

SHOFU INC.
Integrated
Report
2022



Creating
Brighter
Smiles for
Healthier
Lives



PROVEN PRODUCTS FOR BETTER DENTISTRY

SHOFU INC.

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Taking the founder's vision into the next 100 years

Shofu's history began about a hundred years ago. In the era of valuing imported goods when dental care depended on imported goods from Europe and the United States, Kajo Shofu III, the founder, established SHOFU DENTAL Mfg. Co., Ltd. after he succeeded in the development of high-quality porcelain teeth that are suited to Japanese mouths.

He held in his heart a strong aspiration to improve the quality of products made in Japan.

Having inherited those high ambitions and the passion to achieve them, the Company has employed the research and development capabilities and technological strengths that we have cultivated as a comprehensive manufacturer of dental materials and equipment to bring high value-added products to market. In doing so, we have contributed to the good health and smiles of people all over the world.

As we have in the past, so shall we continue over the next 100 years to challenge ourselves to contribute to dentistry throughout the world.



Japan's first high-quality porcelain teeth developed by Shofu



Porcelain teeth molding work in the Company's early days

CORPORATE MESSAGE

Creating Brighter Smiles for Healthier Lives

On the occasion of our 100th anniversary, we canvassed the opinions of our employees about the kind of corporate image that Shofu should project. Their feedback provided the basis for the creation of this Corporate Message.

It conveys our strong intent to deliver all over the world products that embody Shofu's advanced technologies and excellent quality and to support people's well-being.

Kajo Shofu III, the founder

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Tetsuo Takami, newly appointed President & Chief Operating Officer of Shofu



Ayumi Terrace, Shofu's new corporate building, scheduled for completion at the end of February 2023



Artificial teeth with the largest market share in Japan

Editorial policy

We prepared this integrated report in the hope that our shareholders, investors, and other stakeholders will deepen their understanding of our social and economic value creation through reporting on our management strategies, business activities, and ESG activities, among others. We will continue to use this integrated report as a communication tool with our stakeholders.

In editing this report, we have referred primarily to the "Guidance for Collaborative Value Creation" by the Ministry of Economy, Trade and Industry of Japan.

Period covered by the report

Fiscal year ended March 31, 2022 (April 1, 2021 through March 31, 2022) is the primary period covered by this report.

*The report includes information for periods before or after the period above.

Scope covered by the report

SHOFU INC. and its consolidated subsidiaries (Some activities are relevant to SHOFU INC. alone.)

Forward-looking statements

Forward-looking information in this report including earnings forecasts is based on projections and forecasts in light of information currently available to us and is subject to potential risks and uncertainties, among other factors. As a result, actual results may differ materially from those we currently anticipate due to changes in various factors.

Message from the Chairman



Employing the technological strengths that we have cultivated since our foundation, we will help to solve social issues by contributing to dentistry throughout the world.

Noriyuki Negoro

Chairman & Chief Executive Officer

Frontier spirit and social contribution management that have been passed down over many years

On May 15, 2022, we celebrated the major milestone of our 100th anniversary. I wish to extend our profound appreciation to our customers, business partners, shareholders, and local communities who continue to support our business for their kindness and cooperation.

In 1915, our founder, Kajo Shofu III, was visiting the United States to expand his ceramics export business, when he was asked by dentists if he could produce with Japanese hands artificial teeth for Japanese people. This became the impetus for the establishment of the Shofu company. Imported artificial teeth at that time were too large for Japanese mouths. With his vigorous spirit of inquiry, Kajo had been trying out new techniques, including devising new methods for making ceramics, and when he met with this social need, he resolved to satisfy it. At the same time as he made use of his skills in ceramics, with the cooperation of people in the dental profession, he immersed himself in the research of teeth and the oral environment of Japanese people. In 1922, he founded SHOFU DENTAL Mfg. Co., Ltd. after successfully developing Japan's first high-quality porcelain teeth, S.A.P Anatome Form.

Kajo's frontier spirit and his passion for contributing to society through business are evident in

those R&D endeavors, and they have been handed down from generation to generation as the psychological foundation of the Company. They have driven our efforts to solve issues in every era and to constantly introduce cutting-edge technologies and deliver many product "firsts" to Japan and the wider world.

Where once a doctrine that sales revenue came before all had resulted in a vicious cycle of selling products only for them to be returned later, through management reforms in the 1980s, we were able to disrupt that vicious cycle because we were able to generate high value-added new products to coincide with those reforms. We succeeded in the development of Japan's first light-cured composite resin, SHOFU Lite-Fil, and hybrid resin teeth, Endura. SHOFU Lite-Fil greatly transformed the concept of composite resin for dental fillings that had prevailed until then. Katei Shofu V, who drove these reforms, led the business into a virtuous cycle through investment in research and development, using funds raised by issuing warrant bonds and listing the Company's shares on the stock exchange.

Hints for the kinds of products and technologies that are needed can be found on the ground in dental practice. The dental materials that Shofu makes could be described as intermediate products. Dentists and dental technicians process, adjust, and fit our products according to each patient's condition. It is through that process that our products become finished products. Many of our employees, not only in the R&D division but also in sales and other divisions, think about questions, such as what kinds of issues are faced in the field and what can be done to fix oral problems as quickly as possible, from their respective positions. They share their ideas with each other and the best products are the result. This is how Shofu has cultivated its corporate culture.

Japan is now one of the world's fastest aging populations We will deliver our expertise in oral care to the world

Shofu has declared "Contribution to dentistry through innovative business activities" as our corporate philosophy. Our technologies, which provide products that enable first-class treatment to suit each individual patient's oral conditions, contribute to the solution of mouth-related problems and concerns of people around the world. After entering the global market with the world's first dental spherical amalgam in 1965, Shofu became the first Japanese manufacturer of dental materials to establish a sales base in North America. Dentists and dental technicians in Japan are extremely satisfied with our high-quality abrasives, which have also received high acclaim overseas. This has allowed us to establish our brand image of "Abrasives Shofu" in the global market. By developing globally competitive products such as "SHOFU Carbo Cement" and "SHOFU Uni Bond," we have expanded our sales network to Europe and Asian countries, putting us firmly on track to become a global enterprise.

Today, all of our product and technology R&D is premised on such global expansion. Oral care is the first step toward healthy longevity, and as Japan has become one of the world's fastest aging populations, our nation's expertise and technologies in oral care will be in higher demand than ever around the globe.

In 2012, three years after I became President of the Company, we declared a goal of overseas expansion and shifted a large portion of our management resources overseas, with a vision of Group net sales of 50.0 billion yen (17.0 billion yen in domestic net sales and 33.0 billion yen in overseas net sales) and Group operating income of 7.5 billion yen (ratio of operating income to net sales of 15%). We set these targets to

increase our contribution to dentistry throughout the world and our presence in the market, for the realization of our corporate philosophy. To ensure the steady promotion of this concept and to implement reforms across all divisions in the Company, we established the management reform promotion headquarters, under which four working groups, covering the areas of R&D, production, domestic sales, and overseas sales, are working to identify issues in their respective areas and build segment stories. One major feature of Shofu's corporate culture is its persistent determination to accomplish whatever it sets out to achieve. Going forward, I will strive to steer the Company's management so that we can put such determination into practice at an even faster pace.

To look at the state of progress of our globalization over the past ten years, our Singapore branch was converted into a local subsidiary in 2013. Since then, we have established a global sales network that includes sales subsidiaries in Mexico, Brazil, and India and overseas branches in Italy and Taiwan. We have also been expanding offshore production with the establishment of new production sites in Europe through the acquisition of an artificial teeth manufacturer in Germany and the establishment of a production site in Vietnam. Overseas sales' share of total Group sales has increased to 51% from the mid-20% level of 2012. To further increase the pace at which we achieve our targets, in June 2022, I passed on the position of President to my successor and assumed the office of Chairman, so that I may focus on the promotion of reforms.

Aim for further sustainable growth by supporting daily life brimming with smiles for people around the world

The world is changing rapidly. It is each and every one of our employees who, holding onto the 100 years that we have cultivated together with our stakeholders, will continue to take on the challenge of change and engage in innovative business activities for bright smiles for another 100 years. In an era of uncertainty, in which past success is no longer a guarantee of future success, employee education will be a powerful weapon. The global market is 14 times larger than the Japanese market. In order to compete with various global companies in that market, we have enhanced our education and training programs beyond specialist training as a medical equipment manufacturer to include human resources development in a wide range of fields. These fields include compliance, career development for female employees, next-generation leadership, and sustainability.

In the reorganization of the Tokyo Stock Exchange in April 2022, Shofu elected to be listed on the Prime Market, which is aimed at global companies. This choice of the Prime Market expresses our resolve to strive for major growth by putting our corporate philosophy into practice and expanding our overseas operations to achieve Group net sales of 50.0 billion yen. Shofu has always supported daily life brimming with smiles for people around the world by contributing to dentistry with the latest, most advanced technologies. By aiming for sustainable growth and the medium-to long-term enhancement of corporate value into the next 100 years, we will find solutions to social issues, create economic value with those solutions, and meet the expectations of all of our stakeholders, all to create brighter smiles for healthier lives.

On the occasion of our 100th anniversary, Shofu has embarked on a new challenge—to open up a global future under the new management framework. I would like to ask for the further patronage and support of all of our stakeholders.

Shofu's 100 Years of History

Since its establishment in 1922, the founder's passion—to have high ambitions and achieve them—has been handed down as Shofu's DNA. With such background, we have been leading the dental industry by developing many products that were the first of their kind either in Japan or in the world. Going forward, we will continue to take on new challenges to cater for ever-changing needs of society.

- 1922** Developed and began selling Japan's first high-quality porcelain teeth S.A.P Anatome Form. The first president, Kajo Shofu III, established SHOFU DENTAL Mfg. Co., Ltd.
- 1928** Developed and began selling dental cements, which were one of the three major categories of dental supplies at the time, other two of which were porcelain teeth and rubber for denture bases.
- 1939** Opened the SHOFU Showroom at Ginza 1-chome, Tokyo.
- 1945** Developed and began selling Japan's first resin teeth.
- 1952** Developed and began selling Japan's first diamond abrasives and vacuum fired porcelain teeth.
- 1957** Opened TOKYO SALES OFFICE in Yushima, Bunkyo-ku, Tokyo.
- 1963** Registered shares as over-the-counter stock to Osaka Prefecture Association of Japan Securities Dealers Association.
- 1965** Began selling the world's first dental spherical amalgam, SHOFU Spherical Amalgam.
- 1971** Established a sales subsidiary, SHOFU DENTAL CORPORATION in California, the U.S.
- 1973** Established SHIGA SHOFU INC. in Shigaraki-cho, Koga-gun, Shiga (currently, Shigaraki-cho, Koga-shi, Shiga).
- 1976** Established the Shofu Dental Club.
- 1983** Changed the Company's name to SHOFU INC. and conducted management reforms.
- 1986** Developed and began selling hybrid resin teeth, Endura—new generation artificial teeth.
- 1989** Listed on the Second Section of the Osaka Securities Exchange and on the Kyoto Stock Exchange.
- 1997** Completed a research center equipped with the most advanced facilities in the dental industry. Obtained CE Marking certification.
- 2007** Listed on the Second Section of the Tokyo Stock Exchange.
- 2008** Purchased NAIL LABO CORPORATION and made it a subsidiary, which imports and sells nail care materials and equipment for professional nail care specialists.
- 2009** Concluded a business and capital tie-up with Mitsui Chemicals, Inc. and Sun Medical Co., Ltd.
- 2012** Listed on the First Section of the Tokyo Stock Exchange.
- 2020** Enhanced the business and capital tie-up with Mitsui Chemicals, Inc. and Sun Medical Co., Ltd.
- 2022** Celebrated the 100th-year anniversary. Transitioned to the Prime Market of the Tokyo Stock Exchange.

Development of Japan's first high-quality porcelain teeth

It was a time when Japan relied on import from Europe and the United States for high-quality porcelain teeth. Fired with enthusiasm for domestic production of them, our founder, Kajo Shofu III, established Shofu Research Center on Porcelain Teeth and started full-scale research



Photo of the Company at the time of establishment

on manufacture of porcelain teeth. In 1921, he succeeded in developing Japan's first high-quality porcelain teeth SHOFU Anatome Form, which suit Japanese people. In the next year, SHOFU DENTAL Mfg. Co., Ltd. was established.

Growth supported by unique products

Though we struggled with the high-quality porcelain teeth we developed at the time of establishment, we later developed dental materials essential for clinical practice, such as porcelain teeth with alloy Clad pins, dental cements, and rubber for denture bases, and put our business on track. In addition, Kenji Shofu, our second president, kept the aspirations of the founder in his heart and devoted himself to establishing standards for and improving the quality of dental materials. He laid a foundation for the advancement of the dental materials industry in the postwar Japan.

After the chaos of the postwar period, the introduction of unique new products to the market proved successful, and the management base of Shofu became solid. From 1952 to 1962, we built a production plant, a research center, and an office building to meet the demand for our products, which increased year after year. Meanwhile, we also started expanding our domestic sales office network with the establishment of TOKYO SALES OFFICE in 1955.



SHOFU Showroom opened in Ginza, Tokyo as a service station



New products that supported our postwar growth

Entering the global market with our proprietary products

During Japan's high economic growth period, we made a concerted effort to create products that would meet global standards and be competitive globally. As a result, we succeeded to launch dental spherical amalgam ahead of the rest of the world. We established SHOFU DENTAL CORPORATION (SDC) in the United States, which became our first overseas sales office, and took our first



SHOFU DENTAL CORPORATION (at the time of establishment) [California, the U.S.]

step toward becoming a global company. After that, we established overseas sales offices in Germany (1978) and Singapore (1980) as well. Our sales area thus spread all over the world.

Bold management reforms led to the third establishment

In the 1980s, we, who had been mass-market-oriented, were hit hard by government policies to curb medical expenses. In 1983, Katei Shofu V, who assumed the position of President, aimed to make a shift from quantity to quality under the slogan of "Challenge of changes" and worked to make a drastic improvement in the management structure. He also changed the name of the Company to SHOFU INC. to make a dramatic leap in the development of the business.

Japan's first hybrid resin teeth Endura, which we developed after the management reforms, was highly rated by the then Ministry of Health and Welfare and the Japan Dental Association and adopted by the health insurance by its brand name. With Endura and other high-quality artificial teeth, we succeeded in anticipating the demand in Japan, which started aging in high gear. In 1989, after such company-wide reforms, we became the first company in the dental industry to go public.



First listed company in the dental industry

As a company targeting the world

Since the beginning of Japan's Heisei era (1989–2019), we focused on developing and expanding our overseas site network in order to create overseas markets and increase our share in them. In addition, aiming to become a global company that focuses on new product development, we completed the construction of one of the largest research centers in the dental industry and concluded a business and capital tie-up with Mitsui Chemicals, Inc. and Sun Medical Co., Ltd. Meanwhile, we performed various activities to contribute to the development of dentistry, such as establishment of a training center at our headquarters in Kyoto as a base for disseminating information, promotion of MiCD (Minimally Invasive Cosmetic Dentistry), a concept of dental treatment that has aesthetic effects, and active launch of new products.



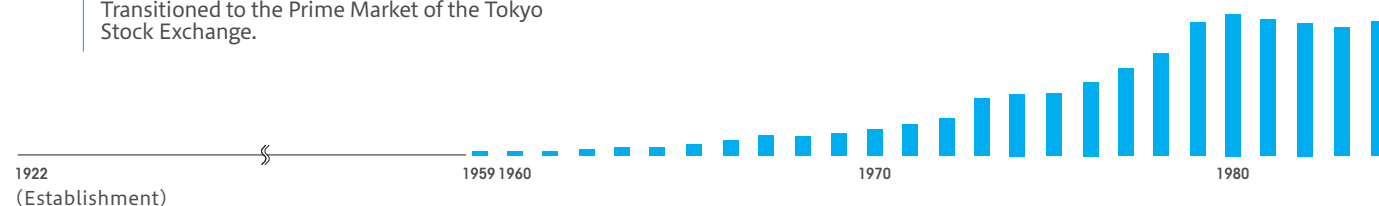
Research center

Having celebrated the 100th-year anniversary



With the conviction that our future does not lie in the extension of what we have done in the past, we are continuing to take on various challenges to realize our corporate philosophy, with the aim of achieving consolidated net sales of 50.0 billion yen and consolidated operating income of 7.5 billion yen (ratio of operating income to net sales of 15%).

From our establishment to the present, we have contributed to dentistry through developing dental materials and equipment that meet treatment needs, thereby supporting the happy everyday lives of people around the world. In the next 100 years, we are going to continue taking on challenges to contribute even more to the dentistry throughout the world as a comprehensive manufacturer of dental materials and equipment.



* Figures for FY1999 and thereafter refer to consolidated net sales.

Shofu's Products

The business of the Shofu Group consists of the following three businesses: Dental business, Nail care business, and Other businesses (industrial polishing materials). While the dental business is at the core of our business, we are also actively expanding into fields, such as the nail care market and the industrial polishing materials market, where we can use the technologies and networks that we have cultivated in the dental business.

Sales composition by segment

Dental business

25,876 million yen (92.0%)

Nail care business

2,168 million yen (7.7%)

Other businesses

92 million yen (0.3%)

Dental Business



Artificial teeth products

We boast the top share in the domestic market for major dental materials used in denture and implant.

- Porcelain teeth, porcelain powder, and resin teeth



Chemical products

We have a wide variety of product categories, including dental fillings and crowns, dental synthetic resins used in denture and implant, impression materials for taking impressions of teeth, and waxes for lab works.

- Synthetic resins
- Impression materials
- Waxes



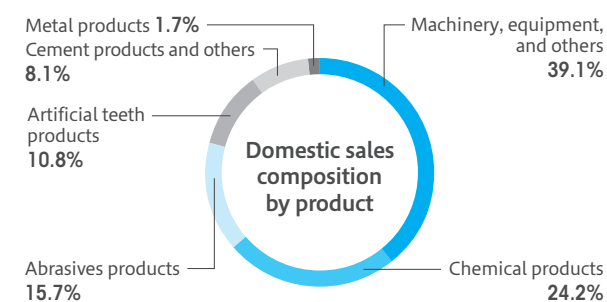
Machinery, equipment, and others

In addition to machinery and equipment used in dental treatment and techniques, we also have orthodontic, whitening, and preventive/hygiene materials.

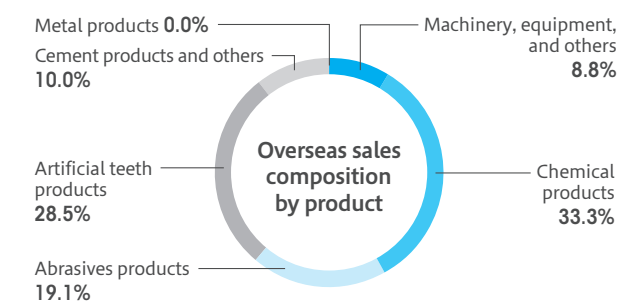
- Dental equipment
- Products for oral care and infection prevention
- Orthodontic materials
- Other machinery and equipment

Dental business sales composition

[Domestic]



[Overseas]



Abrasive products

They are used for grinding and polishing natural teeth, artificial teeth, dental synthetic resins, and metals, both in dental treatment and techniques.

- Diamond abrasives
- Carborundum abrasives
- Silicon polisher
- Other carving and polishing materials



Cement products and others

Cements are used for bonding crowns, fillings, and implants, stones are used for making dental models, and investments are used for molds for casting.

- Dental cements
- Dental stones and investments

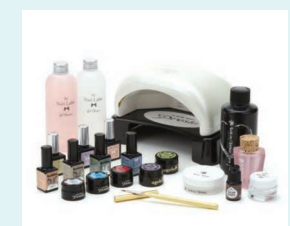


Metal products

They are widely used for dental casting, such as bases for implants and crowns.

- Alloys for casting and silver alloys
- Other metals

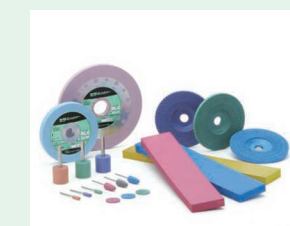
Businesses that use our technologies in dental materials and equipment



Nail care business

In the nail care business, we manufacture, import, export, and sell nail care products and equipment based on our technologies fostered in the dental materials field. In addition, we have an integrated system within the Group from development to manufacturing and distribution.

- Acrylic nail products
- Gel nail products



Other businesses

SHOFU PRODUCTS KYOTO INC., a group company, manufactures and sells industrial polishing materials by using the manufacturing technology of dental polishing materials. In the industrial polishing materials market, we use advanced polishing and cutting technologies that we have accumulated over the years.

- Industrial polishing materials

Shofu's Strengths

Shofu will contribute to dentistry worldwide as a comprehensive manufacturer of dental materials and equipment based on the core competence (core strength) we have cultivated since our establishment.

Proprietary technologies and R&D structure that allow competitive products to be developed

Ratio of R&D expenses to net sales: **6.2%**

Ratio of R&D personnel: **18.8%**

Number of patents held: **405**

Ratio of sales of new products to net sales: **19.4%**

* Non-consolidated basis (except for the ratio of R&D expenses to net sales, which is on a consolidated basis)

We have developed our own S-PRG Filler, which contributes to oral health and extension of the life of teeth, and apply it in a wide variety of products in the field of dental treatment. We have also established an R&D structure in which we are able to pursue multiple projects in order to flexibly respond to change in the needs of the market.

Production technology and quality assurance system capable of handling a wide range of dental products

Number of items handled:

Approx. **20,000** items

Number of countries where pharmaceutical approval has been obtained: **85** countries

Global production bases: **4** bases in Japan
5 bases overseas

We employ our advanced production technology and solid quality assurance system to provide a variety of products you can use safely and with confidence in the process of dental treatment and techniques.

Highly-trusted SHOFU brand and worldwide sales network

Competitive product lineup (domestic market share)

Artificial teeth products: **37.0%**

Abrasives products: **46.3%**

Number of countries where our products are sold/number of distributors:

Approx. **100** countries/

approx. **1,000** companies

Number of members of Shofu Dental Club: **14,576**

We deliver our products to dental professionals around the world through domestic and overseas sales offices and distributors around the world.

Human resources supporting SHOFU

Number of Group employees:

659 persons in Japan **607** persons overseas

Total number of specialists with expert knowledge (employees qualified as dentists, dental hygienists, dental technicians, pharmacists and others): **66** persons

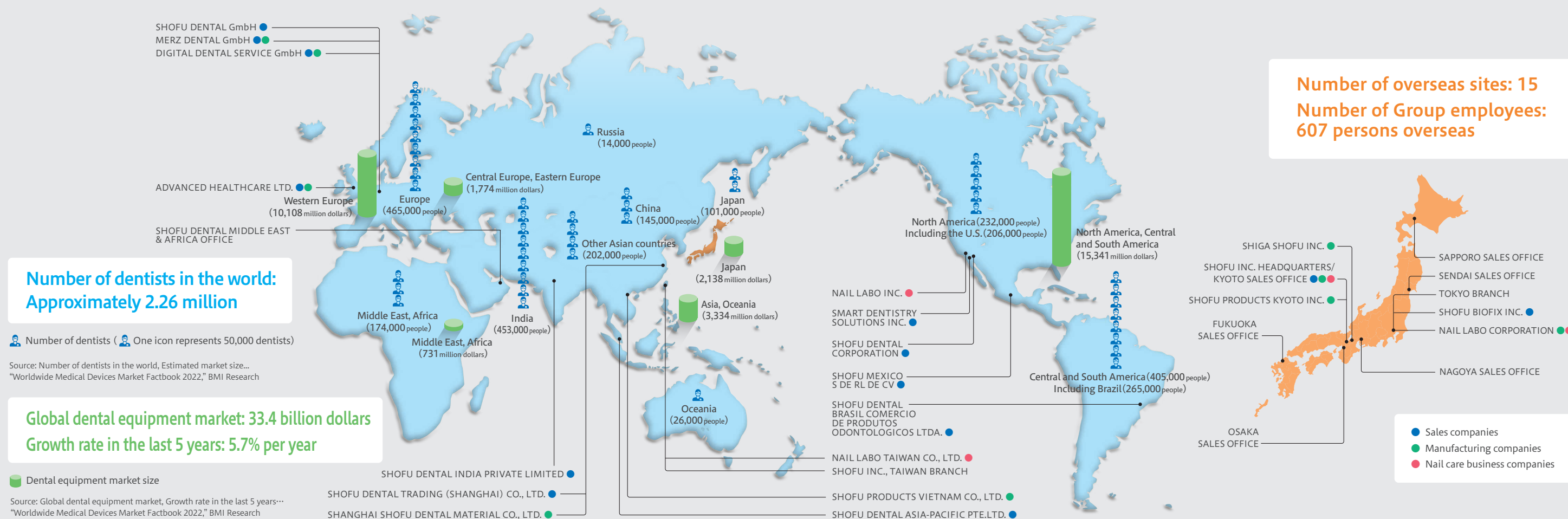
Average years of service

17.41 years (men) **15.39** years (women)

* Non-consolidated basis (except for the number of Group employees, which is on a consolidated basis)

Based on the ideas that human resources are the very source of creating new value and that the sum of the responsibilities performed by individual employees is the value of the Company, we work to foster an organizational culture and realize a work environment that allow each staff member to demonstrate their ability to the fullest.

Global Network



Overseas Expansion

For stronger overseas presence

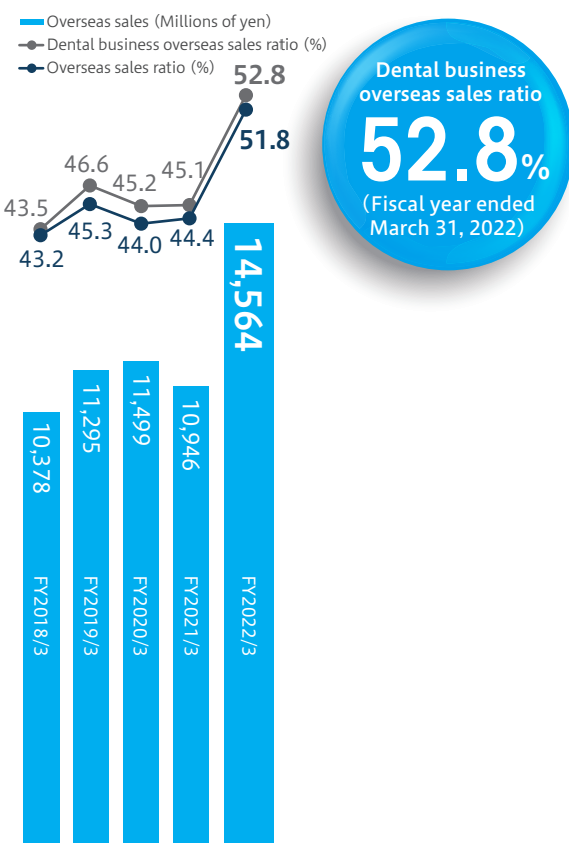
The Group sells Shofu's products in more than 100 countries worldwide, with overseas sales accounting for more than 50% of total sales. However, our presence is not strong enough in the overseas market, which is about 14 times larger than the domestic market. We must further increase our contribution to the world's dental care in order to realize the corporate philosophy.

In terms of the medium- to long-term prospects for overseas markets, we believe that the key is how to capture the demand in the growing markets of digital dentistry and in super-aging countries, and the markets in developing countries where the middle- and high-income classes are expected to grow. We will aim to grow further and increase our presence in overseas markets, combining horizontal application of the know-how we have cultivated and pioneering new frontiers to develop our business, depending on the field and speed of growth that are different in each country and region, e.g., focusing on the digital dentistry field in the markets in developed countries and the preventive field in the markets in super-aging countries, and utilizing existing technologies in developing countries where income is expected to grow.

Initiatives to promote globalization of our business

- **Developing sales (distributors) network**
Re-evaluate whether our products are recognized by dental professionals in each overseas region and build a distributors network as necessary
- **Establishing sales offices**
Establish bases in several countries and regions in order to expand our overseas business.
- **Building domestic and international academic networks**
Perform activities to introduce our products and provide information to local study groups and key opinion leaders who have an influence on dental professionals in each region to build networks.

Overseas sales/Overseas sales ratio



Activities in the Middle East and Africa region

In November 2021, we held the first academic symposium in the Middle East at the Fairmont Hotel in Egypt. Approximately 150 people attended it, including academia and dentists. The program, which coupled presentation of academic details of Giomer with introduction of clinical cases of MiCD, was very well received, bringing such a great response that the question-and-answer session lasted longer than scheduled.



Online lecture at Cairo University

We also held an online lecture at Cairo University in October 2021. Going forward, we will continue to forge ahead with our plans to build a foundation for dissemination of the SHOFU brand and expansion of the sales of our products in the Middle East and Africa region.

What is Giomer?

Research institutions in and outside Japan have reported that S-PRG Filler, which was developed with our proprietary PRG technology (patented), bring bioactive effects such as strengthening of teeth, anti-plaque effect, and neutralization of acid.

What is MiCD?

A dental treatment concept that brings aesthetic results while minimizing the removal of natural teeth during the treatment. It stands for Minimally Invasive Cosmetic Dentistry.

Employee who plays an active role globally



Merz Dental GmbH
Synergy Production Manager
Yoshiya Sadano
(Assumed the position in April 2018)

MERZ DENTAL GmbH is a German artificial teeth manufacturer that joined the Shofu Group in 2015. Since my assignment to Germany, I have been working on the development of a new production line with the aim of increasing the efficiency in the production of artificial teeth, liaising with SHOFU INC. and SHIGA SHOFU INC., our domestic base for artificial teeth production. I will continue to work to increase the production capacity and the efficiency of the production system of the entire Group while coordinating with other production bases in order to build a production system that will be able to meet global demand.

Shofu's Value Creation Process

Based on our corporate philosophy of "Contribution to dentistry through innovative business activities," we aim to create economic and social value by pursuing business activities that utilize our wealth of resources and robust business foundation.

Corporate philosophy

Contribution to dentistry through innovative business activities

Corporate resources



- Total capital: **32.940 billion yen**
- Equity ratio: **80.5 %**
- Rating and Investment Information, Inc. (R&I)
Issuer rating: **BBB⁺ (stable)**



- Ratio of R&D expenses to net sales: **6.2 %**
- Number of patents held: **405**
* Includes utility model rights, etc.; non-consolidated basis
- Network involving industry, government, academia, and medical institutions



- Domestic and overseas production sites that can meet international standards for medical equipment (domestic: 4 companies, overseas: 5 companies)
- Production equipment and technological capabilities that can handle a wide range of dental material products



- Number of Group employees: **659 (domestic), 607 (overseas)**
- Total number of specialists with dental expertise: **66**
* Refers to employees qualified as dentists, dental hygienists, dental technicians, pharmacists, etc.; non-consolidated basis
- Improving skills and passing on knowledge through stable employment

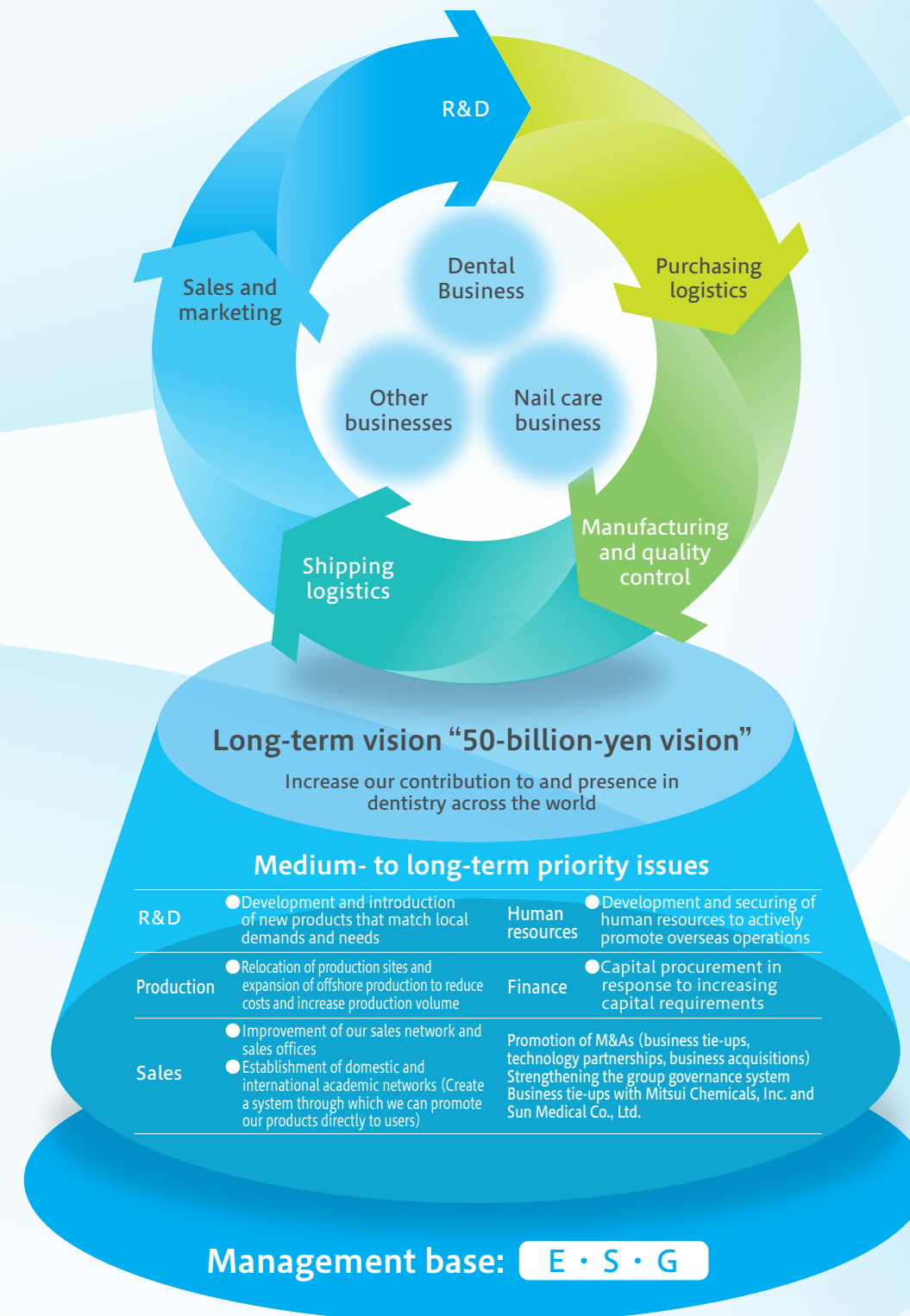


- Global sales network covering Japan and the world (Number of countries in which products are sold: approx. 100 countries; number of dealers: approx. 1,000 companies)
- Highly-trusted SHOFU brand
- Network of good relationships with dental professionals
Membership of Shofu Dental Club: **14,576 persons**



- Promotion of environmental management system activities
- Reduction of environmental impact at development and manufacturing stages

Business activities and growth strategy



Value created

Economic value

Group net sales of **50.0 billion yen** (domestic: 17.0 billion yen, overseas: 33.0 billion yen)

Group operating income of **7.5 billion yen** (Ratio of operating income to net sales: 15%)

Investment in growth fields

Consistently increasing cash flow

Social value

Patients

Contribution to longer healthy life expectancy and higher QOL

Business partners and dental professionals

Long-term partnerships and shared prosperity
Supply of high-quality products in a stable fashion

Employees

Maintenance of stable and continuous employment
Promotion of diversity and motivation

Local communities

Co-existence and co-prosperity with local communities

Shareholders and investors

Appropriate and stable returns to shareholders

Shofu's Sustainability

The Shofu Group has provided value to society through various business activities, including development of superior dental materials and equipment, to continue to be a company that is trusted by society.

In order to further promote sustainability management in the future, we have formulated the Basic Policy on Sustainability, which presents the Group's approach to sustainability, and identified four key themes and 16 material issues (materiality) that are linked to them.

Basic Policy on Sustainability

Based on its corporate philosophy of "Contribution to dentistry through innovative business activities," the Shofu Group, in collaboration with its stakeholders, will work to solve social issues through its corporate activities and aim to achieve both the medium- to long-term enhancement of its corporate value and the realization of sustainable society.

1. Contribution to higher QOL of people

We will precisely meet the needs of society and the market and offer safe, secure, and quality products and services, as well as appropriately provide information on products and dentistry, thereby contributing to higher QOL of the people around the world.

2. Promotion of corporate activities friendly to global environment

In order to harmonize with the global environment and fulfill our social responsibility toward the environment, we will contribute to the realization of a decarbonized society and a sound material-cycle society by working to reduce greenhouse gas emissions and promote reduction and recycling of waste in our corporate activities.

3. Strengthening of the management base to support corporate value enhancement

By working to enhance corporate governance, compliance, and risk management and pursuing honest and fair corporate activities, we will aim to strengthen the management base that supports corporate value enhancement.

4. Cultivation of a rewarding organizational culture and development of human resources

Based on the ideas that human resources are the very source of creating new value and that the sum of the responsibilities performed by individual employees is the value of the Company, we will foster an organizational culture and realize a work environment in which each individual employee of the Shofu Group will be able to demonstrate their abilities to the fullest and work in their element by respecting their diversity and providing each of them with opportunities to learn and grow.

Identification of material issues (materiality)

With an analysis both from the viewpoint of the Shofu Group, i.e., in terms of the materiality to us, and from the viewpoint of society, i.e., in terms of our stakeholders' requests, etc., and based on our Basic Policy on Sustainability, we identified four key themes and 16 material issues (materiality) that are linked to them as issues for the Shofu Group to work on.

Process for identification of material issues

STEP 1

Interviews with outside directors and business divisions

We conducted interviews with our outside directors to ask what they thought were the social issues that we should give priority to and work on from a long-term perspective. In addition, we did interviews with business divisions to ask about the status of the initiatives being taken on our medium-term management plan and the status of our responses to social issues in order to extract social issues, risks, and opportunities related to us.

STEP 2

Extraction and examination of social issues

We extracted 40 social issues from the following two perspectives:

- Issues that can be identified by referring to international guidelines, such as ISO26001, GRI Standards, and SDGs
- Issues that can be identified by analyzing social conditions, market environment, and the condition of the Company, in addition to the issues identified through the interviews in STEP 1

STEP 3










Evaluation of materiality of social issues

Based on the list of social issues we prepared, we analyzed, evaluated, and prioritized them from the following two viewpoints: materiality for stakeholders and materiality for the Company. After discussions at the Sustainability Committee, the Managing Executive Board, and the Board of Directors, we narrowed down the list of themes that we should give priority to and work on.

STEP 4

Identification of material issues

We prepared a draft of material issues based on the list of themes that had been narrowed down. At the same time, we formulated quantitative and qualitative targets and action plans for each material issue. Their comprehensiveness and validity were confirmed at the Sustainability Committee, and after discussion at the Managing Executive Board, they were approved at the Board of Directors.

Material issues	Targets	Related SDGs
1. Contribution to higher QOL of people		
Quality assurance and stable supply of products	<ul style="list-style-type: none">● Zero product recall arising from quality issues	 3. Good health and well-being
Ensuring proper use of products	<ul style="list-style-type: none">● Strengthening the system for collecting and evaluating information on safety management● Enhancing information provision for proper use of products	
Providing products and services that solve issues in dentistry (providing products and services that have positive impact on society)	<ul style="list-style-type: none">● Strengthening partnerships with dental professionals● Increasing the number of countries in which our products are sold● Strengthening protection and utilization of intellectual property● Providing digital products and services continuously● Providing preventive products (including Giomer products) and services continuously● Increasing the ratio of sales of preventive and digital products to net sales	
Providing information for higher dental IQ	<ul style="list-style-type: none">● Raising awareness about diseases of and enhancing information provision to the general public	
2. Promotion of corporate activities friendly to global environment		
Contributing to a sound material-cycle society	<ul style="list-style-type: none">● Developing recycling systems for product development, materials, etc.● Increasing the recycling rate	 7. Affordable and clean energy  12. Responsible consumption and production  13. Climate action
Addressing climate change and contributing to a decarbonized society	<ul style="list-style-type: none">● 27% reduction in greenhouse gas emissions (compared to FY2021)● Realizing carbon neutrality by 2050	
Preventing environmental pollution	<ul style="list-style-type: none">● Maintaining our record with zero environment-related accident	
3. Strengthening of the management base to support corporate value enhancement		
Respecting human rights	<ul style="list-style-type: none">● Promoting understanding of human rights policy and initiatives throughout the Group● Promoting sustainable procurement in our supply chain	 11. Sustainable cities and communities  16. Peace, justice and strong institutions
Enforcing thorough compliance	<ul style="list-style-type: none">● Zero serious compliance violation	
Promotion of risk management	<ul style="list-style-type: none">● Implementing highly effective business continuity management	
Strengthening corporate governance	<ul style="list-style-type: none">● Strengthening group governance● Building a highly effective corporate governance structure	
Disclosing information appropriately and having dialogue with stakeholders	<ul style="list-style-type: none">● Conducting surveys, questionnaires, and dialogue with stakeholders and taking measures for improvement● Enhancing the quality and quantity of information disclosure	
4. Cultivation of a rewarding organizational culture and development of human resources		
Enhancing employees' health and ensuring safety in work environment	<ul style="list-style-type: none">● Maintaining our record with zero serious industrial accident● Raising employees' awareness about health (including oral health care)	 4. Quality education  5. Gender equality  8. Decent work and economic growth
Promotion of human resource development	<ul style="list-style-type: none">● Strengthening our support for employees' career development	
Promoting diversity and inclusion	<ul style="list-style-type: none">● Increasing the ratio of female managers	
Realizing work-life balance	<ul style="list-style-type: none">● Increasing employee satisfaction	

Message from the President

As a listed company on the TSE Prime Market, Shofu strives to achieve sustainable growth by building a solid governance structure and contributing to the development of dentistry.

Tetsuo Takami

President & Chief Operating Officer

Contributing to healthy longevity with new technologies in a period of great social change

We extend our heartfelt sympathy to all those who have suffered from COVID-19 as well as their families, friends and communities. We also extend our deepest gratitude to medical professionals and others who have worked tirelessly to prevent the spread of infections. On June 24, 2022, in this period of great social change, I assumed the office of President & Chief Executive Officer. The Shofu Group will work as one to contribute to medium- to long-term improvement of the Group's corporate value and the realization of a sustainable society through our contributions to dentistry around the world.

Japanese society is currently in a state of flux, with a population that is aging and shrinking. A society that is prosperous and in which people live long and healthy lives requires a greater focus on teeth, which serve as the gateway to the food that sustains our lives. Furthermore, with recent research confirming how dental disease can affect overall health, we can expect the role of dentistry to grow even more critical in the

era of the 100-year human lifespan.

In 2012, we formulated our "50-billion-yen vision" as a long-term vision, focusing on the global expansion of our business. We had been working to achieve this vision in the fiscal year ended March 2022, the 100th anniversary of our foundation, but our characteristic prudence and steadiness, which are both strengths as well as areas of improvement for the Company, have caused us to fall behind schedule. I believe that changes in the mindset and organizational structure of the Company are needed if we are to achieve our R&D objectives of increasing the pace of product development and establishing systems for prompter responses to the laws and regulations of individual countries and regions, as well as our sales goals of accelerating growth by building customer networks and resolving key issues such as proactive M&As in light of the Group's core competencies and growth strategies.

I spent more than half of my career since joining the Company engaging with Shofu's business on the frontline of sales. Over the years, I have thought about what aspects of Shofu we should grow and what we should improve from the perspective of our customers and other stakeholders as well as my own sales-based

perspectives. Leveraging this frontline-based experience in my new position, I will strive for mindset reform and to strengthen our governance structure, while having close discussions with various departments.

Meanwhile, the world of dentistry is also being exposed to the waves of digitalization and digital transformation (DX), which are bringing about rapid changes to conventional treatment and the mechanisms and norms of oral care. With the popularization of CAD/CAM, which is used for the digital design and manufacture of dental prosthetics, Shofu is developing a system of total dental solutions with our lineup of scanners, software, machining tools, sintering furnaces, and processing materials, all of which are necessary for the manufacture of prosthetics using CAD/CAM, based on the SHOFU S-Wave CAD/CAM system. This eliminates the feelings of discomfort for patients and shortens treatment times, giving this technology the potential to contribute greatly to solving challenges in dental treatment. It also enables the provision of the same high level of prosthetics even in countries and regions with differing technological standards of dental treatment, so we hope to take the SHOFU brand global in this area.

Record high levels of net sales, operating income, ordinary income, and net income in FY2021

The Shofu Group is currently implementing its fourth medium-term management plan, which was announced in May 2021. We are actively carrying out business activities based on a shared understanding of the goal of maintaining and expanding our presence in the domestic market while expanding our overseas business and of the need for strategies outside of the existing framework that are not merely extensions of previous strategies.

Although the dental industry as a whole, which is our core business, suffered negative impacts from the COVID-19 pandemic in the first quarter of the fiscal year ended March 31, 2021 (149th Fiscal Year), it has been recovering since then, and our net sales, operating income, ordinary income, and net income all reached record highs in the year ended March 31, 2022 (150th Fiscal Year). Likely factors behind that trend are moves to rationalize distribution inventory levels, which had been kept low due to the impact of the pandemic, particularly in overseas markets, and the recovery of demand in Japan to pre-pandemic levels, albeit with some regional variations. Our business is strongly essential in nature, and in fact, we are hearing that a growing number of people are considering having their teeth straightened while wearing a mask is common practice.

The increase in sales in the dental business has been driven by new CAD/CAM-related products, including BeautiBond Xtreme, a dentine bonding product for dental use, and SHOFU BLOCK HC HARD II, a resin material for dental carving processing, both of which were launched in 2021. Sales of EyeSpecial C-IV, a digital oral cavity photography device, also showed remarkable growth amid the digitalization of dental care. Given society's growing emphasis on informed consent, oral cavity photography become increasingly important, and we predict that demand for EyeSpecial C-IV will continue to increase.

In the nail care business, due to the impact of restrictions on activities with the reemergence of infections and as a result of the tapering of stay-at-home demand, we saw a decrease in sales of our mainstay gel nail-related products in Japan. On the other hand, sales increased in the U.S. driven by strong online sales in the U.S. due to active sales promotion activities through social networking sites (SNS).

Global trend toward recovery of dental industry Medium-term management plan targets to be upgraded

Overseas markets have made a major course correction toward living with COVID-19, and we have been able to ride that wave. Although it was initially suspected that the post-pandemic rebound in demand would be temporary, the rapid uptake of vaccines has resulted in a smooth transition toward more active lifestyles as people have learned to live with the virus. China, which was one of the first countries to contain the spread of infections, has driven that growth in demand, and that trend has spread to Europe and the Americas and to other Asian countries. However, the inability of supply chain functions to keep up with that sharp recovery in demand has become a source of some reflection. Labor shortages have occurred in distribution networks, including global hub ports, and due consideration must also be given to concerns about skyrocketing raw materials prices and transport costs caused by the Russian invasion of Ukraine. We will further strengthen our supply chain frameworks to ensure that as many negative factors as possible can be eliminated.

The negative impacts of the COVID-19 pandemic have been factored into the fourth medium-term management plan. Factors of geopolitical uncertainty exist, including the Russian invasion of Ukraine at the end of FY2022 and the city-wide lockdowns taking place in China, but in global terms, the dental industry is recovering, and we predict that demand will remain firm. On that basis, determining that our initiatives to date will lead to outcomes, we upgraded our numerical targets for the year ending March 31, 2023 (151st Fiscal Year) and the year ending March 31, 2024 (152nd Fiscal Year), the final year of the medium-term management plan, announcing the new targets on May 11, 2022.

As the world trends toward living with the virus, the return of business activities to normal will expand across the globe, which means an increase in sales activities at large-scale trade fairs and other events and more active growth investments. There will also be one-off costs to reinforce the supply chain and costs associated with projects to commemorate our 100th anniversary. Nevertheless, an increase in profits is forecast for 151st Fiscal Year, and we expect to post record-high profits again in 152nd Fiscal Year, when these investments produce results.

Leveraging technologies and knowhow cultivated in Japan to roll out global strategies suited to individual regions

Under our corporate philosophy, "Contribution to dentistry through innovative business activities," Shofu will act as an industry leader in boosting our overall competitiveness, in our major goal of making the SHOFU brand a trusted and popular brand around the world. We are also pursuing a variety of initiatives in the individual areas of R&D, production, and sales for the promotion of our global expansion.

Firstly, in R&D, on the premise of global expansion, our basic policy for development is the creation of products that anticipate the world's needs. We are also taking into consideration the economic level and standards of dental care of individual countries and regions, as well as the state of their infrastructure and other factors, to develop products that target the middle classes in those regions. EyeSpecial C-IV, the digital oral cavity photography device that I mentioned above, and CAD/CAM-related materials are proving popular in overseas markets as well. This affirms the fact that digitalization will become a key tactic in the promotion of our global expansion.

Numerical targets for the final year of the fourth medium-term management plan (year ending March 31, 2024)

Group net sales	Group operating income	Return on equity (ROE)	Priority issues and key numerical targets
31.5 billion yen (Domestic: 14.8 billion yen; overseas: 16.6 billion yen)	3.79 billion yen (Ratio of operating income to net sales: 12.0%)	8.0%	Ratio of sales of new roduts to net sales: 20% or above Overseas sales ratio: 52.9% (Dental business overseas sales ratio: 54.4%)

In our production systems, we will strive to improve our cost competitiveness through cost reductions in those areas where we are most competitive, such as artificial teeth and abrasives. We are also working on the effective use of domestic production subsidiaries and the re-arrangement of production sites, including the expansion of overseas production, with objectives such as (1) expansion of production capacity at our head office plant; (2) selection of product categories to be produced according to their required production technologies and profitability; (3) avoiding the impact of exchange rate fluctuations; (4) reduction of costs of transport of hazardous and heavy goods; (5) enhancement of delivery services for customers; and (6) avoiding high tariffs. Although progress on the new production site we established in Vietnam in 2020 fell behind schedule due to the pandemic, it was commissioned in 150th Fiscal Year and will now start operating in earnest. Initially, it will produce abrasives for the overseas market, and we plan to grow it into a key production site of the Group, with the prospect of expansion to other product categories in the future.

On the sales front, the focus of our efforts will be on the development of sales networks and sales offices and the establishment of domestic and international academic networks. As a foothold for future business expansion in the Middle East and African regions, where demand for dental care is predicted to increase, we opened a representative office in Dubai in the UAE in April 2021. This office will conduct market research and information gathering on the Middle East and African regions, provide support for local subsidiaries of Group companies in charge of sales in those regions, and otherwise strengthen sales activities in the region. The purpose of establishing academic networks is not only to help dental professionals in the respective countries and regions to better understand where our products excel, but also

to play an important role as a forum for industry and academia to cooperate and discuss and share information, such as global oral cavity-related information and needs and information about cutting-edge research. In our efforts to establish these networks, we will pursue activities to introduce our products and provide information to regional study groups and key opinion leaders who are influential with dental professionals in each region.

Japan has entered the era of the super-aging society in advance of the rest of the world, but eventually, not only the world's developed nations, but also emerging and developing countries will start down that path of aging, even as they grow at their own pace. In our future global strategies, we will leverage the technologies and knowhow that we have taken 100 years to cultivate in Japan and envisage growth strategies that will demonstrate our strengths that will contribute in ways suited to each region.

Of course, in addition to geopolitical risks, there are many other risks involved in the pursuit of our global expansion. They include supply chain disruptions caused by new pandemics, natural disasters, and similar events, as well as the increasing strictness of medical equipment regulations in individual countries and regions and rising prices of such equipment. However, armed with the trust that we have built up to date, we will address and respond to each risk one by one, including through reviews of transport frequency and by strengthening close cooperation with suppliers.

Unlimited business opportunities with the strengthening of the prevention and dental checkup areas

For future sustainable growth, we will proceed with the strengthening of the prevention and dental check up areas of dentistry in Japan in the era of the 100-year human life span. In a super-aging society, healthy longevity is more important than anything in supporting the foundation of society. The policy for universal oral health checks clearly stated in the Japan's government's 2022 Basic Policy on Economic and Fiscal Management and Reform will lead to the early detection and treatment of oral diseases and, as a result, to both oral and overall physical health. This policy will also convey widely to the Japanese people the importance of dental care and prevention. In clinical practice, medical-dental collaboration, in which the medical and dental professions cooperate to provide comprehensive treatment of patient illnesses and injuries, is sure to be strengthened. While it is now widely known that oral health is closely connected to overall physical health, the pursuit of research into oral frailty (an intermediate stage in the transition from healthy to requiring care) and other issues will help identify social issues that we can help solve, leading to unlimited business opportunities.

The expansion of the digital dentistry market, early approaches to countries and regions that are newly entering an aging society, and capturing demand in the markets of developing countries where

the middle and high-income classes are expected to grow are important themes for supporting our sustainable growth overseas. There are commercial opportunities in various technologies and R&D in the increasingly diverse global market, including digitalization proposals in developed countries, the prevention area in aging markets, and the provision of existing technologies and knowhow to developing countries.

Focusing efforts on new technologies in the nail care business for the development of epoch-making products

In the nail care business, meanwhile, gel nails are predominant in the service menus of nail salons, and because other companies have not yet marketed professional-use products that would replace ours, we believe that demand trends will remain stable for the immediate future. In our social media efforts, we will aim to expand the market with gel nails and other products through collaborations with social media influencers and famous nail artists. In the fourth medium-term management plan, we have set targets of 2.5 billion yen in Group net sales and 170 million yen in Group operating income for the nail care business in the year ending March 31, 2024. The expansion of market share for gel nail products and the maintenance of high profits through the promotion of in-house production are the main features of our business policy in this segment.

On that basis, we will also strengthen our R&D in anticipation of the future. We are focusing our efforts on the development of new technologies with the aim of creating new markets by commercializing epoch-making new products that have no equal to our competitors.

As a policy for strengthening domestic sales and marketing, in May 2022, we totally renovated our Harajuku shop in Tokyo and opened the new Harajuku Press Room. In addition to broadening recognition and personal experience of our branded products, this facility will also pursue initiatives to increase brand loyalty as a base for the communication of new trends. Our e-commerce site was also given a complete overhaul, and we will build mechanisms for guiding people to the site through events and social media communications in an effort to expand sales.

Selection of the top-tier Prime Market to contribute to dentistry around the world

In the recent reorganization of the Tokyo Stock Exchange, Shofu elected to be listed on the Prime Market, which is aimed at global companies. This is because our business objective of becoming even more active in overseas markets and achieving growth, so we can put our corporate philosophy of "Contribution to dentistry through innovative business activities" into practice, is consistent with the characteristics of the Prime Market, which will lead to recognition from the world's investors.

Companies listed on the Prime Market are required to pursue initiatives that respond to issues related to medium- to long-term sustainability, including social and environmental issues (ESG), and on the enhancement of related disclosures. To strengthen our initiatives and systems in this regard, we established a deliberation committee and formulated a Basic Policy on Sustainability in June 2022. The starting point of Shofu's foundation was our mission "to make teeth for Japanese people." It also represents our management stance on solving social problems and contributing to society through technology. Since its founding, the Company has sought to contribute to the advancement of dentistry through product development together with dental

professionals. For this reason, responding to the needs of society through dentistry is the purpose of our existence and the wellspring of our corporate value. We will further evolve that and, based on our corporate philosophy of "Contribution to dentistry through innovative business activities," we will work together with our stakeholders to solve social issues through our corporate activities and aim for both the medium- to long-term enhancement of corporate value and the realization of a sustainable society.

In our Basic Policy on Sustainability, we have identified four key themes of "contribution to higher QOL of people," "promotion of corporate activities friendly to global environment," "strengthening of the management base to support corporate value enhancement," and "cultivation of a rewarding organizational culture and development of human resources," as well as 16 material issues (materiality) that are linked to them as issues for us to work on. Specifically, we identified issues that will lead to value creation through our core operations, including quality assurance and stable supply of products and the provision of products and services that solve issues in dentistry, issues that society is calling for, such as addressing climate change, enforcing thorough compliance, and the promotion of diversity, and issues related to our business foundations.

To achieve our goals for each of these issues, we will steadily implement measures based on concrete action plans, continuously monitoring the state of progress along the way. We will also periodically review these material issues and goals to ensure that we are closely aligned with social changes.

Increasing our contributions to the world as members of the global corporate community

Companies that transitioned to the Prime Market are required to enhance the quality and quantity of their disclosures, including English-language disclosures according to the Corporate Governance Code announced in June 2021 and disclosures based on the framework of the Task Force on Climate-related Financial Disclosures (TCFD). While holding sight of the direction we need to move toward as a company, we are also proceeding with responses to the various principles required by the Corporate Governance Code. For the demonstration of the functions of the Board of Directors, we conducted an evaluation of the effectiveness of the Board of Directors with input from independent third parties. The use of a third-party organization allowed issues to be pinpointed from objective viewpoints, and we now hope to improve the issues identified through this analysis and evaluation in our efforts to further improve the functions of the Board of Directors.

To enhance the independence and objectivity of deliberations and decisions regarding the appointment and dismissal of Directors and Directors' remuneration, we changed the Nomination and Compensation Council to an advisory body of the Board of Directors in June 2022 and decided that the chair of that Council would be chosen by the Outside Directors. At the same time as we elevate our contribution to dentistry around the world as a Prime Market-listed company, we will strive to enhance our action on sustainability and to build more robust governance systems.

With our new management structure, we will work with more speed than ever to realize our vision of Group net sales of 50.0 billion yen and Group operating income of 7.5 billion yen for the realization of our corporate philosophy. We hope to create both social and economic value in the global market and to further deepen our bonds with all our stakeholders. I would like to ask for the ongoing patronage and support of all of our stakeholders as Shofu takes its first steps toward its next 100 years.



The Fourth Medium-term Management Plan FY2021-FY2023

Aiming to accomplish its corporate philosophy, “Contribution to dentistry through innovative business activities,” the Shofu Group is working to maintain and strengthen the foundation of domestic business that it has built while also allocating more of its corporate resources abroad in order to expand overseas business. The Group has been driving globalization of all of its divisions, functions, people, and eventually the whole of its corporate management, and steadily implementing measures under its fourth medium-term management plan towards achieving the goal of “50-billion-yen vision” (Group net sales of 50.0 billion yen [domestic: 17.0 billion yen, overseas: 33.0 billion yen] and Group operating income of 7.5 billion yen [ratio of operating income to net sales: 15%]).

Review of results for the first year (year ended March 31, 2022)

(Unit: Billions of yen, %)

	Forecast	Result	Variance (amount)	Variance (percentage)
Net sales	26.1	28.1	2.0	7.8
Domestic net sales	13.6	13.5	-0	-0.4
Overseas net sales	12.4	14.5	2.0	16.7
Operating income	1.7	3.2	1.4	78.8
(Ratio of operating income to net sales)	(6.9%)	(11.4%)		
Return on Equity (ROE)*	4.0%	8.1%		

*Return on equity: Net income ÷ shareholders' equity × 100%

In the year ended March 31, 2022, the initial year of the fourth medium-term management plan, both sales and net income rose above the figures targeted for the year under the medium-term management plan.

Net sales increased by 2 billion yen (7.8%), as sales turned out as planned in Japan while registering high growth in the overseas markets, where we succeeded in meeting the recovering demand after COVID-19.

Operating income grew by 1.4 billion yen (78.8%) thanks to the fall in selling, general and administrative expenses due to the continued restrictions chiefly on face-to-face form of activities combined with the growth in net sales.

<Key progress on priority issues>

Research & Development	<ul style="list-style-type: none"> Developed and launched new products suited to digital dentistry Launched “BeautiBond Xtreme,” a universal dentine bonding agent for dental use applicable for a range of adherends, in the Japanese market
Production	<ul style="list-style-type: none"> Commenced operations at the production base in Vietnam
Sales	<ul style="list-style-type: none"> Established a representative office in Dubai, UAE The office conducts market research and gathers information on the Middle East and Africa region and supports the Group companies engaged in sales in the region in order to boost sales activities.
Group governance	<ul style="list-style-type: none"> Established and streamlined various rules and regulations and reviewed the system for running the Board of Directors of the Group companies

Revision of numerical targets

We have decided to revise upward the targets of the fourth medium-term management plan due to the changes occurring to the plan's initial preconditions, although the plan had factored in the impact of COVID-19 to a certain extent.

<Background to the revision of targets>

■ Firm tone in dental market demand

...Demand has nearly returned to the pre-COVID-19 level.

■ Steady progress in the Company's efforts

..Even under the COVID-19 crisis, we maintained the system to steadily continue presenting and delivering products to dental professionals in Japan and abroad just as in normal times.

Numerical targets for the final year of the fourth medium-term management plan (year ending March 31, 2024)

Group net sales

31.5 billion yen

(Domestic: 14.8 billion yen;
overseas: 16.6 billion yen)

Group operating income

3.79 billion yen

(Ratio of operating income to net sales:
12.0%)

Return on equity (ROE)

8.0%

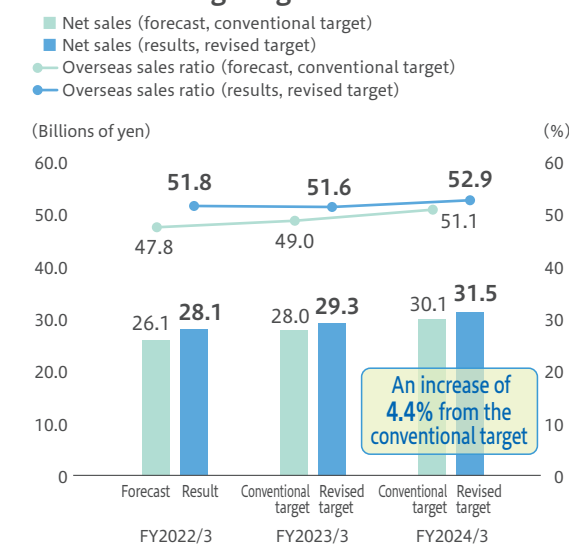
Priority issues and key numerical targets

Ratio of sales of new products to net sales: **20% or above**

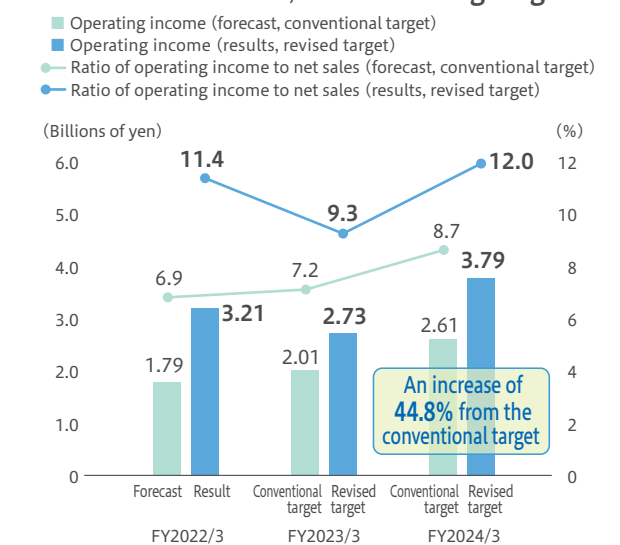
Overseas sales ratio: **52.9%**

(Dental business overseas sales ratio: 54.4%)

Net sales and overseas sales ratio—forecast, results and target figures



Operating income and ratio of operating income to net sales—forecast, results and target figures



We will work to meet the revised targets of the medium-term management plan and make speedy efforts to address the priority issues so as to attain the long-term vision “50-billion-yen vision” without delay.

Message from the Financial Officer

Leveraging our financial soundness to accelerate our global growth strategy.

Takahiro Umeda

Senior Managing Executive Officer in Charge of Finance

Overseas sales expand to account for over half of record-high Group sales

A century has passed since Shofu's foundation, and we have now joined the ranks of Japan's longest operating companies. At the same time, we have reached a turning point toward a new stage of growth. The Shofu Group is currently pursuing an active global strategy with a long-term vision of 50 billion yen in net sales. Although our business was adversely affected by the COVID-19 pandemic in the fiscal year ended March 31, 2021 (149th Fiscal Year), the global market led growth in demand in the fiscal year ended March 31, 2022 (150th Fiscal Year), the first year of the fourth medium-term management plan, and our net sales, operating income, ordinary income, and net income all reached record highs.

Net sales increased by 3.4 billion yen, or 14.0% year-on-year, due to sales in Japan increasing as projected, as well as to significant growth in overseas sales. We achieved the latter by successfully capturing the recovery of demand after the pandemic. Operating income increased by 39.8% year-on-year to 900 million yen, due to higher net sales and a reduction in selling, general and administrative expenses, primarily as a result of restrictions on in-person sales activities. The improvement of return on equity (ROE) to 8.1% from the previous fiscal year's 6.2% was a particularly significant achievement.

However, the most remarkable feature of the FY2021 results was the fact that, of the record-high

Group net sales of approximately 28.1 billion yen, overseas sales accounted for approximately 14.6 billion yen, exceeding domestic sales. This represented a 33.1% increase from the previous year, manifesting the outcomes of our global strategies and investments to date. As the products we are launching onto overseas markets have high profit margins, the growth in net sales is directly linked to improved profitability. We will now take this opportunity to further invigorate our overseas business, including further strengthening our supply chain structure, from procurement of resources to sales networks.

Promoting global expansion of our business through aggressive growth-strategy investments

We will promote a global business cycle by expanding capital investment in the fiscal year ending March 31, 2023 (151st Fiscal Year) to 2.5 billion yen, lifting it above the level of less than 2 billion yen for the first time. While some of that investment is related to our 100th anniversary commemorations, such as the construction of our new company building, we also intend to make aggressive growth-strategy investments to achieve our vision of 50 billion yen in net sales. This includes the full-scale launch of operations at the new Vietnam plant established in 2020 as a global production site, new business alliances, and the development of sales networks. Because our earnings

capacity is improving, we consider our top priorities to be accelerating the expansion of our global business and creating a new profit cycle by aggressively investing cash flow in growth. The Group will advance these plans with a shared recognition that we must have a sense of speed as we accomplish our business.

We have actively launched production and sales sites in recent years, and I believe that getting these new sites up and running and making them profitable as quickly as possible are our most important challenges. With subsidiaries of the Group being wholly financed by headquarters, they have no problem with procurement of funds. We will establish compliance and governance systems by dispatching Directors or Auditors to these local subsidiaries from headquarters. After establishing new sites, the entire Group will work to support them so that they can be fully operational as soon as possible.

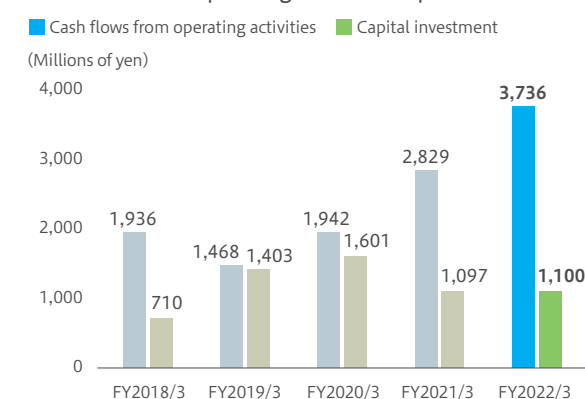
Although there are concerns about skyrocketing raw materials prices and global inflation risks caused by the Russian invasion of Ukraine, Shofu maintains a very high equity ratio level of around 80%. Such financial soundness is one of the Company's major strengths. With our high cash position and strong financial health, we believe that it is the right time for us to accelerate our growth strategy. We will engage in active investment in growth fields while strengthening our structure of resilience against all risks.

Upgrading of net sales targets Aim to achieve Group net sales of 31.5 billion yen in FY2023

In the nail care business, which we have rolled out in Japan, the United States, and Taiwan, sales in Japan and Taiwan in the fiscal year ended March 31, 2022 (150th Fiscal Year) fell due to the impact of restrictions on activities in response to a new wave of COVID-19 infections and as a result of the tapering of stay-at-home demand, they increased in the United States due to active sales promotion activities through social networking sites (SNS). For 151st Fiscal Year, we project that the investment in our Harajuku shop and the overhauling of our e-commerce site will pay off and that the business will recover. The promotion of digitalization and digital transformation (DX) to create innovation is a critical theme, and we consider strategic investment in this area to be essential. The times are changing at an ever faster pace. We will strive to strengthen communication with all genres so that we can continue to lead DX and other trends.

While we have factored the negative impacts of

Cash flows from operating activities/capital investment



the COVID-19 pandemic into the fourth medium-term management plan to a certain extent, demand for dental care has remained strong in the global market, including Japan, recovering to close to pre-COVID levels. Even under the state of emergency declaration, our sales divisions continued to present our products to dental professionals in both Japan and overseas by all means possible, including remotely, and those efforts have started to produce results. For this reason, we have upgraded our medium-term management plan targets. We aim to achieve Group net sales of 31.1 billion yen and Group operating income of 3.3 billion yen in the fiscal year ending March 31, 2023 (151st Fiscal Year) and Group net sales of 31.5 billion yen and Group operating income of 3.79 billion yen in the fiscal year ending March 31, 2024 (152nd Fiscal Year). Even with the 100th anniversary projects and increases in strategic investments, we forecast that operating income will increase in 151st Fiscal Year due to an increase in sales. We also expect that the results in 152nd Fiscal Year, the final year of the fourth medium-term management plan, will expand even further, reflecting the effects of these investments. We also forecast that both net sales and operating income will reach record highs. ROE is expected to be 8%, but we hope to increase that figure to 10% or more over the medium to long term. As well as achieving our upgraded targets of the medium-term management plan, we will focus our efforts on priority issues with a sense of speed, with the aim of the early achievement of our long-term vision of 50 billion yen in Group net sales.

Aim to enhance DOE by improving profitability and capital efficiency

In terms of dividend policy, we have set a dividend payout ratio of at least 30% on a consolidated basis. However, because dividends vary depending on profit levels, in our aim to achieve dividends that take capital efficiency into account, we have added a new numerical indicator of ratio of dividends to net assets (DOE). Our tentative target for DOE during the period of the fourth medium-term management plan is 1.7%. As DOE is calculated by multiplying ROE by dividend payout ratio, we aim to enhance DOE by improving both profitability and capital efficiency, in the hope of reaching ROE of at least 8% and DOE of at least 2.5% in the long term.

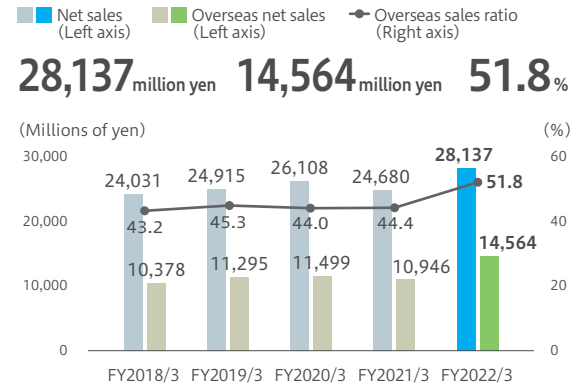
Cash dividend per share for the fiscal year ended March 31, 2022 was 39 yen, consisting of an ordinary dividend of 37 yen and a 100th anniversary commemorative dividend of 2 yen.

The Shofu Group's growth story is supported by our corporate philosophy, "Contribution to dentistry through innovative business activities." Although the future impact of COVID-19 remains uncertain, it is now widely known that oral health contributes to overall physical health, and we believe that the role of dental care will become increasingly important for the sake of improving people's quality of life (QOL) and extending healthy longevity. Shofu's expertise in the field of dental care that we have cultivated in Japan, one of the world's fastest aging populations, will definitely be of help to other countries and regions whose populations will soon reach a similar level of aging. We also believe that we will be able to help many people to eliminate their discomfort and concerns through our efforts to achieve our 50-billion-yen vision. The Shofu Group will work as one toward the early achievement of this goal. I would like to ask for the understanding and support of all of our stakeholders.

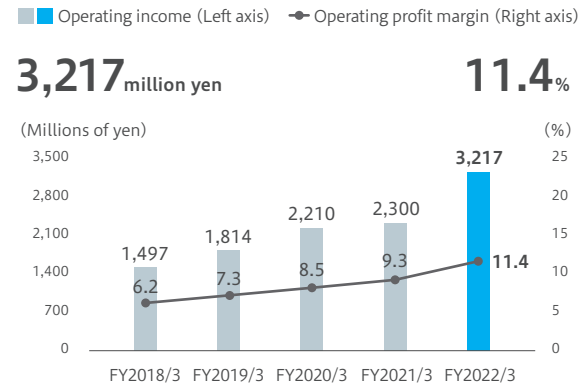
Financial and Non-financial Highlights

Financial Indicators

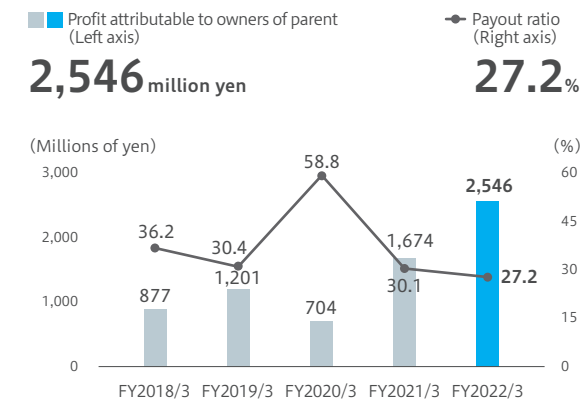
Net sales/Overseas net sales/ Overseas sales ratio



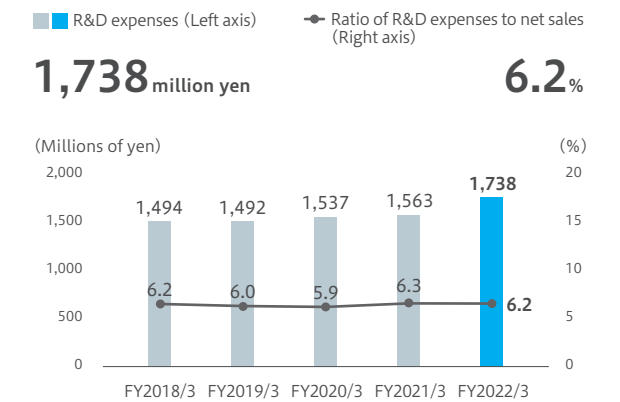
Operating income/Operating profit margin



Profit attributable to owners of parent/ Payout ratio

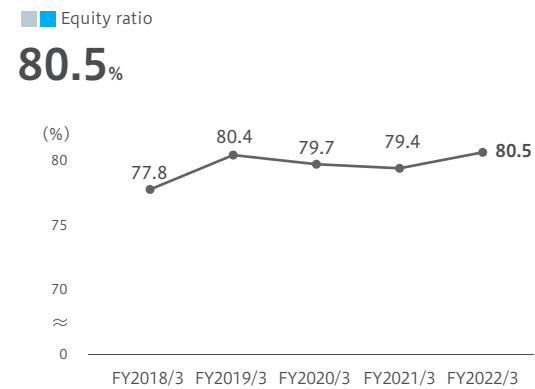


R&D expenses/ Ratio of R&D expenses to net sales

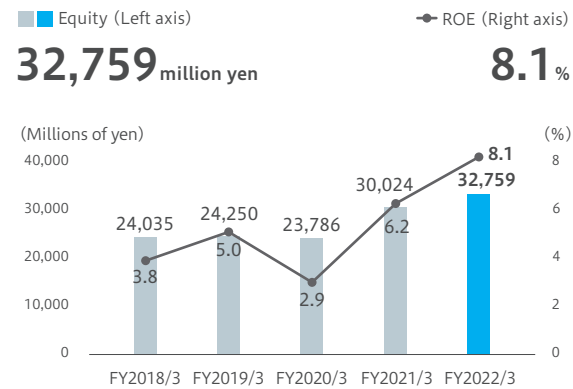


Non-financial Indicators

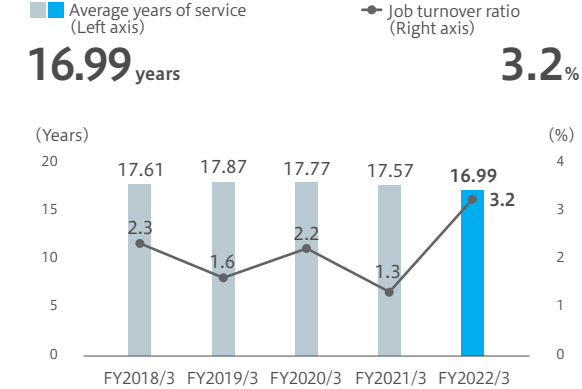
Equity ratio



Equity/Return on equity (ROE)

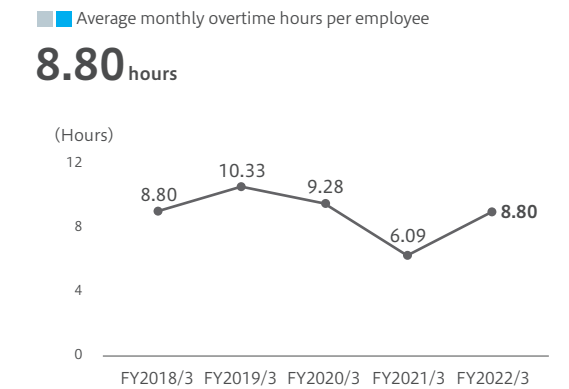


Average years of service/Job turnover ratio

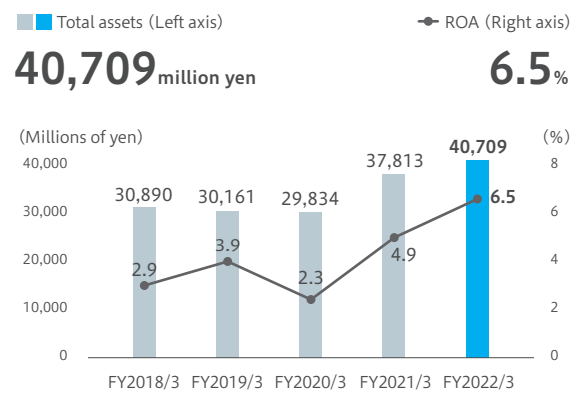


*The job turnover ratio does not include employees who have reached the mandatory retirement age.

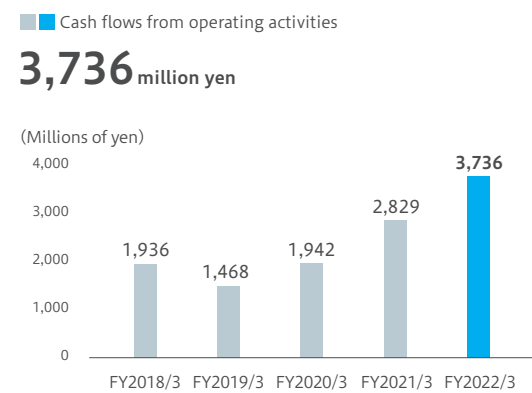
Average monthly overtime hours per employee



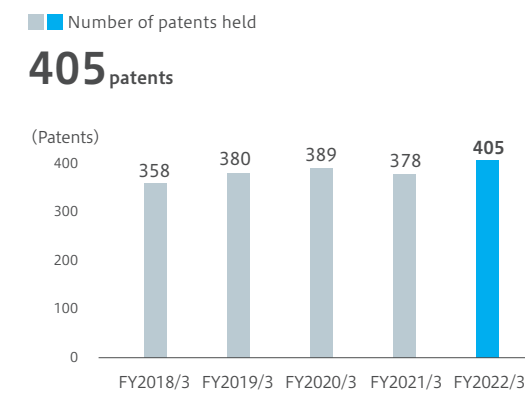
Total assets/Return on assets (ROA)



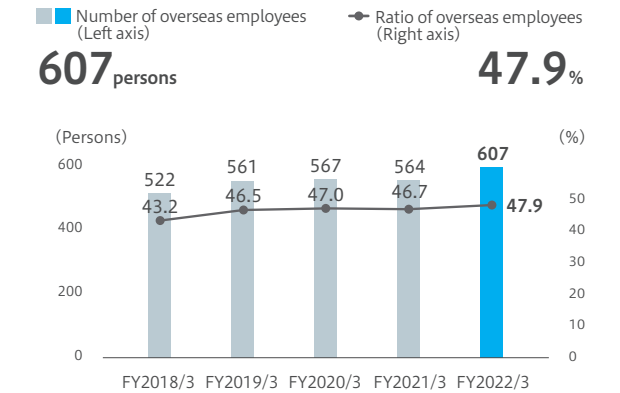
Cash flows from operating activities



Number of patents held



Number of overseas employees/ Ratio of overseas employees



*Non-financial indicators are on a non-consolidated basis (except for the number of overseas employees and the ratio of overseas employee, which are on a consolidated basis).

Special Feature “Artificial Teeth,” Shofu’s core product area

Our strengths as a market leader and outlook

As well as being biocompatible, meaning that they are safe for living organisms, the materials handled by our company must be durable and stable. This means that they maintain their properties for long periods of time in the harsh environment of the oral cavity, including constant moistness, changing temperatures, and the strong force applied when eating food. Our materials also require the aesthetic quality that allows them to blend in with natural teeth, as well as operability that provides ease of handling for practitioners. All of these attributes must be well balanced to a high degree. Research and development to meet these requirements require knowledge in a wide range of areas, including organic chemistry, inorganic chemistry, polymer chemistry, biochemistry, powder engineering, and color science, as well as knowledge of dentistry. For this reason, our ability to develop new products, based on the abundant technologies we have accumulated over many years and on the “cross-divisional fusion of technologies” among our highly diverse R&D staff, is a major advantage and strength of the Group. This special feature presents Shofu’s core product area of artificial teeth.

What are artificial teeth?

Artificial teeth are replacements for lost natural teeth. Fitting them as dentures (dental prosthetics) in the oral cavity can restore lost or reduced oral function. Shofu offers a wide range of artificial teeth in different sizes for

different parts of the upper and lower anterior teeth and grinding teeth. They are often categorized by the materials from which they are crafted, such as porcelain teeth, resin teeth, and hybrid resin teeth.

Properties required of artificial teeth

Artificial teeth need to be biocompatible, durable and stable, as well as functional for chewing foods without discomfort. They also need to blend in naturally with facial features.

(1) Durability and stability

- Durability: Excellent abrasion resistance, resistance to chipping (hard to break) in the oral cavity
- Chemical stability: Resistance to degradation and staining in oral cavity environment, where teeth are constantly exposed to moisture, temperature changes, various foods and drinks, and oral bacteria.
- Excellent and durable adhesion to the gingiva (gum) section of prosthetic teeth

(2) Functionality

- Each tooth has a role in facilitating the swallowing of food. The front teeth cut the food, the premolars

break it down into smaller pieces, and the molars chew the food into clumps known as bolus. The smooth movement of the bolus (ball of food formed during the process of chewing) to the throat is also part of the teeth’s functionality.

(3) Natural blending in with facial features

- Artificial teeth need color tones, transparency, and shape that are close to those of natural teeth. Dental prosthetics made with such artificial teeth can give the mouth a natural appearance and give the wearer a bright expression.

Representative product (1) Hybrid resin teeth, Endura

When Endura was first developed in 1986, there were two types of artificial teeth on the market, resin teeth and porcelain teeth. The latter had the advantage of being hard and wear-resistant, but they also had the disadvantage of being heavy and prone to chipping. Resin teeth, on the other hand, made up for these disadvantages of porcelain teeth, but their soft material made them more prone to wear. This led to demand for artificial teeth that could be made with a material that was close to natural teeth and that could solve the respective disadvantages of both porcelain teeth and resin teeth, while making the most of their respective advantages.

[Product overview]

In 1986, Shofu developed and began selling Japan’s first hybrid resin teeth, Endura, a new-generation artificial tooth that combined the advantages of porcelain teeth and resin teeth. Endura was highly commended by the Japan Dental Association and the then Ministry of Health and Welfare for its excellent wear resistance, natural-looking shape and color that were similar to natural teeth. It became widely popular in the domestic market after it was adopted as a designated brand for health insurance coverage in 1988.

(1) Excellent wear resistance

A new urethane resin material and ultrafine particle filler for the enamel part of the tooth. Endura teeth are six times more wear-resistant than resin teeth, allowing the artificial teeth to retain their form and chewing function for longer.

(2) Aesthetic quality

The triple-layer construction reproduces a depth of color similar to that of natural teeth, realizing a high aesthetic quality. Natural teeth have an opalescent effect, which gives the teeth a white color in reflected light and a reddish-brown color in transmitted light. Shofu succeeded in giving artificial teeth the same opalescent effect as natural teeth with our proprietary special ultrafine particle filler.

(3) Extensive product range

The color, shape, and size of teeth vary from person to person. We offer a wide range of some 4,400 products that vary by color, shape, size, part, and other attributes, enabling the right teeth to be chosen for each patient.

These features were received extremely positively by dental professionals, who praised Endura for its excellent balance of function and material. Even today, more than 35 years since its launch, it remains one of our longest selling products.



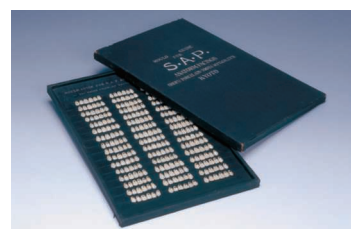
Cross-section of Endura’s triple-layer construction



Endura hybrid resin teeth

History of Shofu’s artificial teeth

1922



Japan’s first high-quality porcelain teeth, SHOFU Anatome Form, which were adapted to Japanese faces

1945



Japan’s first resin teeth with the beauty of natural teeth

1957



“Real-form porcelain teeth,” artificial tooth forms based on research of the shape of Japanese teeth from all angles

1986



Endura, Japan’s first hybrid resin teeth

2003



NC Veracia, the world’s first artificial teeth created with nanotechnology

2009



Veracia SA, hybrid resin teeth created with operability in mind

💡 Intellectual Property

Representative product (2) Veracia SA hybrid resin teeth

When Veracia SA was first developed in 2009, Japan's population had already entered a phase of super-aging, resulting in an increase in particularly difficult cases. They included complete dentures in which the ridge (the part of the gum where the denture is placed) had become very thin, as well as partial dentures. On the other hand, dental technicians were facing greater demand for more economical treatment, including improved treatment efficiency and greater efficiency in the work of fabricating dental prosthetics. There was also a need to achieve clinical effectiveness more efficiently than existing products. For these reasons, the need arose for the development of artificial teeth that were well balanced in more aspects, including functionality, operability, materials, and economy.



[Product overview]

In 2009, Shofu developed and began selling its new hybrid resin teeth product, Veracia SA, which pursued better dental bite, which is the most important function of artificial teeth, and better ease of handling in denture production. Veracia SA is unique in that the basic dental bite suited to complete dentures can be obtained easily simply by lining up of the artificial teeth. This is a feature that is not available in conventional artificial teeth.

(1) Efficiency

Shofu's patented artificial teeth forms are designed for stability of dentures in the oral cavity and to require less

adjustment of dental bite. This proprietary design makes it possible to manufacture dental prosthetics with consistent quality and in a shorter time frame.

(2) Enhancement of total balance

The use of new materials, acrylic-urethane resin and organic/inorganic composite filler, achieved high fracture resistance and discoloration/coloration resistance, enhancing the total balance of this product even beyond that of Endura, including in terms of efficiency.

Shofu's strength in artificial teeth

Shofu has long maintained the top share of the market for artificial teeth in Japan and is also highly regarded overseas.

We are proud of the fact that Shofu's artificial teeth are highly regarded in dental care settings. We see it as the result of the organic connection of all manner of factors, including our R&D capabilities in continuing to develop products of high quality and performance, our superior production technology capabilities honed by high-mix/low-volume production, our strong networks with dental professionals, our abundant track record of

artificial teeth being adopted for practical training, and all the other knowledge, expertise, and experiences that we have accumulated throughout our 100-year history.

In April 2015, our company acquired MERZ DENTAL GmbH, one of the three largest artificial teeth manufacturers in Germany. As a result, we have enhanced the range of our products and our sales channels for artificial teeth in the European and American markets, where we had previously been underrepresented, and we have been able to establish a framework for supplying Shofu Group's artificial teeth to the world.

Outlook for artificial teeth market

With the growing awareness of preventive dentistry and the increasing prevalence of dental treatment that does not involve grinding down or pulling teeth, there are now more elderly people who still have many of their own teeth. On the other hand, with the progression of population aging across the world, the global artificial teeth market is expected to expand.

Dental prosthetics help people to keep eating with their mouths, leading to the hope that dentures will significantly contribute to the improvement of people's quality of life and to the extension of healthy longevity. For these reasons, we believe that the role of dental prosthetics

will continue to grow even further in the future.

Going forward, the digitalization of denture production and technical support for that digitalization will be key. In particular, the stabilization of denture quality and labor-saving in production through digitalization will become the responsibility of manufacturers.

Shofu will contribute to dentistry worldwide through the development of artificial teeth and denture materials of high quality and performance, leveraging the knowledge, expertise, and experience that we have accumulated over the years.

Basic approach to intellectual property

The intellectual property rights (patents, utility models, designs, copyright, trademarks, knowhow, technical information, etc.) that Shofu has acquired in the course of our R&D activities are important assets of the Company. In addition to protecting and using our core technologies in appropriate ways, we respect the intellectual property

rights of other companies and strive not to infringe on the rights of third parties. Positioning intellectual property as a key corporate resource, we promote an intellectual property strategy that is linked to business strategy and R&D strategy, connecting it to sustainable value creation.

Detail of activities

(1) Promotion of intellectual property strategy

At Shofu, we have formulated an intellectual property strategy that is intertwined with our R&D strategy. We lodge applications strategically for "defensive intellectual property" with the aim of protecting our core technologies, and "offensive intellectual property" with the aim of raising our business competitiveness. Applying for and acquiring patents that will lead directly to product development lie at the center of that strategy, and we also work to secure rights from long-term perspectives to secure future technological domains. Based on a business strategy of expanding our overseas business while maintaining and strengthening the foundation of our domestic business, we are working to apply for and acquire intellectual property in major overseas markets.

(2) Management and implementation of intellectual property

In addition to the assignment of persons in charge of IP in our R&D division, our development staff research and analyze other companies' rights in our efforts to avoid infringing on the intellectual property rights of third parties. The persons in charge of IP and development staff work closely together from the initial stages of research and development to secure the rights (application, rights acquisition, maintenance) to highly advantageous technologies, with a focus on our core products. Further, under the provisions of Article 35 of the Patent Act, we have established an employee invention remuneration scheme as a company rule to encourage the creation of intellectual property.

(3) Intellectual property awareness activities

To embed understanding and awareness of respect for intellectual property, R&D employees are given educational opportunities, including in-house educational sessions and encouragement to attend seminars by external educational institutions. We also share with them information such as patent trends at other companies.

■ Intellectual property-related indicators

	FY2018/3	FY2019/3	FY2020/3	FY2021/3	FY2022/3
Number of patents held	358	380	389	378	405
Patent applications lodged	27	28	29	33	28
R&D expenses	1,494 million yen	1,492 million yen	1,537 million yen	1,563 million yen	1,738 million yen
Ratio of R&D expenses to net sales	6.2%	6.0%	5.9%	6.3%	6.2%

Quality Control and Assurance

Basic approach

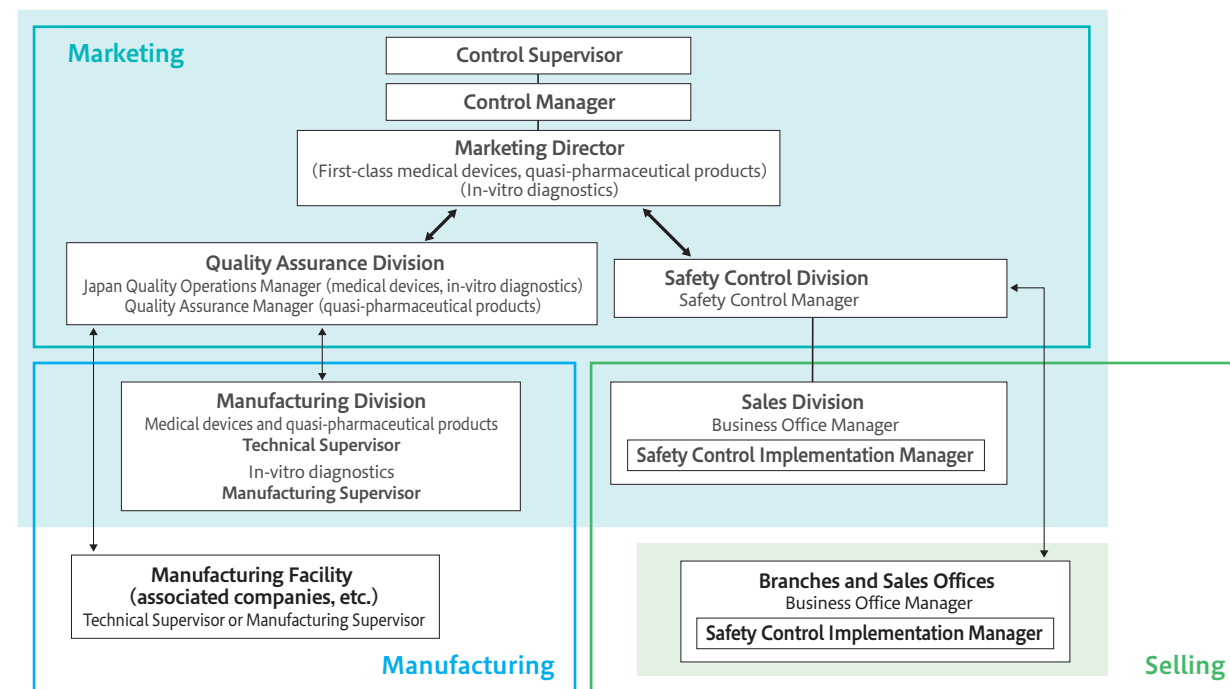
Many of our dental materials and equipment fall under medical devices under the Pharmaceutical and Medical Device Act and regulations in various countries. They are mainly used in the oral cavity and require high-quality control and assurance because their safety and

compatibility with the body are vital.

As a company handling medical equipment, Shofu considers our mission to provide a stable supply of safe, reliable, and high-quality products based on the quality policy below.

<Quality Policy>

To contribute to dentistry around the world, Shofu observes relevant regulatory requirements and provides a stable supply of high-quality products with high ethical standards. To achieve this goal, we set quality targets, operate quality management systems appropriately, and continuously improve all aspects of quality.



Quality management system in compliance with medical device regulations in each country

In 1997, Shofu became the first company in the Japanese dental industry to obtain CE marking certification, which meets the requirements of the Medical Device Directive (MDD: 93/42/EEC), a quality standard of the European Union (EU). We have also established a quality management system that conforms to the high standards of ISO 9001, the international standard for quality management systems, and ISO 13485, which includes special requirements for medical equipment.

To ensure a stable supply of high-quality, high-value-added products and further enhance product reliability, we are continuously improving our quality assurance and post-marketing safety management systems. We provide safe and reliable dental materials and equipment around the world in compliance with the Pharmaceutical and Medical Device Act and other standards and requirements set forth by various countries around the world.

Quality assurance activities supporting product safety and reliability

Dental materials, in particular, must be adapted to the needs of individual patients, so multi-product production is a prerequisite. On the other hand, it is also necessary to ensure reliable quality for each of these products. To implement consistent quality assurance activities from R&D through post-manufacturing and sales, we have set quality targets for each business process, including design and development, purchasing, manufacturing, and customer relations. We are engaged in company-wide improvement activities based on the targets daily. Improvement measures to achieve our quality targets are not limited to the organizational level. Still, they are broken down to individual employee goals, then disseminated to the workplace to maintain and improve the quality. To ensure the continuous, appropriate, and effective operation of our quality management system, we implement quality assurance activities that support the safety and reliability of our products, such as conducting annual management reviews on quality to monitor and reflect the results in the following year's activities.

Safety Management System

To ensure that dental professionals can use our products with peace of mind, we collect safety management information (information about defects, etc.) related to medical devices from within Japan and from overseas for evaluation and deliberation, based on the GVP Ordinance. Information about quality, effectiveness, and safety

GVP Ordinance: Standards for post-marketing safety management of drugs, quasi-pharmaceutical products, cosmetics and medical devices and regenerative medicine products, etc.

obtained through these processes is provided swiftly and appropriately to dental professionals to promote the proper use of our products. In this way, we strive to minimize safety-related risks and to enhance the safety and reliability of our products.

Employee training

Shofu conducts training on its quality management systems to raise awareness and encourage knowledge acquisition about quality among employees. In FY2021, approximately 100 employees, with a focus on people working on the ground in production and quality management, participated in training on a variety of themes, including Shofu's responsibilities as a company that handles medical devices, our quality policy, and quality goals. We also conducted education required for

the maintenance and enhancement of our quality management systems, including GMP/QMS courses and safety management information courses for employees in specific positions. QMS education included courses delivered by specialist external organizations, in-house courses with guest lecturers from outside the Company, and in-house courses delivered by employees with specialist quality knowledge.

*GMP: Standards for manufacturing control and quality control for drugs

*QMS: Standards for manufacturing control and quality control for medical devices and in-vitro diagnostics

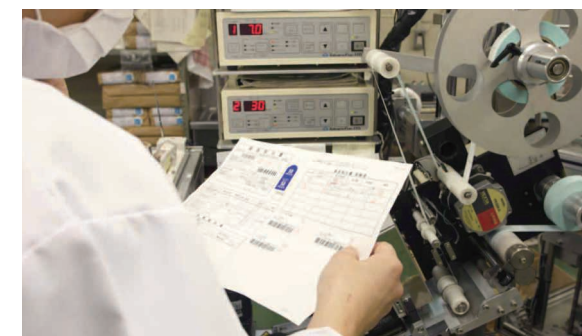
Production framework that allows a wide variety of products to be manufactured in small lots

Because the devices and materials used in dental treatment must be adapted to the needs of individual patients, Shofu handles a diverse range of products. To ensure the flexible production of many different products with an assured level of quality, in addition to installing state-of-the-art equipment, it is essential that we establish our own proprietary manufacturing technologies for the production of each product and that we elevate the skills of employees involved in operations.

While promoting the automation of our production equipment and systems on the one hand, we are also

focusing efforts on the improvement of operator skills, passing on techniques through meticulous guidance, and establishing back-up systems. We have also established mechanisms to ensure that only good products pass through to downstream processes, in our efforts to eliminate delays and waste in the entire process from receipt of order to production and delivery.

Based on the concept of "designing quality into manufacturing processes," we strive to improve our processes every day and engage in further enhancement of quality.



Business Overview

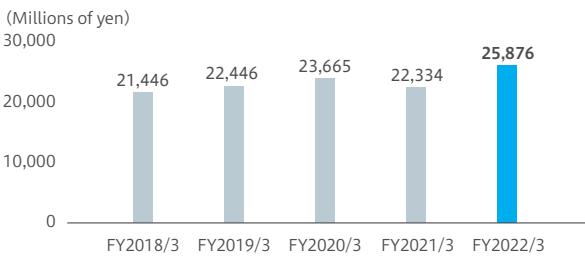
Dental Business

Line of business

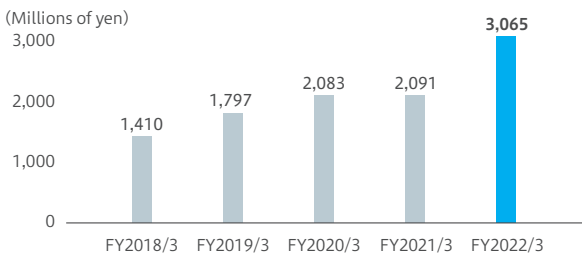
In the dental business, Shofu manufactures and sells dental materials and equipment used in dental treatment and dental appliances. This includes artificial teeth, abrasives and polishing materials, chemical products, cement products, metal products, machinery,

and equipment. We sell our products not only in Japan but also in countries around the world through our sales subsidiaries in the U.S., Germany, China, Singapore, India, Brazil, and other regions.

Net sales

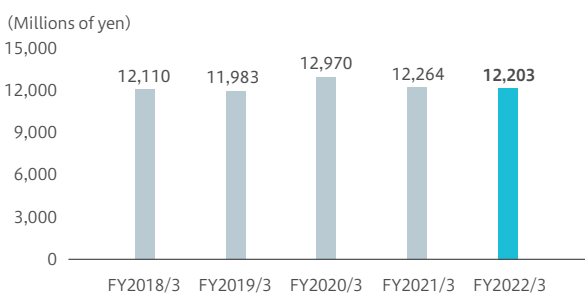


Operating income



Domestic

Net sales



Market environment

Due to the accelerated uptake of COVID-19 vaccines and the relaxation of restrictions on activities, demand for dental materials and equipment showed signs of recovery. However, in the domestic market, where the market as a whole is maturing, competition among companies has continued to intensify, while digitalization of dental care is progressing.

Business activities in the fiscal year ended March 31, 2022

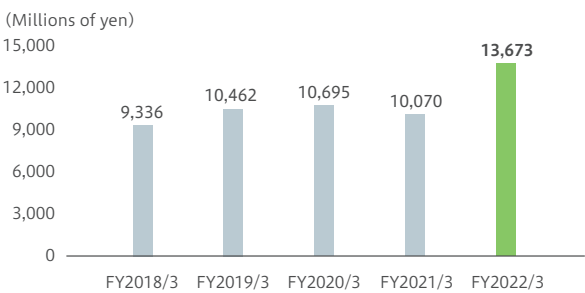
Although net sales increased due to the contribution of a dentine bonding agent for dental use and new CAD/CAM-related products, due to the impact of the Accounting Standard for Revenue Recognition, etc. that we adopted in this fiscal year, net sales fell compared with the net sales under the previous standard, with the result being a 0.5% drop from the previous year.

Initiatives for growth

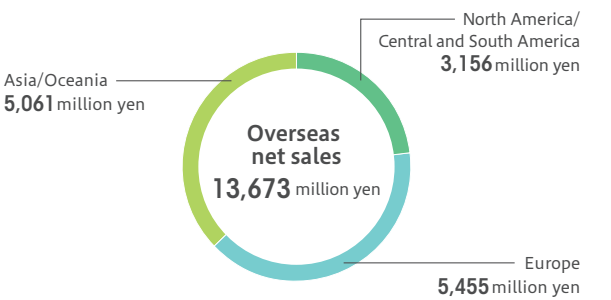
In addition to undertaking intensive sales activities focused on CAD/CAM-related products, which are expected to attract demand, and key areas such as artificial teeth, abrasives, and chemical products, we will also leverage the knowledge gained during the pandemic to conduct seminars and other promotional activities online, and conduct activities to provide information to dental professionals.

Overseas

Net sales



Overseas sales by region (Year ended March 31, 2022)



Market environment

Although some regions that had been relatively stable in the early stages of the COVID-19 pandemic were later affected by waves of infections as new variants emerged, when viewed globally, demand in the dental industry is recovering to close to normal levels, due to the uptake of vaccines and the effects of various economic policies. In the first half of the previous fiscal year, there were moves to return distribution inventory levels in each region to appropriate levels, after they had been kept down due to the pandemic.

Business activities in the fiscal year ended March 31, 2022

North America/Central and South America

Year-on-year comparison:
Up 39.4% (up 31.1%) *

Business activities in the fiscal year ended March 31, 2022

Europe

Year-on-year comparison:
Up 28.8% (up 21.1%) *

Business activities in the fiscal year ended March 31, 2022

Asia/Oceania

Year-on-year comparison:
Up 41.8% (up 31.1%) *

The success of our aggressive sales expansion strategies to date allowed us to capture demand steadily to enable distribution inventory levels to be returned to appropriate levels. As a result, albeit with some regional variations, our product ranges, particularly in the key area of chemical products, as well as artificial teeth, abrasives, and cement products, all performed well. The positive impact of exchange rate fluctuations also contributed to net sales, with net sales increasing year on year.

* Figures in () are the percentage year-on-year changes on a substantive basis, which excludes the impact of exchange rate fluctuations.

Initiatives for growth

Despite concerns about the possible negative impact on business activities of constraints in the supply of semiconductor chips and some raw materials, we will promote sales expansion by developing online sales activities and revitalizing business activities in individual regions. In particular, we expect growth in the single mega-markets of the United States and China.

Nail Care Business

Line of business

In the nail care business, we manufacture, import, export, and sell nail care products and equipment based on technologies cultivated for dental materials. For some products, including gel nail products in particular, we have an integrated system that covers from development to manufacturing and distribution within the Group.



Business activities in the fiscal year ended March 31, 2022

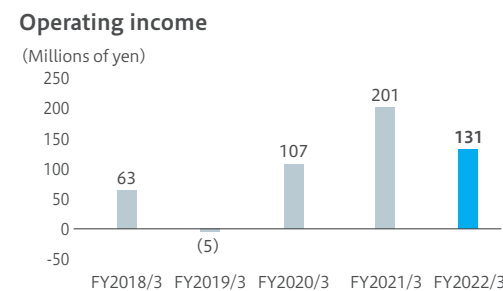
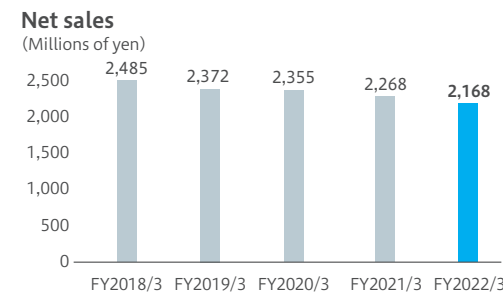
In Japan, due to the impact of restrictions on activities with the reemergence of infections and the tapering of stay-at-home demand, sales of our mainstay gel nail-related products were depressed.

Overseas, on the other hand, sales in Taiwan fell due to the impact of the reemergence of infections, but sales increased in the U.S., driven by strong online sales due to active sales promotion activities through social media.

Initiatives for growth

In Japan, we will strive to improve the brand power of our products and penetrate the market by strengthening online sales by overhauling our e-commerce site and actively conducting promotional campaigns.

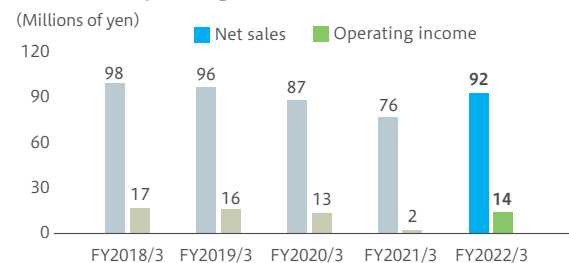
Overseas, we plan to expand our business in Taiwan, where demand is expected to recover from the pandemic, and in the U.S., where sales promotion activities through social media have been successful.



Other Businesses (Industrial Polishing Materials)

In the industrial polishing materials business, which we are rolling out by adapting technology for dental polishing materials, sales in the automotive industry fell due to the impact of automobile production cuts caused by semiconductor supply shortages. However, overall sales remained strong throughout the year due to the increase in demand for production machinery applications that has accompanied the economic recovery both in Japan and overseas.

Net sales / Operating income



Topics for the Fiscal Year Ended March 31, 2022

TOPICS 1

Construction of Ayumi Terrace, Shofu's new corporate building

Construction work of Ayumi Terrace, Shofu's new corporate headquarters building in the city of Kyoto, is underway. The new building, which symbolizes our aim of further growth for the next 100 years and beyond (scheduled for completion at the end of February 2023), is part of our 100th anniversary project.

The exterior features a half-hipped roof with a large protruding eave on the western façade, as well as a greenery-filled terrace with views of the Kamo River and Kyoto's city center. The building's design strives to achieve harmony with the scenic beauty and environment of Kyoto, the city that has supported the Company's growth.

As spaces for communicating with customers and business partners, the building will have facilities such as a company history exhibition zone, showroom, new product demonstration zone, and large hall. It will also house offices and a canteen for employees, which will be put to effective use as spaces for the enhancement of the working environment.



The gentle curve that is a distinctive feature of the northern façade evokes an image of a row of beautiful teeth, with a design keyword of "Smile Loop," that is, the loop of a smile generated through the use of the facilities.

TOPICS 2

100th anniversary commemorative seminar

To commemorate our 100th anniversary, Shofu held an online seminar for dental professionals. We invited 17 leading Japanese advisors and instructors in the dental technician profession as lecturers. The number of applications to attend the seminar was the highest we have ever received for an online seminar.

Over the four-day symposium, different lecturers gave talks on a variety of topics every day. The sessions included a roundtable discussion on their life as dental technicians, a demonstration of staining techniques using SHOFU DISK ZR Lucent Supra, consideration of the features of dental materials and important clinical points, and descriptions of digital equipment and digital dental prosthesis materials.

With such a wealth of content in every session, all of the lectures succeeded in disseminating diverse, clinically useful information.

100th anniversary commemorative seminar leaflet



TOPICS 3

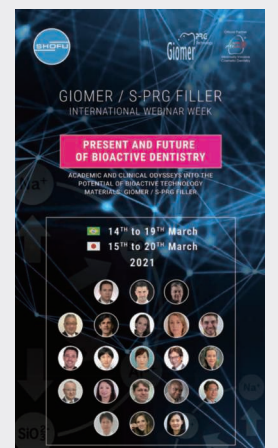
Giomer/S-PRG Filler International Webinar Week

In March 2021 and February 2022, Shofu hosted a webinar event, Giomer/S-PRG Filler International Webinar Week, targeting global markets via Zoom and YouTube.

With university professors and dentists from both Japan and overseas invited as lecturers, this event had several different objectives. They included raising awareness of Shofu's S-PRG Filler/Giomer, which is the only technology of its kind in the world, and its basic concepts, and introducing evidence of the bioactive effects and clinical utility of this technology reported by research institutes around the world.

Through this event, we were able to show our presence as a world-leading company in the field of bioactive materials, to raise awareness of the S-PRG Filler, Giomer, and SHOFU brands, as well as to provide the latest information from the perspectives of a wide range of dental fields.

Webinar Week poster



Messages from the Outside Directors



I will play a role in contributing to sustainable growth and enhanced corporate value.

Kiichi Suzuki

Outside Director

The Board of Directors of Shofu is operated appropriately under the leadership of the Chair of the Board, and lively discussions take place between the Directors and Outside Directors. For this reason, I believe that the effectiveness of the Board of Directors is largely secured.

On the other hand, I feel there has not been enough discussion on medium-to long-term corporate strategies for the realization of the corporate philosophy, “Contribution to dentistry through innovative business activities.” I believe that conducting more in-depth discussion on these issues will further enhance the effectiveness of the Board of Directors.

The Nomination and Compensation Council consists of two Representative Directors and three Independent Outside Directors, with the chair of the Council elected from among the Independent Outside Directors. This is to enhance the fairness, transparency, and objectivity of the processes of nominating Directors and determining their compensation. As exchanges of opinions among the Council members are conducted with open

frankness, I believe that the effectiveness of the Nomination and Compensation Council has been well maintained.

In fiscal 2021, the Council was asked to deliberate on the change of the President. After full deliberation based on the clause regarding the election of the Chief Executive Officer published in the Corporate Governance Guidelines, the Council delivered its response to the Board of Directors that Director Takami was the right person for the position.

The major role of the Outside Directors related to governance is, I believe, to exercise a supervisory function over management in general and an advisory function that will contribute to sustainable growth and the medium- to long-term enhancement of corporate value.

To achieve the targets of 50 billion yen in consolidated net sales and 7.5 billion yen in consolidated operating income set in the medium-to long-term basic policy, I will continue to ask the management team to work to eliminate management risks and enhance capital efficiency.

I will strive to provide advice with an awareness of social responsibility from broad perspectives.

Shofu is a manufacturer of dental materials that celebrated its 100th anniversary in 2022. Born in Kyoto with a corporate philosophy of “Contribution to dentistry through innovative business activities” as its code of conduct, Shofu has been nurtured into the large company that it is today by the culture of Kyoto. Its employees are polite and kind, and the value placed on harmony and cooperation are distinctive features of Shofu’s corporate culture.

As a company that aims to be an R&D-oriented enterprise in the field of dentistry, it is quite natural that safety is its most important requirement. It is likely for this reason that it needs to engage in its daily operations with care and caution. It seems to me that all Shofu’s employees have an ingrained disposition of valuing harmony and avoiding confrontation.

When I became an Outside Director, I had a strong image of Shofu as an overly cautious company. Since then, however, the Company has worked hard on the penetration of its management philosophy as its top priority, with the goals of implementing management reforms and realizing its “50-billion-yen vision.” As a

result, awareness among employees has changed in line with the enhancement of business performance, and as such, the Company itself is undergoing a major transformation. As well as their kindness, I sense a resoluteness in Shofu’s employees, and I feel that, in a good way, they are gradually transforming into what I would call a fighting group. I believe that if we have employees who possess the fighting spirit to overcome challenges, no matter how difficult they may be, they will make the Company even stronger.

These days, we often hear the word “stakeholder.” It refers to concerned parties who have either a direct or indirect interest in the management of the company. This word is used in a broad sense, encompassing shareholders, creditors, customers (business partners), suppliers, and employees, as well as local communities.

It is only natural that a company should aim to pursue profit. In the future, however, there will be even greater demand for companies to fulfill their social duties on a global scale. As an Outside Director, I will strive to provide advice that is conscious of that social responsibility from broad perspectives.



Kenji Nishida

Outside Director

I will help to promote sustainability management with a focus on my monitoring function.



Daizo Nishimura

Outside Director

Shofu has become a company with a 100-year history. From our long history of contributing to dentistry around the world with its tireless challenges and efforts, we believe that our business activities that are consistent with our corporate philosophy, which is itself rooted in the Company’s founding spirit, are major initiatives for sustainability in themselves, and that sustainable management will lead directly to the enhancement of Shofu’s corporate value.

In June of this year, when we started our journey toward the next 100 years, we looked back on the past 100 years and formulated the Basic Policy on Sustainability. The intentions of this policy are to address today’s social issues squarely and to not be left behind by the world’s progress, as a corporation that contributes to the creation of truth, goodness, and beauty in a future brimming with smiles. The Basic Policy incorporates our corporate culture of treating people with respect.

Shofu’s code of conduct, which has been refined over many years, includes expressions such as “procurement activity based on corporate ethics,” “equal and fair business relationships,” “human dignity,” and “respect for the diverse values of individuals.” In all of these, one can find

the essence of the spiritual culture of the common people that came into being in premodern Kyoto, such as “the way of the merchant” preached by Baigan Ishida and Jinsai Ito’s teachings of the “compassion of the common people,” which are connected to the concept of diversity. Shofu’s leadership style based on maintaining the group ethos has been nurtured in such organizational culture and has supported its leadership based on command and control. It is with these styles of leadership that Shofu has demonstrated its strength of promoting the PDCA cycle as a united force. The new Basic Policy and material issues are our declarations that Shofu will further strengthen and refine that “foundation of human organization.”

The three Outside directors, including myself, are Independent Outside Directors, and as such, we will fulfill our role of promoting sustainability management, with our primary focus on our monitoring functions. As some of the material issues are difficult to set KPIs for and to evaluate outcomes, we will put our best efforts into the solution of issues by bringing together the full power of internal and external knowledge through advisory functions.

Officers

(As of June 24, 2022) *Number of shares held by Directors and Auditors is as of April 30, 2022.

Directors



Representative Director
Chairman & CEO

Noriyuki Negoro

(Date of birth: March 9, 1956)

Number of shares held: 80,583 shares
[Attendance]
Board of Directors meetings:
18/18 (100%)



President
Chief Operating Officer

Tetsuo Takami

(Date of birth: June 22, 1960)

Number of shares held: 18,577 shares
[Attendance]
Board of Directors meetings:
18/18 (100%)



Representative Director
Executive Vice President
Assistant to President,
General Affairs and Nail Business

Wataru Fujishima

(Date of birth: August 26, 1954)

Number of shares held: 47,574 shares
[Attendance]
Board of Directors meetings: 18/18 (100%)



Director
Senior Managing Executive Officer
Production and Corporate Planning

Fumitaka Yamazaki

(Date of birth: May 27, 1961)

Number of shares held: 30,000 shares
[Attendance]
Board of Directors meetings:
18/18 (100%)



Director
Senior Managing Executive Officer
Sales and International

Kazuhiko Murakami

(Date of birth: April 26, 1958)

Number of shares held: 29,833 shares
[Attendance]
Board of Directors meetings:
18/18 (100%)



Outside Director

Kiichi Suzuki

(Date of birth: May 23, 1949)

Number of shares held: 15,315 shares
[Attendance]
Board of Directors meetings:
18/18 (100%)



Outside Director

Kenji Nishida

(Date of birth: May 5, 1947)

Number of shares held: 23,729 shares
[Attendance]
Board of Directors meetings:
18/18 (100%)



Outside Director

Daizo Nishimura

(Date of birth: May 5, 1959)

Number of shares held: 1,153 shares
[Attendance]
Board of Directors meetings:
18/18 (100%)



Outside Director

Hiromi Hayashida

(Date of birth: April 2, 1964)

Number of shares held: 0 shares

Auditors



Auditor

Akira Kawashima

(Date of birth: November 4, 1956)

Number of shares held: 4,553 shares
[Attendance]
Board of Directors meetings:
18/18 (100%)
Audit & Supervisory Board meetings:
15/15 (100%)



Auditor

Shigeyuki Komatsu

(Date of birth: May 31, 1958)

Number of shares held:
10,466 shares



Outside Auditor

Yasushi Sakemi

(Date of birth: December 24, 1958)

Number of shares held: 29,271 shares
[Attendance]
Board of Directors meetings:
18/18 (100%)
Audit & Supervisory Board meetings:
15/15 (100%)



Outside Auditor

Mitsuo Kamimoto

(Date of birth: May 21, 1947)

Number of shares held: 2,689 shares
[Attendance]
Board of Directors meetings:
18/18 (100%)
Audit & Supervisory Board meetings:
15/15 (100%)

Executive Officers (excluding those who also serve as Directors)

Executive Vice President

Takashi Chikamochi

Senior Managing Executive Officer

Takahiro Umeda

Managing Executive Officer

Shinya Teramoto

Senior Executive Officer

Yoshikazu Nakajima

Executive Officers

Toshinori Sakurai

Junichi Sugawara

Toshiyuki Nakatsuka

Syuji Sono

Takashi Wakayama

Hiroyoshi Miyake

Ryuichi Yoshimoto

Skills Matrix of Directors

		Knowledge and experience particularly expected for each director					
		Corporate Management	Production, Technology, and R&D	Sales and Marketing	Finance, Accounting, and Human Resources	Governance, Compliance, and Risk Management	Qualifications, Etc.
Directors	Noriyuki Negoro	●	●	●		●	
	Tetsuo Takami	●		●			
	Wataru Fujishima	●			●	●	
	Fumitaka Yamazaki	●	●		●		
	Kazuhiko Murakami	●		●			
Outside Directors	Kiichi Suzuki	●	●			●	● Experienced manager of a listed company
	Kenji Nishida				●	●	● Certified public accountant ● Tax accountant
	Daizo Nishimura				●	●	● Certified public accountant ● Tax accountant
	Hiromi Hayashida	●	●	●			

*The above table does not show all of the skills held by each director.

*Activities as a director are not limited to the items marked ●.

Corporate Governance

Basic policies

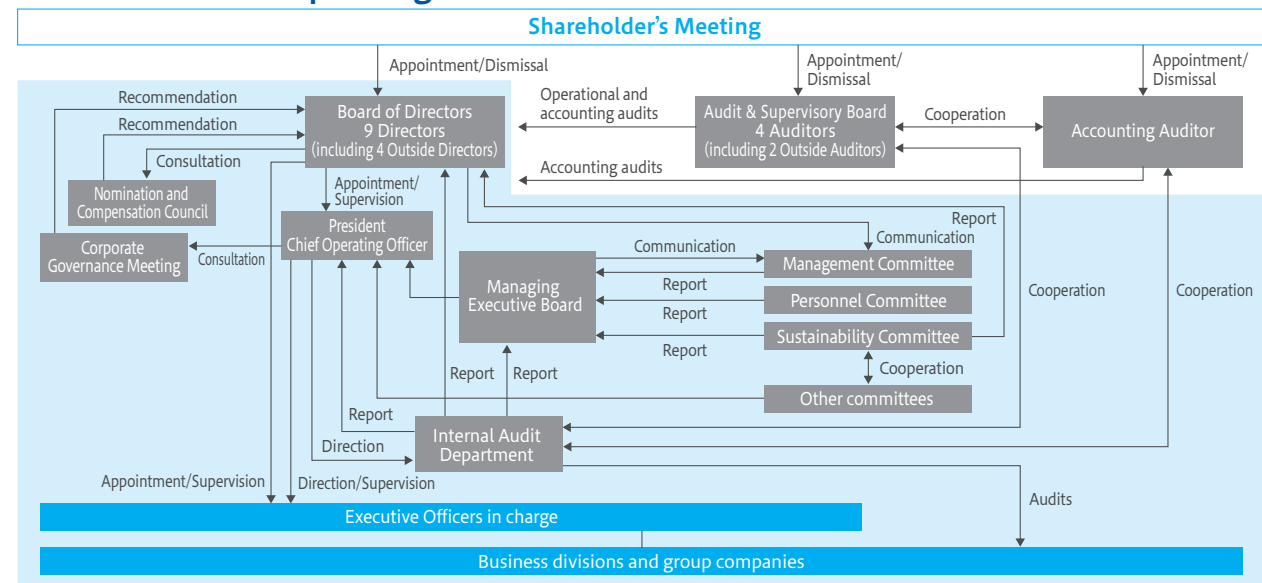
Shofu conducts business activities in fields of a highly public nature under its corporate philosophy, “Contribution to dentistry through innovative business activities.” To sustainably conduct such business activities, it is essential for us to fulfill our social responsibility. Shofu also believes that it must maintain medium- to long-term sustainable growth through enhancement of corporate governance to fulfill its social responsibility. Accordingly, we aim to enhance corporate governance in accordance with the following basic policies.

1. We respect and effectively secure shareholders' rights.
2. We consider the interest of stakeholders including employees, customers, business partners, creditors, and local communities and appropriately cooperate with them.
3. We proactively disclose the Company's information.
4. The Board of Directors appropriately fulfills required roles and responsibilities to ensure fiduciary responsibility and accountability to shareholders.
5. We hold constructive discussions with shareholders.

[Corporate governance structure]

Institutional design	Company with an audit & supervisory board
Number of Directors (of which the number of Outside Directors)	9 persons (4 persons)
Term of office of Directors	1 year
Number of Auditors (of which the number of Outside Auditors)	4 persons (2 persons)
Number of Independent Officers	5 persons
Introduction of an executive officer system	Yes
Accounting Auditor	Ernst & Young ShinNihon LLC.

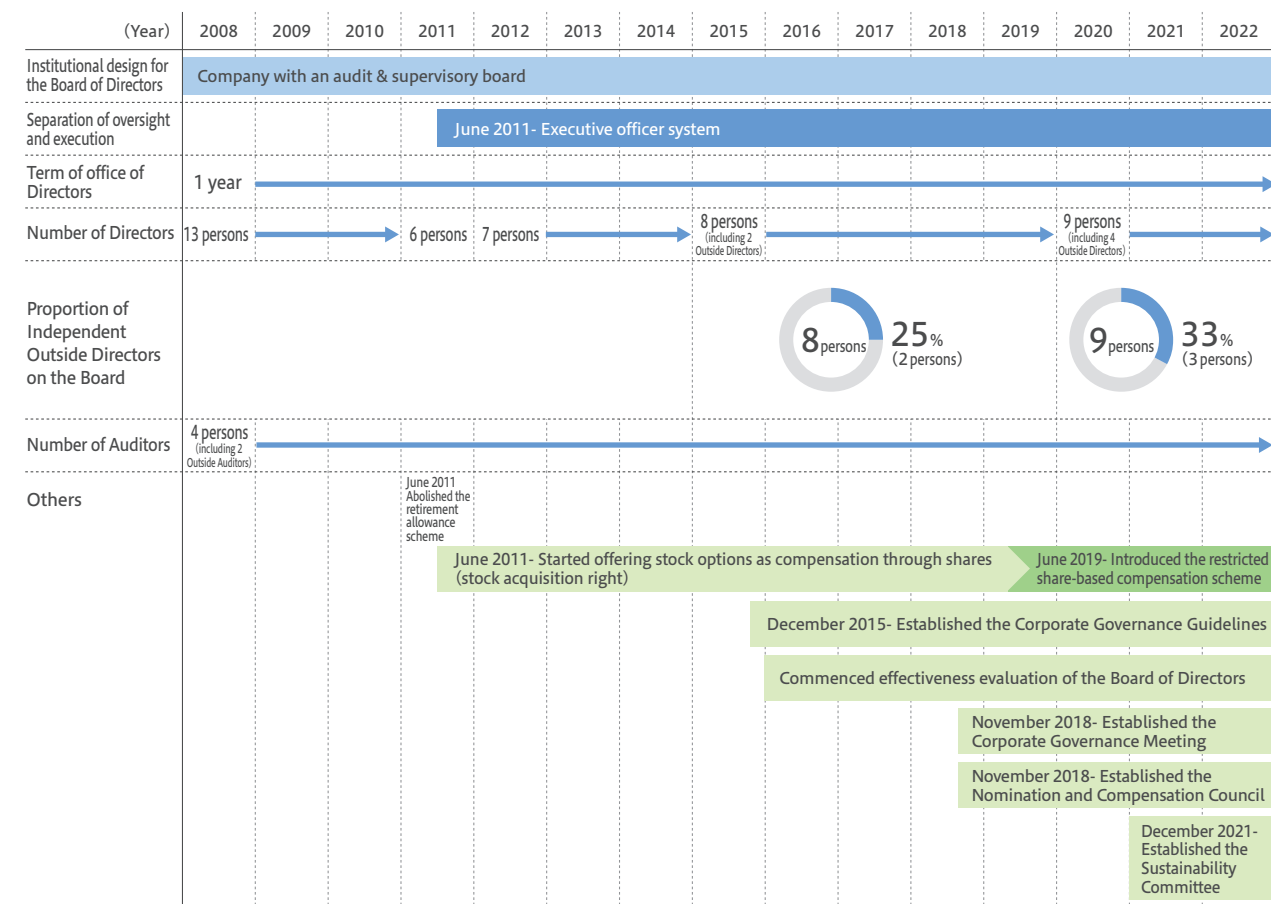
Overview of the corporate governance structure



[Composition and overview of the Board of Directors and major committees]

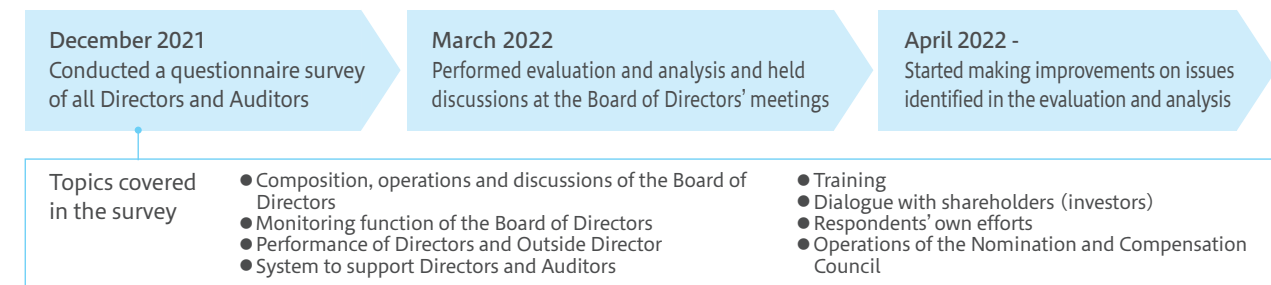
Name	Overview	Number of meetings held in FY2022/3
Board of Directors	Determines important matters stipulated in the Companies Act, formulates management and annual plans, and supervises the execution of duties of the Representative Director and Directors.	18
Nomination and Compensation Council	As requested by the President, discusses matters such as appointment and dismissal of Directors, the Representative Director, and Directors with titles; compensation of Directors; and succession planning (including human resource development) and then provides the Board of Directors with recommendations so as to strengthen fairness, transparency, and objectivity of the procedure of nomination of Directors and determination of their compensation, etc.	3
Corporate Governance Meeting	As requested by the President, discusses corporate strategies and business plans to achieve sustainable growth and medium- to long-term improvement of corporate value, and provides the Board of Directors with recommendations.	3
Managing Executive Board	Examines and determines matters of particular importance such as matters to be discussed at the Board of Directors' meetings, matters delegated from the Board of Directors, and other strategic matters related to corporate management.	50
Management Committee	Communicates proposals resolved at the meetings of the Board of Directors and the Managing Executive Board. In addition, it conducts prior consultation among divisions, offers opinions about important matters, and exchanges opinion among members.	12
Personnel Committee	Serves as the deliberative and consultative body for the entire personnel affairs policy, including the personnel system, personnel development, and personnel utilization.	12
Sustainability Committee	Deliberates such matters as the formulation of basic policy, strategies and plans regarding sustainability or the setting of indices to be targeted, as well as monitor the progress in these efforts.	1

Changes in the corporate governance structure



Evaluation of effectiveness of the Board of Directors

The Company evaluates and analyzes the effectiveness of the Board of Directors with the aim of improving the function of its Board of Directors.



For the fiscal year under review, we conducted a questionnaire survey in December 2021 targeting all Directors and Auditors. To ensure objectivity, we appointed an external organization to conduct this survey and its analysis. Based on the aggregated results, the Board of Directors performed an evaluation at its meeting in March 2022. Survey results showed positive responses on such items as the operations of the Board of Directors and discussions and exchanges of opinions at the Board of Directors. Judging also by the results of the survey analysis, the Board of Directors of the Company was evaluated to be largely effective.

Meanwhile, there were voices calling for an improvement in the discussions on corporate strategies and business plans. Such

challenges concerning effectiveness are shared at the meetings of the Board of Directors. In the previous effectiveness survey, discussions on medium- to long-term corporate strategies were identified as a challenge. In response, we have established the Sustainability Committee chaired by the Chief Executive Officer in order to bring in the viewpoint of ESG and give more substance to the discussions on medium- to long-term corporate strategies. We will reflect the inputs from the Committee in the corporate strategy discussions and make improvements on the challenges that emerged from this year's analysis and evaluation, and thereby work to improve the functions of the Board of Directors.

Reasons for appointment of Outside Directors and their activities

Position	Independent officer	Name	Reasons for appointment and activities
Outside Directors	○	Kiichi Suzuki	He served as Senior Managing Director at Mitsui Chemicals, Inc. and has a wealth of experience and insights as a corporate manager. He has appropriately supervised the Company's management by providing advice based on his experience and insights. In addition, he attended the Nomination and Compensation Council and the Corporate Governance Meeting as a member and actively provided opinions.
	○	Kenji Nishida	He has extensive experience in finance and accounting as a certified public accountant and a tax accountant and has sufficient knowledge to govern corporate management. He has appropriately supervised the Company's management by providing advice based on his experience and insights. In addition, he attended the Nomination and Compensation Council and the Corporate Governance Meeting as a member and actively provided opinions.
	○	Daizo Nishimura	He has extensive experience in finance and accounting as a certified public accountant and a tax accountant and has sufficient knowledge to govern corporate management. He has appropriately supervised the Company's management by providing advice based on his experience and insights. In addition, he attended the Nomination and Compensation Council and the Corporate Governance Meeting as a member and actively provided opinions.
	—	Hiromi Hayashida	He has a deep insight into the healthcare field mainly in dentistry as an executing person of Mitsui Chemicals, Inc., which is an important business alliance partner of the Company.
Outside Auditors	○	Yasushi Sakemi	He has extensive experience in corporate legal affairs including the Companies Act as an attorney-at-law and has sufficient knowledge to govern corporate management. He has provided opinions to ensure the legality and appropriateness of the Board of Directors' decision-making from an objective standpoint. At the meetings of the Audit & Supervisory Board, he has been engaged in opinion exchange on audit results and discussions of important matters on audits.
	○	Mitsuo Kamimoto	He has extensive experience in finance and accounting as a certified public accountant and a tax accountant and has sufficient knowledge to govern corporate management. He has provided opinions to ensure the legality and appropriateness of the Board of Directors' decision-making from an objective standpoint. At the meetings of the Audit & Supervisory Board, he has been engaged in opinion exchange on audit results and discussions of important matters on audits.

Audits by Auditors

The Audit & Supervisory Board holds monthly meetings and extraordinary meetings as required, where it receives reports on important matters of audit, discusses the matters or makes a resolution, and exchanges opinions. In addition, we hold meetings of the Group's Auditors meetings consisting of the group companies' Auditors twice a year or more to ensure appropriate group management and enhance the audit function by encouraging cooperation among Auditors. Full-time Auditors attend weekly meetings of the Managing Executive Board, which is the advisory body of the Board of Directors. At the meetings, they evaluate the validity of the matters to be discussed as

part of audit and exchange opinions as required.

Auditors receive explanation of audit plans and audit results from the Accounting Auditor. They work to ensure and maintain the appropriateness of financial statements and internal control through activities to understand how accounting audits are conducted in cooperation with the Accounting Auditor. Specifically, Auditors attend each interim audit, term-end audit, and field inventory audit. In addition, Auditors receive an explanation of audit plans and audit results from the Internal Audit Department as needed to exchange audit information and enhance the function of the audits by Auditors.

Compensation of officers

The total amount of compensation of Directors and Auditors is determined within the amount resolved at the shareholder's meeting. The amount of each Director's compensation is determined by the Representative Director, Chairman (or the President, if the office of the Chairman is vacant) who is

authorized by the Board of Directors after consultation with the Nomination and Compensation Council consisting of Representative Directors and Independent Outside Directors. The amount of each Auditor's compensation is determined by deliberation among the Auditors.

Officer category	Details	
Directors (excluding Outside Directors)	< Basic policy > The compensation system shall sufficiently function as incentives for sustainable improvement of corporate value and be linked to shareholders' interests. The amount of each Director's compensation shall be at an appropriate level based on capabilities and responsibilities required of the Company's officers, their duties to improve future corporate value, and other matters.	
	(1) Basic compensation	Shall be monthly fixed compensation and determined depending on the position and responsibility, with comprehensive consideration for the levels of other companies according to surveys by external research firms, the Company's business performance, and the level of employees' salaries, and finalized after consulting the Nomination and Compensation Council.
	(2) Performance-based compensation, etc.	Shall be cash compensation, which reflects key performance indicators (KPIs) to raise Directors' motivation towards improvement of the Group's corporate value and business performance of each fiscal year. Performance-based compensation shall be paid as a bonus at a certain time each year in an amount calculated according to the degree of achievement of the targets for consolidated net sales and consolidated operating income for each fiscal year. The target KPIs and their values are set when formulating the medium-term management plan so as to be in line with the plan, and reviewed as needed in response to changes in the environment after consulting the Nomination and Compensation Council.
	(3) Non-monetary compensation, etc.	To provide Directors with incentives for sustainable improvement of the Company's corporate value and for the further sharing of value with shareholders through compensation linked with shareholders' interests, the Company's common shares that are subject to a certain period during which the transfer is restricted are allotted at a certain time each year. As a basic policy, the amount of restricted share-based compensation is determined based on capabilities and responsibilities required of the Company's officers, their duties to improve future corporate value, and other matters. The number of allotted shares are determined by position within the amount resolved at the shareholder's meeting.
Outside Directors	Fixed compensation	Only fixed compensation shall be paid considering their responsibilities of supervising management and providing advice from a standpoint independent of business execution.
Auditors	Fixed compensation	From the perspective of valuing independence from and objectivity on management, compensation shall consist only of fixed compensation. The level of compensation is set referring to the levels of other companies learned from the surveys of external specialist institutions, and the amount is determined according to their roles.

* The total amount of compensation including bonuses of Directors was resolved to be up to 300 million yen per annum (of which up to 30 million yen per annum for Outside Directors) at the 143rd Shareholders' Meeting held on June 25, 2015. The total amount of compensation for Auditors were resolved to be up to 50 million yen per annum at the 126th Shareholders' Meeting held on June 26, 1998.
* Separate from the aforementioned total amount of compensation for Directors, it was resolved at the 147th Shareholders' Meeting held on June 26, 2019, that restricted share-based compensation shall be allotted in the amount up to 50 million yen per annum to the Company's Directors.

[Status in FY2021]

Officer category	Total amount of compensation (Millions of yen)	Total amount by type of compensation (Millions of yen)			Number of eligible officers
		Monetary compensation		Non-monetary compensation	
		Fixed compensation	Performance-based compensation	Restricted share-based compensation	
Directors (excluding Outside Directors)	204	133	50	20	5
Auditors (excluding Outside Auditors)	36	36	—	—	2
Outside officers	39	39	—	—	6

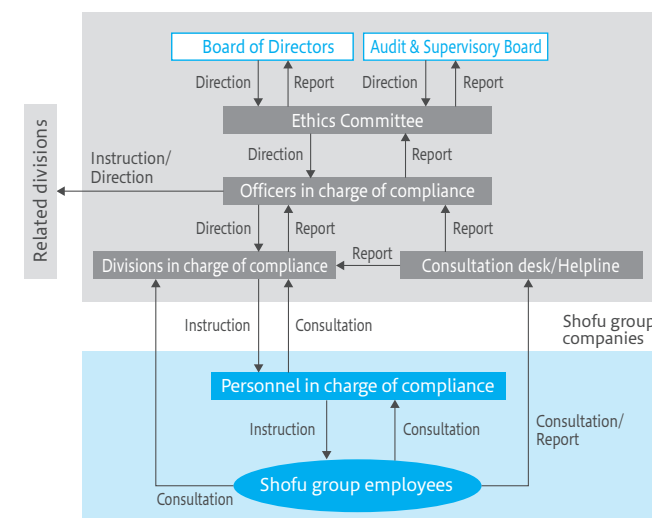
* The amount of restricted share-based compensation represents the amount of expenses reported in the current fiscal year.

Compliance

Compliance promotion system

For all of the Company's business activities, we promote compliance-oriented management on the basis of ensuring corporate ethics and complying with laws and regulations.

The Company established the Ethics Committee chaired by the Chief Executive Officer to deliberate and determine measures to ensure compliance so that we can increase the effectiveness of compliance of the Group.



Shofu Group code of conduct

We stipulate the Group code of conduct as the guideline for each employee to comply with laws and regulations as well as internal rules and behave in accordance with common ethical values.

The Shofu Group code of conduct defines the standards and behavior to be complied with in various aspects of business activities base on the corporate philosophy. The code of conduct is provided not only in Japanese but also in English, German, and Chinese. In accordance with it, all of the employees of the Group perform daily work to promote compliance.



Whistle-blowing system

In addition to measures to prevent violations of laws and regulations and fraud in the Group, we have a whistle-blowing system to identify risks early and address issues promptly. In addition, we prohibit any disadvantageous treatment of whistleblowers and strictly

manage information so that whistleblowers are not identified. In parallel with the preparation for the entering into force of the Whistleblower Protection Act in June 2022, we reviewed the way the whistleblower contact points work and the modes of contact, among others.

Provision of fair and equitable opportunities and selection of business partners

Our business activities are supported by trusted relationships with various business partners. Shofu provides fair and equitable opportunities for competition to build trusted relationships with business partners. We evaluate

and select our business partners fairly by thoroughly considering factors such as quality, prices, supply capacity, delivery times, social credibility, and environmental considerations.

Guidelines on transparency of relationships with medical institutions

To fulfill the role as part of the medical equipment industry, the Company conducts its business in cooperation with academia, hospitals, dentists, as well as medical institutions and institutions that provide medical services and conduct research, development, and clinical trials.

Such cooperation is essential to conduct our business. To obtain trust from society, we need to ensure transparency of relationships with medical institutions.

We stipulate our guidelines on transparency of

relationships with medical institutions based on the “Transparency Guidelines for the Medical Device Industry and its Relationships with Medical Institutions and Other Organizations” of The Japan Federation of Medical Devices Associations, to which we belong. With the guidelines, we aim to be a company trusted by society by increasing transparency of relationships with medical institutions. The information on relationships with medical institutions is published on the Company’s website every fiscal year.

Group governance

The role of Group companies in the Group is growing larger and larger every year. Major issues are how Group companies can contribute to the enhancement of corporate value of the entire Group, and at the same time, how to control the various risks that could materialize in the Group companies. We are therefore proceeding with the development of structures for tackling these issues.

Internal control

Shofu has complied with the Companies Act and the Financial Instruments and Exchange Act, etc. In addition, we have stipulated basic policies on our internal control system, taken measures for internal control evaluation on financial reporting, and made other efforts to enhance the optimum internal control system of the Company and the Group.

Internal audits

The Internal Audit Department in charge of internal audits conducts audits under the direction of the Chief Executive Officer by working with the Audit & Supervisory Board and the Accounting Auditor according to the internal audit plan. Specifically, the department conducts audits on the appropriateness of composition and operation of the Group's internal control system, effectiveness and efficiency of the business operations of the Group, reliability of financial reporting, state of asset protection and effective use, state of

In fiscal 2021, in the wake of the financial fraud incident suffered by our U.S. subsidiary in the preceding fiscal year, we reviewed the procedures for remittance and approval at our Group companies as well as improved various rules and regulations, reviewed the roles and functions of the Board of Directors, and strengthened the system of checks by the Auditors and the Internal Audit Department, among others.

Through the internal control evaluation on financial reporting, we concluded that there were no significant deficiencies to report and the internal control was effective. We issued an internal control report as such and received a report that our report was appropriate from the audit firm.

risk management, and state of compliance with laws, regulations, and internal rules. We have been working to enhance the audit function in collaboration with the Auditors and the Accounting Auditor by reporting the results of internal audits and discussing them as needed. With effect from December 2021, however, we have shifted to a system in which the Internal Audit Department reports the results of internal audit of internal control under the Companies Act and other matters to the Board of Directors.

As criteria for the above, we have set down the Basic Policy Regarding Cross-holding of Listed Shares and the Basic Policy Regarding Exercise of Voting Rights of Cross-held Shares, which are disclosed as part of our Corporate Governance Guidelines. Our most recent review of cross-shareholding took place at the meeting of the Board of Directors held on June 8, 2022, where the performance of cross-held shares as of March 31, 2022, was reported and rationality of shareholdings was examined.

minimize damage in case of an emergency, such as conducting drills in preparation for earthquakes, fire, and other disasters, stockpiling necessity supplies, implementing various responses and measures against infection prevention under the pandemic, and complying with laws and regulations concerning factory operations.

In the year ended March 31, 2022, as part of the information security measures, we conducted information security training and targeted email attack drills for all Shofu Group officers and employees both in Japan and overseas (execution rate: 100%).

Risk Management

In its effort to prevent and minimize risks, the Group has put in place rules and guidelines for compliance, quality, the environment, disasters, information security, credit, and other issues, in addition to offering training themed on compliance, information security and other topics. The Internal Audit Department conducts internal audits, the results of which are reported to the Chief Executive Officer. We are also working to spot risks and reviewing the measures for dealing with risks, based on which we are improving our work systems on an ongoing basis.

We are also making efforts to reduce risks so as to

Environment

As a manufacturer that contributes to people’s health, Shofu has established its basic philosophy and environmental policy to harmonize with the global environment and fulfill its social responsibility toward

the environment. We promote environmental conservation activities in all our business activities based on this policy, from development to production and sales.

<Basic Philosophy>

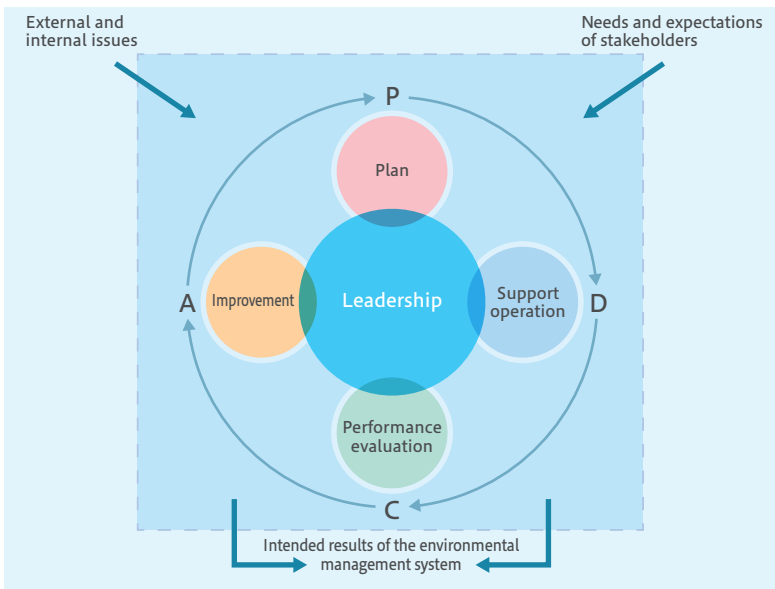
As a company that contributes to dentistry worldwide, Shofu will strive to reduce the environmental impact of its business activities.

<Environmental Policy>

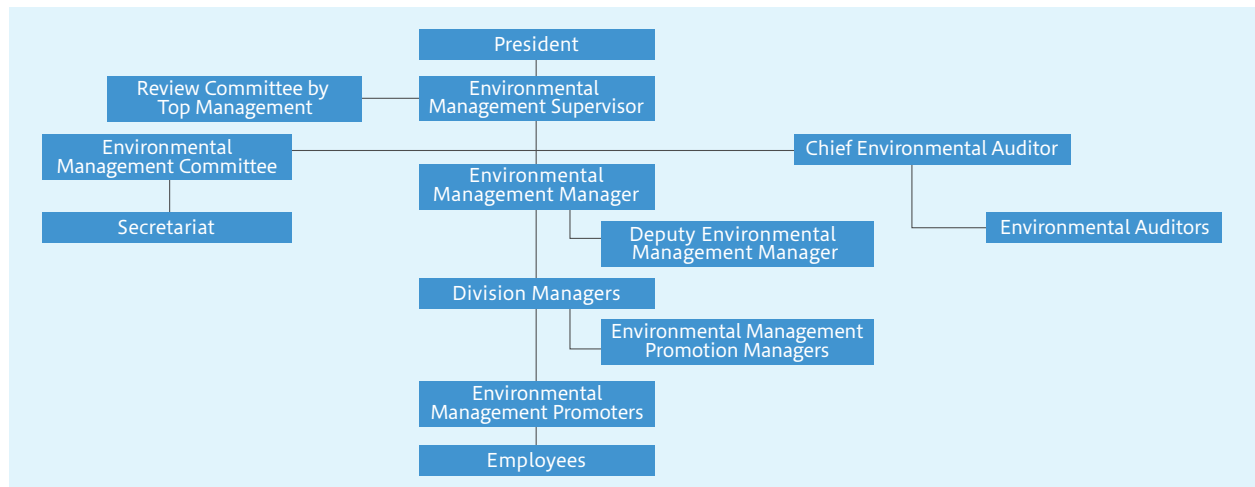
1. Set environmental targets and systematically implement initiatives that contribute to reducing environmental impact and achieving management plans.
2. Comply with environmental laws and regulations and other requirements to which Shofu agrees.
3. Strive to prevent environmental pollution throughout the entire life cycle of our products and services.
4. Continue to improve our environmental management system to enhance our environmental performance.

Environmental management system

Shofu is headed by the President, the Chief Executive Officer, and the Officer in charge of general affairs serves as the Environmental Management Supervisor. The Environmental Management Committee deliberates and decides on environmental policies, targets, and implementation plans, and manages the promotion of environmental management. To achieve our environmental targets, each division has set its targets and specific measures. After verifying the status of its activities through internal environmental audits, the results are reported to the Review Committee by Top Management, where appropriate revisions are made. In this way, we are working on continuous activities to reduce environmental impact through a PDCA cycle.

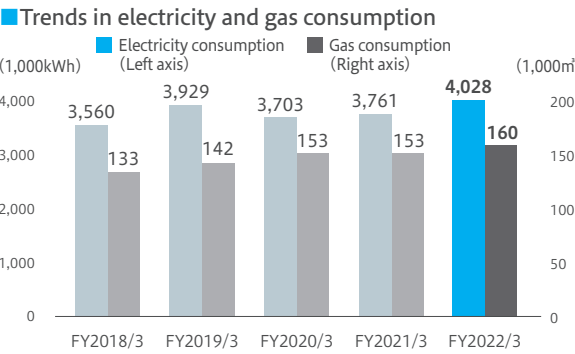


■Environmental management system chart



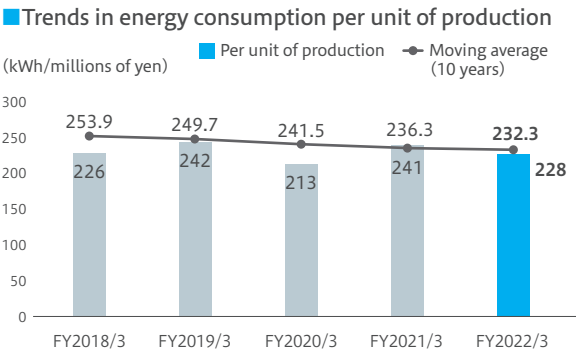
Efforts to reduce CO₂ emissions

Shofu is working to reduce CO₂ emissions to prevent global warming. In manufacturing processes that consume large amounts of energy, we are promoting initiatives to improve energy efficiency by replacing facilities with those that contribute to energy conservation and performing an efficient operation. In terms of the office sector, we are working to optimize lighting fixtures’ use and adjust the temperature settings for air conditioning. In addition, we are currently promoting the use of LED lighting fixtures in factories



and offices as a company-wide effort to reduce CO₂ emissions. We have also installed a solar power generation system on the rooftop of our headquarters and training center to provide part of the electricity for our offices to reduce environmental impact.

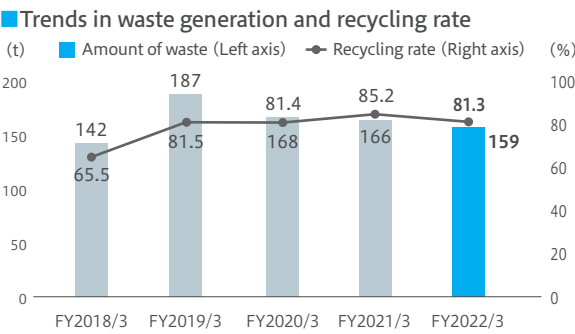
In recent years, our consumption of electricity and gas has been on the rise. However, it has been affected mainly by the expansion of our business activities. As a result, our energy consumption per unit of production has remained flat.



Waste reduction and appropriate disposal

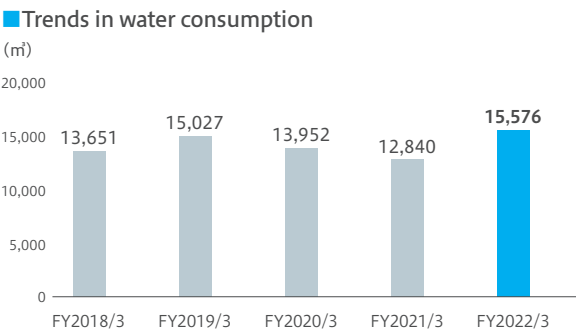
Shofu is committed to reducing and reusing waste generated by our business activities to reduce the consumption of resources and the generation of waste, thereby reducing the burden on the global environment.

When consigning industrial waste disposal, we carefully check the permission status of contractors and promote recycling of waste through consignment contracts with appropriate disposal companies.



Proper management of water

Shofu is working to reduce water consumption by saving water and to ensure the quality of wastewater through proper management. We have established an in-house dedicated storage facility for waste liquids containing substances that significantly impact the environment. These are then outsourced to waste management companies for proper disposal. In addition, to properly manage the quality of industrial wastewater, we have established and are operating voluntary standards that exceed the regulations for pH values stipulated by laws and ordinances.



Development of environmentally friendly products

Shofu is working to develop environmentally friendly products by reducing waste from product use and CO₂ emissions from manufacturing processes to harmonize with the global environment.

An example of an environmentally friendly product we developed is a packaging container for artificial teeth. It is wax-free and uses less plastic. This development has made it easier to reduce waste and separate waste disposal after use than conventional wax plates.

We are also working to reduce waste generation at dental clinics and laboratories by changing packaging materials from plastic to paper, using collapsible and disposable containers, and simplifying packaging materials.



Society

Network with dental professionals

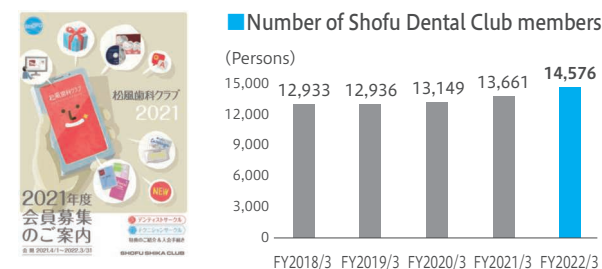
Shofu Dental Club, a platform for exchange between the Company and dental professionals

Shofu has established the Shofu Dental Club with the aim of strengthening the relationship between dental professionals who use our products and our company, and promptly communicating information to each other and improving the quality of dental equipment and materials based on this cooperation, thereby contributing to the improvement and development of dental care.

We run the Dentist Circle for dentists and the

Technician Circle for dental technicians. We hold online seminars in which the members can participate nationwide, and provide products and books useful for clinical practice to build good relationships with dental professionals.

As of March 31, 2022, there were 14,576 members (including 11,355 dentists and 3,221 dental technicians), a 6.7% increase from the previous year.



Training support for partner companies

To contribute to the development of dental care, we need to build relationships of trust with our partner companies to create value together. To help young employees of our partner companies learn about dentistry, Shofu holds study sessions throughout Japan on basic knowledge of dental materials, trends in dentistry, and how to use our products.

We aim to deepen the employees' knowledge of product information and medical technology information through this training support, build mutual trust with our partner companies, and grow and develop together.



Activities to promote technology

We collect academic and technological information at our bases in Japan and abroad through daily contact with universities, research institutes, and medical institutions, and as part of our efforts to promote technology, we also hold seminars and courses targeting dental professionals which are open to participants from outside the Company. For over 40 years, the courses have been offered in small groups and with focus on hands-on trainings and attended by many participants who found them helpful in clinical use. Our training center in Kyoto, standing in harmony with the landscape of Higashiyama, houses a treatment training room and a technique training room that are fully equipped for practical trainings. Our sales offices across Japan are also complete with training facilities. Through these facilities and the training center, we disseminate product information and updates on dental care, dental technique, and preventive hygiene. In the past few years, to avoid Three Cs (closed spaces, crowded places, and close-contact settings) under COVID-19 pandemic, we have been actively offering online seminars and other services as a new mode of contact with our customers.

Oral care awareness activities

Haiku, a dental education website for parents and children

In fiscal 2011, Shofu established *Haiku*, a dental education website for children who will lead the future and their families to help them learn about teeth.

Haiku provides a variety of information on dental care and oral health management, such as “Web Picture Books on Teeth” for parents and children to learn together, “Parents Guide,” which introduces the key points of reading and understanding the web picture books, and “Tooth Lessons” on the prevention of dental caries and other topics. Once a year, the website also invites entries of *haiku* (a Japanese poem of seventeen syllables) and *senryu* (humorous or ironical *haiku*) related to teeth. The website receives entries from many people, from elementary school students to the elderly.

Through *Haiku*, we hope that children and the people in Japan will learn the importance of teeth and become interested in oral health.

Haiku, an educational website on teeth : <https://8iku.com/>



Official *Haiku* ambassadors

To commemorate the 10th anniversary of *Haiku*, the dental education website, we invited dental clinics across Japan to become the site's official ambassadors who would work with us to spread the benefits of *Haiku* and help as many people learn about dentistry. As of March 31, 2022, 86 dental clinics have signed up.

The official *Haiku* ambassadors are playing their part in communicating dental knowledge to the public by displaying picture books, guidebooks, and other materials at their clinics.



Dialogue with shareholders and investors

Basic approach

Shofu believes that IR activities are among the most important activities for sustainable growth and medium- to long-term corporate value enhancement.

We strive to improve our management's transparency by appropriately disclosing information and promptly sharing

within the Company evaluations and requests obtained through dialogue with shareholders and investors. We also believe that our important mission is to communicate the importance of dental care to individual shareholders and investors through dialogue.

Outline of activities

Dialogue with shareholders

- Holding an annual general meeting of shareholders, allowing shareholders to exercise voting rights in writing and via the Internet, and conducting a shareholder survey

Dialogue with institutional investors and analysts

- Holding financial results briefings and IR meetings

Dialogue with individual investors

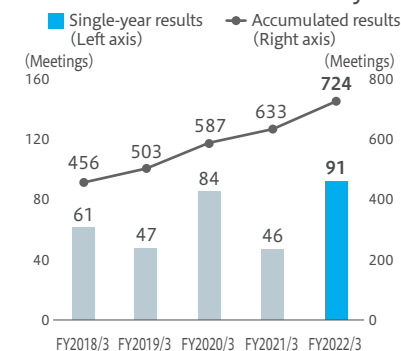
- Holding a company information session and participating in an IR fair

Dialogue with foreign investors

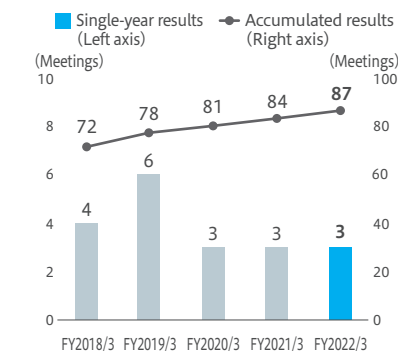
- Promoting translation of various IR materials into English, such as those for IR meetings, financial results reports, and financial results briefings

Activity results

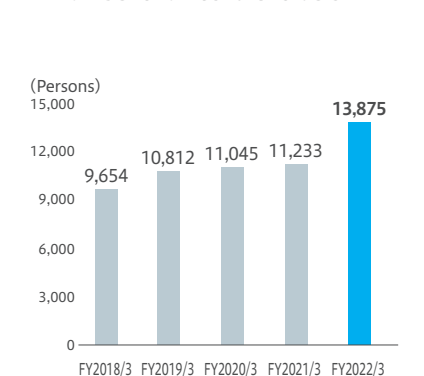
■ Number of IR meetings with institutional investors and analysts



■ Number of company information sessions for individual investors



■ Number of unit shareholders



Society

Human resource development

Shofu's education and guidance policy is to develop creative, proactive, and responsible employees capable of responding to changes. We prepare education and training for employees to acquire knowledge and skills and develop their qualities as members of an organization according to their growth. Our goal is to develop human resources who can anticipate changes in the business environment, think about what needs to be done to achieve organizational goals, and have the strong will to take on challenges rather than simply perform assigned tasks proactively.



■ Training by job level

Target	Training name
Directors	Training for new directors
Employees in a managerial position	Training for promotion to managerial position
Managers	Training for newly appointed managers and follow-up education
Performance appraisers	Training for newly appointed performance appraisers and training for brushing up performance appraisal skills
Assistant managers	Training for newly appointed assistant managers and follow-up education
Assistant managers	Training for newly appointed assistant managers
New graduate hires and mid-career hires	Education for newly hired employees and follow-up training
Prospective employees	Education for prospective employees

■ Selective training

Target	Training name
Those recommended by each division	Training for mid-career employees

■ Support for self-development

Target	Training and support name
All employees (applicants)	Distance learning assistance
All employees (applicants)	Assistance in obtaining qualifications
All employees (applicants)	Online English training

Development of global human resources

To introduce its excellent dental materials and equipment to the world, Shofu is developing key international human resources to respond to global business. We are also continuously providing language education such as English conversation training and TOEIC sessions. We also have a training program to dispatch employees to our overseas subsidiaries. This program aims to develop language skills and business knowledge through practical work at overseas subsidiaries and develop a sense of internationalism and a borderless business sense through understanding different cultures, business practices, and a broad perspective. A total of 93 employees have already participated in this program. Through these efforts, we aim to develop human resources capable of contributing to overseas business development in the future.

■ Training system for development of global human resources

Training name	Target	Purpose and details	Results (cumulative number)
Overseas dispatch training (long-term)	Those recommended by each division	Experience and learn in-depth about business practices and customs at overseas subsidiaries for one to three months.	10 persons
Overseas dispatch training (short-term)	Those who have taken the following global human resources training and wish to participate in overseas dispatch training	Broaden knowledge by studying business practices through visiting overseas subsidiaries and participating in events for about one week.	6 persons
Global human resources training	Selection or application	Deepen cross-cultural understanding, including business practices outside Japan through lectures and exercises.	77 persons

Diverse human resource activities

Women's participation and advancement

As part of our diversity management, Shofu is working to identify and address issues in accordance with the Act on Promotion of Women's Participation and Advancement in the Workplace to utilize women's capabilities and promote their activities. Challenges include the low ratio of women in employment and the low number of women in leadership positions. For each of these issues, Shofu aims to raise the ratio of women in employment to 30% or more on average and continue to provide training for women in managerial positions to encourage them to take up management positions.

In line with the Act on the Promotion of Female Participation and Career Advancement in the Workplace, we have developed two action plans as stated below for a period starting in 2022.



Targets and efforts set down in the action plans

(Plan period: from April 1, 2022 to March 31, 2026)

Target

Raise the proportion of women among those newly hired as employees (excluding part-time workers) during the plan period to at least 30%

Details and period of action

April 2022- Continue external trainings targeting female employees with titles to support their promotion to managerial positions

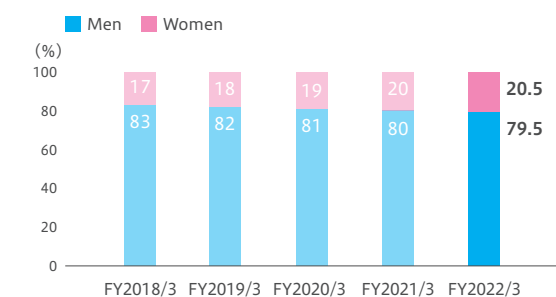
Target

Raise the average number of paid leave days used for all employees during the plan period to at least 12.5 days

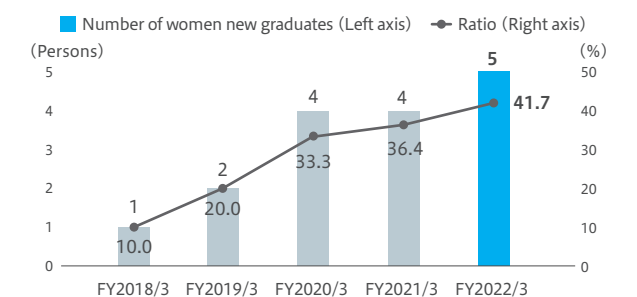
Details and period of action

April 2022- Designate Paid Leave Promotion Month
July 2022- Promote the use of paid leave via in-house newsletter
October 2022- Encourage employees to take long vacation leave through internal bulletin board and other media

■ Employee composition



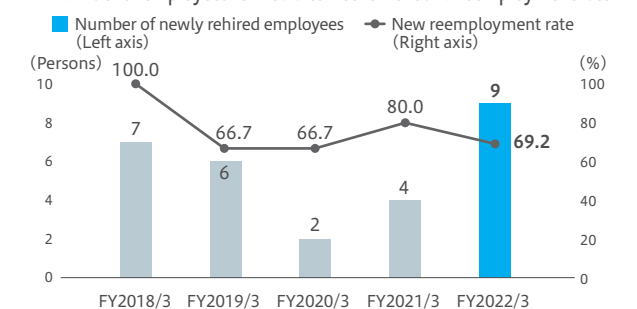
■ Number and ratio of women new graduates



Elderly employees

Amid concerns about a future shortage of workers due to the declining labor force resulting from the declining birthrate and aging population, Shofu believes it is important for companies to create opportunities for elderly employees with abundant experience and diverse skills to work. Following the revision of the Act on Stabilization of Employment of Elderly Persons in 2021, we have established a system that allows elderly personnel with abundant experience and diverse skills to continue working until the age of 68 after reemployment.

■ Number of employees rehired after retirement and reemployment rate



Society

Creating a comfortable work environment

Support system for work and life

Shofu has enhanced its support system for employees' life events, such as childcare, nursing care, and personal injury and illness, by providing leave, holidays, and shorter working hours, each of which exceeds the legal requirements. For example, we pay for part of the child nursing care leave and have raised the child's age eligible for shorter working hours.

In addition, since the duration of nursing care and personal injury and illness cannot be predicted, we have established a leave system that provides up to 365 days of paid leave for continuous nursing care and the first three months of paid leave for personal injury and illness to support subsequent hospital visits. We have also set up a system that allows employees to choose to work shorter hours depending on their level of physical recovery.

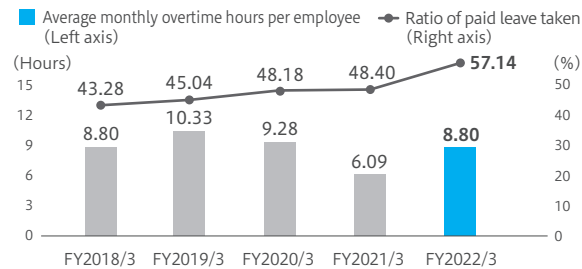
Support system for childcare and nursing care

System	Details
Childcare leave	Five days of childcare leave are paid.
Shortening of working hours for childcare	Employees raising children before elementary school commencement may reduce their working hours to a minimum of six hours. In addition, employees raising children to the end of the third year of elementary school may be exempted from working for a maximum of one hour.
Nursing care leave	Our employees may take nursing care leave for up to a total of 365 days.

Prevention of long working hours

As part of its efforts to improve the working environment, Shofu aims to create a more comfortable working hour system. Since 2016, we have been regularly checking the actual status of working hours through the collaborative efforts of labor and management to examine and implement measures for improvement to understand and optimize the actual working hours, reduce the total working hours, and solve problems related to working hours. Through these activities, we aim to improve productivity by reducing overtime and work on holidays and shortening total working hours.

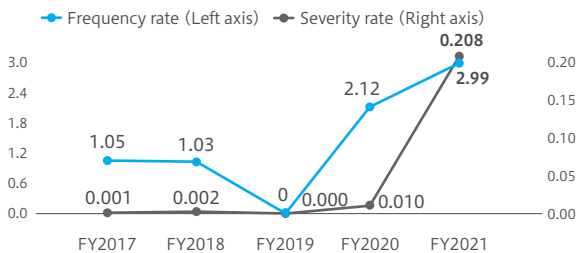
Average monthly overtime hours per employee and ratio of paid leave taken



Occupational safety and health

Shofu's Safety and Health Committee is composed of labor and management to provide advice on the measures necessary for safety and health and their implementation, and to promote these measures. We have been promoting a safe and comfortable work environment with the aims of conducting surveys, research, and measures related to safety and health, disseminating and enlightening knowledge on safety and health, preventing accidents and diseases, investigating causes, compiling statistics, and implementing preventive measures. As part of the 3S activities, each workplace implements measures for organizing and cleaning the workplace to create a comfortable work environment. We also provide biannual training for workplace representatives to educate them on safety and health.

Frequency rate and severity rate



* Frequency rate: the number of persons absent from work due to industrial accidents per million actual working hours, which indicates the frequency of industrial accidents. Data for each year were collected between December 16 and the following December 15.
Severity rate: the number of working days lost per 1,000 actual working hours, which indicates the degree of severity of an industrial accident. Data for each year were collected between December 16 and the following December 15.

Respect for human rights

Shofu hopes to continue to be a company trusted by the international community by respecting the human rights of all stakeholders through communication with our employees as well as our business partners and local communities.

In the Shofu group code of conduct, which serves as a code of conduct for the Shofu Group employees, we have set forth the following principles: to respect each other's fundamental human rights and not to infringe on the

fundamental human rights of others; to recognize the diverse values of individuals and not to discriminate based on race, gender, age, background, place of birth, creed, physical reason, or any other irrational factor.

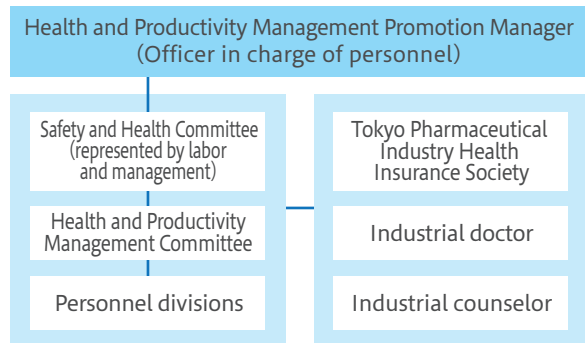
Based on this policy, we promote awareness of respect for human rights by conducting awareness-raising activities on harassment, establishing a harassment hotline, and providing harassment training for all employees.

Health and productivity management

We promote “health and productivity management,” which is an approach towards promoting and maintaining employees' health with a business management perspective, in order to achieve our corporate philosophy of “Contribution to dentistry through innovative business activities.”

We are working in cooperation with the health insurance society, industrial doctor, labor union and other parties to address various health issues and to improve measures for the physical and mental wellbeing of our employees towards the goal of creating a “nice and comfortable workplace gleaming with healthy teeth” where every employee can work vigorously and with a sense of fulfillment.

Framework for promoting health and productivity management



Health and productivity management declaration

People are indispensable to business activities and are therefore the most important of the management resources; that is why treating people with respect is our overriding principle. We hereby declare that we will “contribute to dentistry through innovative business activities” by creating an environment in which our employees can be more health conscious, take up the “challenge of change” at their own initiative, work with vigor, and give their best performance.

Objectives of promoting health and productivity management

Rather than leaving employees solely responsible for their own healthcare, the Company also cares for and invests in the health of employees, as it regards employee health as a management issue. Through such efforts, we will improve work engagement throughout the Company, enhance productivity and also business performance, and eventually realize an employee-friendly work environment.

Two sets of measures under health and productivity management

Enhancing physical fitness

- (1) Provide education and training aimed at raising oral health awareness and preventing lifestyle diseases
- (2) Carry out measures to encourage oral care and dentist visits for examination and treatment
- (3) Raise the percentage of employees who take periodic medical checkup, screening to detect lifestyle diseases, and other health checks to 100%
- (4) Carry out measures to push up implementation rate of statutory specified health guidance (for the prevention of lifestyle diseases)
- (5) Secure opportunities to receive comprehensive medical checkup (*ningen dock*)
- (6) Carry out measures to prevent passive smoking
- (7) Define a health issue (specified health guidance) and set and use KPI

Enhancing mental fitness

- (1) Raise the percentage of employees who take stress check test
- (2) Study ways to improve workplace environment based on the outcome of stress check test
- (3) Develop criteria for requesting an interview with employees who are working long hours and strengthen the system for referring applicable employees to an interview with industrial doctor
- (4) Raise awareness of mental healthcare in the workplace by educating supervisors on how to support staff mental health
- (5) Improve employees' mental health literacy through self-care education

Financial Summary for Past 11 Years

Fiscal year (Millions of yen)	140th Fiscal Year (Ended March 31, 2012)	141st Fiscal Year (Ended March 31, 2013)	142nd Fiscal Year (Ended March 31, 2014)	143rd Fiscal Year (Ended March 31, 2015)	144th Fiscal Year (Ended March 31, 2016)	145th Fiscal Year (Ended March 31, 2017)	146th Fiscal Year (Ended March 31, 2018)	147th Fiscal Year (Ended March 31, 2019)	148th Fiscal Year (Ended March 31, 2020)	149th Fiscal Year (Ended March 31, 2021)	150th Fiscal Year (Ended March 31, 2022)
Net sales	15,985	16,028	18,258	19,688	22,975	22,305	24,031	24,915	26,108	24,680	28,137
Cost of sales	7,176	7,184	8,229	8,598	9,798	9,357	10,267	10,469	11,423	11,083	11,970
Selling, general and administrative expenses	7,811	8,118	9,041	9,929	11,608	11,564	12,266	12,631	12,474	11,296	12,950
Operating income	997	725	987	1,159	1,568	1,382	1,497	1,814	2,210	2,300	3,217
Ordinary income	962	732	978	1,114	1,393	1,141	1,565	1,709	1,988	2,523	3,658
Net income before income and other taxes	962	356	978	965	1,352	1,141	1,357	1,709	1,184	2,370	3,611
Income taxes	451	338	472	387	557	299	478	512	460	672	1,043
Profit attributable to owners of parent	510	18	506	581	789	836	877	1,201	704	1,674	2,546
Comprehensive income	476	642	1,361	2,169	(15)	1,194	2,156	523	(46)	3,618	3,366
Capital expenditure	280	1,209	1,282	1,650	713	875	710	1,403	1,601	1,097	1,100
Depreciation expense	623	571	656	783	1,007	888	920	862	949	955	901
R&D expenses	1,185	1,219	1,332	1,410	1,431	1,408	1,494	1,492	1,537	1,563	1,738
Fiscal year end (Millions of yen)											
Current assets	13,966	12,965	13,298	15,625	14,265	14,286	15,345	14,975	15,416	17,829	20,462
Noncurrent assets	8,829	9,851	10,741	13,816	14,039	14,566	15,545	15,186	14,417	19,983	20,247
Current liabilities	3,244	2,969	2,801	5,510	3,049	3,215	3,663	3,820	3,680	4,212	4,437
Noncurrent liabilities	1,111	1,185	1,490	2,150	3,755	3,341	3,070	1,957	2,216	3,402	3,332
Net assets	18,439	18,662	19,747	21,781	21,500	22,296	24,157	24,383	23,936	30,198	32,940
Total assets	22,795	22,817	24,039	29,442	28,305	28,853	30,890	30,161	29,834	37,813	40,709
Other information											
ROE(%)	2.8	0.1	2.6	2.8	3.7	3.8	3.8	5.0	2.9	6.2	8.1
ROA(%)	2.2	0.1	2.2	2.2	2.7	2.9	2.9	3.9	2.3	4.9	6.5
Equity ratio(%)	80.8	81.6	81.9	73.7	75.7	76.9	77.8	80.4	79.7	79.4	80.5
Net assets per share(Yen)	1,146.02	1,169.09	1,235.34	1,360.19	1,340.00	1,396.74	1,511.85	1,524.92	1,491.81	1,690.45	1,841.55
Net income per share(Yen)	31.77	1.17	31.77	36.45	49.43	52.61	55.20	75.54	44.24	96.29	143.22
Payout ratio(%)	63.0	1,623.9	56.7	49.4	36.4	38.0	36.2	30.4	58.8	30.1	27.2
Dividends on equity (DOE) ratio(%)	1.8	1.6	1.5	1.4	1.3	1.5	1.4	1.5	1.7	1.8	2.2
Price earnings ratio(Times)	27.4	788.9	27.6	37.7	27.9	25.1	26.0	16.9	39.8	20.6	10.9
Cash flows from operating activities(Millions of yen)	1,210	383	823	710	1,511	2,308	1,936	1,468	1,942	2,829	3,736
Cash flows from investing activities(Millions of yen)	(223)	(1,201)	(441)	(3,139)	748	(1,052)	(772)	(1,519)	(1,768)	(4,081)	(1,288)
Cash flows from financing activities(Millions of yen)	(318)	(477)	(1,305)	2,810	(2,152)	(835)	(592)	(844)	(224)	3,023	(1,074)
Number of employees(Persons)	814	829	834	881	1,080	1,103	1,124	1,168	1,189	1,206	1,266



Company Profile and Stock Information (As of March 31, 2022)

Company profile

Company name	SHOFU INC.
Headquarters address	11 Kamitakamatsu-cho, Fukuine, Higashiyama-ku, Kyoto 605-0983, Japan Phone: +81-75-561-1112 (main)
Date of establishment	May 15, 1922
Capital stock	5,968,956,614 yen
Closing date	March 31
Stock exchange listing	Prime Market of the Tokyo Stock Exchange (Securities Code: 7979) * Effective as of April 4, 2022
Number of employees	1,266 (consolidated) 473 (non-consolidated)
Line of business	Manufacture and sale of dental materials and equipment
Fiscal year	From April 1 to March 31 of the following year
Ordinary shareholders' meeting	June of every year
Record dates	Ordinary shareholders' meeting: March 31 of every year Year-end dividend: March 31 of every year Interim dividend: September 30 of every year * If otherwise necessary, the date designated by public notice in advance
Administrator of shareholder registry	Sumitomo Mitsui Trust Bank, Limited 1-4-1 Marunouchi, Chiyoda-ku, Tokyo

Network

Domestic offices	SAPPORO SALES OFFICE / SENDAI SALES OFFICE / TOKYO BRANCH / NAGOYA SALES OFFICE / KYOTO SALES OFFICE / OSAKA SALES OFFICE / FUKUOKA SALES OFFICE
Overseas sites	TAIWAN BRANCH / Middle East and Africa Representative Office
Shofu group companies	<div>Domestic</div> <div>SHIGA SHOFU INC. SHOFU PRODUCTS KYOTO INC. SHOFU BIOFIX INC. NAIL LABO CORPORATION</div> <div>Overseas</div> <div>SHOFU DENTAL CORPORATION SHOFU DENTAL GmbH ADVANCED HEALTHCARE LTD. SHANGHAI SHOFU DENTAL MATERIAL CO., LTD. SHOFU DENTAL TRADING (SHANGHAI) CO., LTD. SHOFU DENTAL ASIA-PACIFIC PTE. LTD. MERZ DENTAL GmbH DIGITAL DENTAL SERVICES GmbH SHOFU DENTAL INDIA PRIVATE LIMITED SHOFU DENTAL BRASIL COMERCIO DE PRODUTOS ODONTOLOGICOS LTDA. SHOFU PRODUCTS VIETNAM CO., LTD. SHOFU MEXICO S DE RL DE CV SMART DENTISTRY SOLUTIONS INC. NAIL LABO INC. NAIL LABO TAIWAN CO., LTD.</div>
Affiliated company	Domestic Sun Medical Company, Ltd.

Status of shares

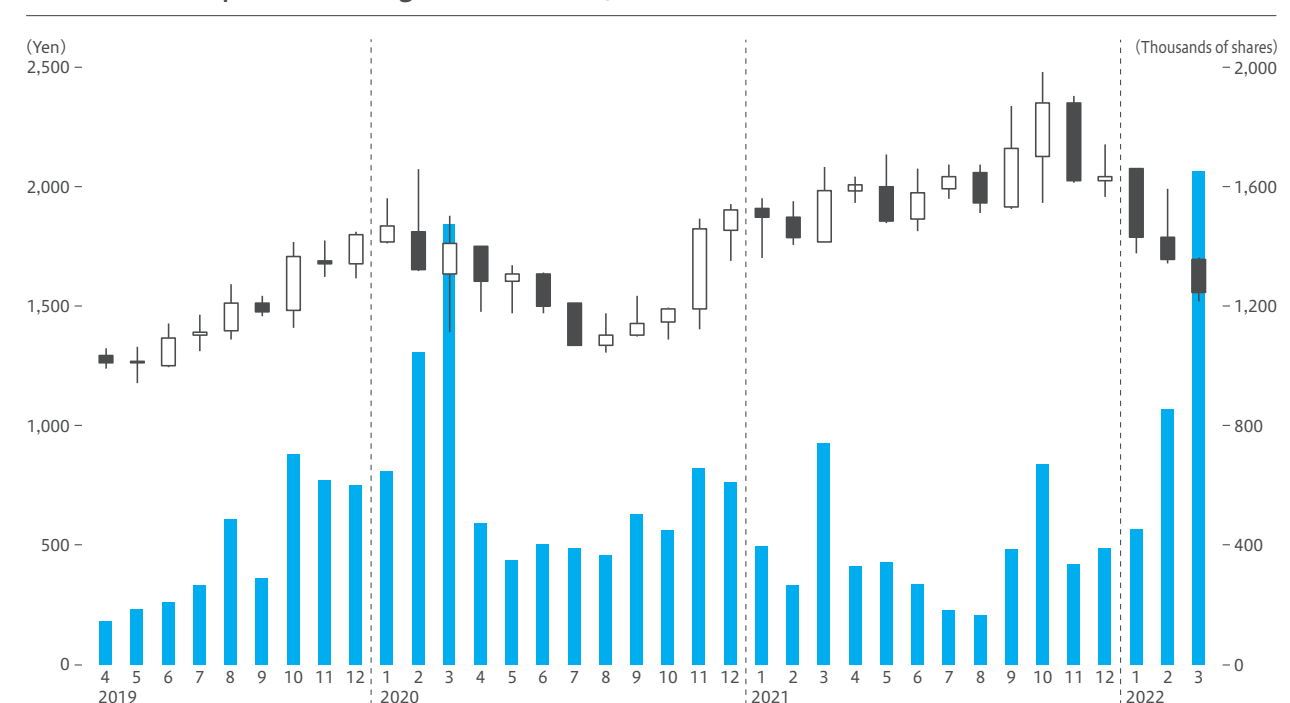
Total number of shares authorized to be issued	64,000,000 shares
Total number of shares issued	17,894,089 shares
Number of shareholders	15,177

Major shareholders

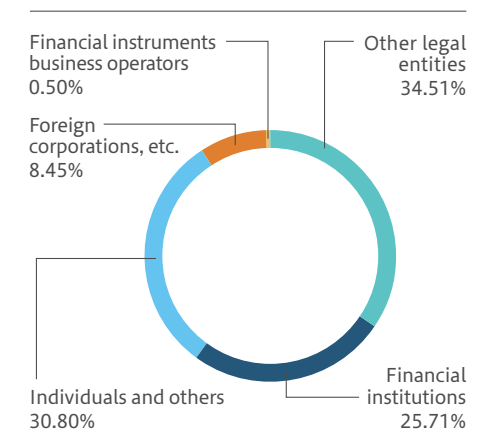
Shareholder name	Number of shares held (Thousands of shares)	Shareholding ratio (%)
Mitsui Chemicals, Inc.	3,580	20.12
The Master Trust Bank of Japan, Ltd. (Trust account)	938	5.27
The Bank of Kyoto, Ltd.	712	4.00
Nippon Life Insurance Company	646	3.63
The Shiga Bank, Ltd.	602	3.38
Custody Bank of Japan, Ltd. (Trust account)	550	3.09
MLI FOR CLIENT GENERAL OMNI NON COLLATERAL NON TREATY-PB	448	2.51
Shofu Employee Stock Ownership Association	377	2.11
Sumitomo Mitsui Trust Bank, Limited	364	2.04
SCREEN Holdings Co., Ltd.	330	1.85

* The shareholding ratio is calculated by deducting the number of treasury shares (105,013 shares).

Trends in stock price and trading volume



Distribution of shares by owner



Distribution of shares by number of shares held

