidated Balance Sheets

（Millions of yen）

	Previous fiscal year (as of March 31, 2013)	End of Firstl Quarter of Fiscal 2013 (as of June 30, 2013)
Assets		
Current assets		
Cash and deposits	5,511	5,590
Notes and accounts receivable-trade	2,649	2,391
Short term investment securities	350	292
Merchandise and finished goods	2,330	2,692
Work in process	675	616
Raw materials and supplies	688	663
Other	837	752
Allowance for doubtful accounts	-78	-68
Total current assets	12,965	12,931
Noncurrent assets		
Property, plant, and equipment		
Buildings and structures	6,348	6,401
Accumulated depreciation	-4,038	-4,082
Buildings and structures, net	2,310	2,318
Other	7,353	7,413
Accumulated depreciation	-4,491	-4,507
Other, net	2,861	2,906
Total property, plant, and equipment	5,171	5,224
Intangible assets	167	160
Investments and other assets		
Investment securities	3,177	3,350
Other	1,344	1,373
Allowance for doubtful accounts	-9	-9
Total investments and other assets	4,512	4,713
Total noncurrent assets	9,851	10,097
Total assets	22,817	23,029

(Millions of yen)

	Previous fiscal year (as of March 31, 2013)	End of Firstl Quarter of Fiscal 2013 (as of June 30, 2013)
Liabilities		
Current liabilities		
Accounts payable-trade	576	512
Short-term loans payable	980	980
Income and other taxes payable	114	86
Provision for directors' bonuses	3	0
Other	1,295	1,585
Total current liabilities	2,969	3,165
Noncurrent liabilities		
Provision for retirement benefits	120	111
Other	1,064	1,074
Total noncurrent liabilities	1,185	1,185
Total liabilities	4,154	4,351
Net assets		
Shareholders' equity		
Capital stock	4,474	4,474
Capital surplus	4,576	4,576
Retained earnings	9,495	9,260
Treasury stock	-169	-161
Total shareholders' equity	18,377	18,149
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	644	732
Foreign currency translation adjustment	-398	-242
Total accumulated other comprehensive income	245	489
Stock acquisition rights	39	38
Total net assets	18,662	18,678
Total liabilities and net assets	22,817	23,029

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

(Millions of yen)

	First Quarter of Fiscal 2012 (from April 1, 2012 to June 30, 2012)	First Quarter of Fiscal 2013 (from April 1, 2013 to June 30, 2013)
Net sales	3,781	4,124
Cost of sales	1,681	1,833
Gross profit	2,099	2,291
Selling, general, and administrative expenses	2,009	2,245
Operating income	90	46
Non-operating income		
Interest income	5	4
Dividend income	29	27
Annual fee and seminar fee income	12	38
Foreign exchange profits	-	39
Other	55	16
Total non-operating income	104	126
Non-operating expenses		
Interest expenses	2	1
Sales discounts	38	40
Operating expenses for seminars hosted by the company	17	49
Foreign exchange losses	49	-
Other	7	10
Total non-operating expenses	115	102
Ordinary income	78	70
Extraordinary losses		
Loss on valuation of investment securities	44	-
Loss on retirement of noncurrent assets	15	-
Total extraordinary losses	60	-
Income before income and other taxes	18	70
Income and other taxes	58	128
Income before minority interests	-40	-57
Net income	-40	-57

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	First Quarter of Fiscal 2012 (from April 1, 2012 to June 30, 2012)	First Quarter of Fiscal 2013 (from April 1, 2013 to June 30, 2013)
Income before minority interests	-40	-57
Other comprehensive income		
Valuation difference on available-for-sale securities	-161	88
Foreign currency translation adjustment	-43	155
Total other comprehensive income	-204	244
Comprehensive income	-244	186
Comprehensive income attributable to:		
Comprehensive income attributable to shareholders of parent company	-244	186
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, 2012—June 30, 2012)

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	3,351	406	23	3,781	-	3,781
(2) Internal sales or transfers	-	0	1	1	(1)	-
Total	3,351	406	24	3,782	(1)	3,781
Segment profit (loss)	124	(42)	7	89	1	90

*1 The ¥1 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, 2013—June 30, 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	3,670	432	21	4,124	-	4,124
(2) Internal sales or transfers	-	0	1	1	(1)	-
Total	3,670	432	22	4,126	(1)	4,124
Segment profit(loss)	39	(0)	6	45	1	46

*1 The ¥1 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

(Change in the method used to convert earnings and expenses at overseas consolidated subsidiaries into yen)

As noted in the section describing changes to accounting policies, Shofu has traditionally converted earnings and expenses of its overseas consolidated subsidiaries into yen using the spot exchange rate in effect on the last day of the fiscal year. However, we began using the average exchange rate for the period in question to convert these figures into yen starting with the quarter under review based on our judgment that use of an average exchange rate was more conducive to the appropriate disclosure of information than use of the exchange rate at a single point in time. This judgment reflects the growing importance of overseas consolidated subsidiaries to our bottom line.