

**The First Quarter Consolidated Financial Results for the Fiscal Year Ended March 31, 2018
(Japanese Accounting Standards)**

August 4, 2017

Company name: SHOFU INC.
 Listing: Tokyo Stock Exchange (First section)
 Code number: 7979
 URL: <http://www.shofu.co.jp/>
 Representative: Noriyuki Negoro, President
 Contact: Takahiro Umeda, Executive Officer & General Manager of Finance Department
 Scheduled date for filing of quarterly securities report: August 10, 2017
 Scheduled commencement date of dividend payment: None
 Supplementary documents for quarterly financial results: None
 Quarterly financial results briefing: None

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

1. Consolidated Financial Results for the First Quarter of Fiscal Year Ended March 31, 2018(April 1,2017 – June 30,2017)

(1) Consolidated Operating Results

(% indicates changes from previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended June 30, 2017	5,736	0.5	346	-35.8	432	36.2	294	27.9
Three months ended June 30, 2016	5,708	-2.9	540	2.9	317	-45.7	230	-36.7

(Note) Comprehensive income: Three Months ended June 30, 2017 810 million yen (—%)
 Three Months ended June 30, 2016 -197 million yen (—%)

	First Quarter Net income (loss) per share	First Quarter Fully diluted net income (loss) per share
	Yen	Yen
Three months ended June 30, 2017	18.55	18.43
Three months ended June 30, 2016	14.44	14.36

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Three months ended June 30, 2017	29,834	22,921	76.5	1,435.25
Year ended March 31, 2017	28,853	22,296	76.9	1,396.74

(Reference) Shareholder's equity: Three Months ended June 30, 2017 22,818 million yen
 Year ended March 31, 2017 22,185 million yen

2. Dividends

	Dividends per share				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2017	-	8.00	-	12.00	20.00
Year ended March 31, 2018	-	-	-	-	-
Year ending March 31, 2018 (Forecasts)	-	8.00	-	12.00	20.00

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

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

Year-end dividends for the fiscal year ended March 31, 2018(Forecasts) include commemorative dividend of 2.0 yen. (The 95th anniversary of company's founding)

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2018. (April 1, 2017 – March 31, 2018)

(% indicates changes from previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending September 30,2017 (cumulative)	11,713	6.0	657	-17.9	618	21.5	392	30.3	24.70
Year ending March 31,2018	23,970	7.5	1,488	7.7	1,403	23.0	959	14.6	60.38

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

*Notes

(1) Changes in significant subsidiaries during the period (change in scope of consolidation): None

(2) Adoption of accounting methods specific to the preparation of quarterly financial statements: Yes

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

(a) Changes in accounting standards: None

(b) Changes other than (a) above: None

(c) Changes in accounting estimates: None

(d) Retrospective restatements: None

(4) Number of shares outstanding (common stock)

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

As of June 30, 2017: 16,114,089 shares

As of March 31, 2017: 16,114,089 shares

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

As of June 30, 2017: 215,620 shares

As of March 31, 2017: 230,355 shares

(c) Average number of shares during the period

As of June 30, 2017: 15,887,410 shares

As of June 30, 2016: 15,956,897 shares

*This quarterly earnings report is not subject to audit procedures

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

The forecasts and other statements regarding the future included in this report are based on currently available information and certain assumptions. Actual results may differ from forecasts for a variety of reasons. With respect to the preconditions for the forecasts, please refer to the "Explanation of Future Forecast Information including Consolidated Business Results Forecasts" section on page 3.

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

(1) Explanation of Business Results

During the first quarter of the consolidated fiscal year (from April 1, 2017 to June 30, 2017) (“the quarter under review”), although the global economy was on a moderate recovery trend primarily in developed nations, the future outlook remains unclear due to factors such as the uncertainty regarding the policies of the new US administration and heightened geopolitical risk. The Japanese economy continues to be on a moderate recovery trend owing to an improvement in the employment and income conditions against a backdrop of strong corporate earnings.

Under such circumstances, the Company Group posted net sales of 5,736 million yen for the quarter under review, an increase of 28 million yen (0.5%) from the corresponding period of the previous consolidated fiscal year. Overseas sales accounted for 2,425 million yen (42.3% of net sales), an increase of 54 million yen (2.3%).

Concerning profits, the cost of sales ratio increased and selling, general and administrative expenses increased 83 million yen (2.9%) from the corresponding period of the previous consolidated fiscal year, causing operating income to decline to 346 million yen, a decrease of 193 million yen (35.8%). However, the impact of exchange rates had a positive effect on non-operating income, yielding ordinary income of 432 million yen, an increase of 114 million yen (36.2%). Profit attributable to owners of parent, after deducting tax expenses, was 294 million yen, an increase of 64 million yen (27.9%).

(Dental business)

Domestically, the “EyeSpecial C-III” digital oral cavity photography device was introduced to the market in the quarter under review, which contributed to sales along with dental restorative materials and CAD/CAM-related products, the Company’s focus areas. However, competition intensified in the market and sales decreased from the corresponding period of the previous consolidated fiscal year. Looking overseas, despite solid sales performance in North America, Central and South America and China, sales decreased year on year due partly to the effects of foreign exchange.

As a result of these factors, net sales for the quarter under review decreased by 84 million yen (1.6%) from the corresponding period of the previous consolidated fiscal year to 5,174 million yen, and operating income decreased 200 million yen (36.1%) to 354 million yen owing to an increase in the cost of sales ratio and an increase in selling, general and administrative expenses.

(Nail care business)

With the intent of cultivating new markets, the new “ageha” brand of gel nail products was introduced to the market during the quarter under review, under joint development with the renowned nail artist Ageha. Additionally, domestic sales increased year on year owing to contributions from the “by Nail Labo” gel nail system for general consumers. Overseas, aggressive sales promotion activities were successful in generating favorable sales performance from the “Presto” LED gel in the US and Taiwan.

As a result of these factors, net sales of the nail care business increased by 110 million yen (25.7%) from the corresponding period of the previous consolidated fiscal year to 538 million yen. Concerning profits, however, an increase in selling, general and administrative expenses was a hindrance to achieving profitability, resulting in an operating loss of 14 million yen, a year-on-year increase in profitability of 7 million yen.

(Other businesses)

SHOFU PRODUCTS KYOTO INC., a Group company, uses its dental abrasives manufacturing technology to manufacture and sell industrial abrasives. Net sales in the “other businesses” segment for the quarter under review increased 2 million yen (10.5%) from the corresponding period of the previous consolidated fiscal year to 23 million yen, and operating income decreased 1 million yen (21.4%) to 5 million yen.

(2) Explanation of Financial Position

Total assets at the end of the quarter under review increased by 981 million yen from the end of the previous

consolidated fiscal year to 29,834 million yen.

The primary factor for the increase in assets was an increase in investment securities due to higher stock prices.

Liabilities increased by 356 million yen to 6,912 million yen. The primary factor was an increase in other current liabilities such as accrued expenses.

Net assets increased by 625 million yen to 22,921 million yen. The primary factor was an increase in valuation difference on available-for-sale securities.

As a result of the above, the capital-to-assets ratio fell to 76.5%, a decrease of 0.4 points from the end of the previous consolidated fiscal year.

(3) Explanation of Future Forecast Information including Consolidated Business Results Forecasts

We have not revised the performance forecast for the fiscal year ending March 31, 2018, as announced on May 12, 2017.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

	(Millions of yen)	
	Previous fiscal year (as of March 31, 2017)	End of First Quarter of Fiscal 2017 (as of June 30, 2017)
Assets		
Current assets		
Cash and deposits	4,997	4,844
Notes and accounts receivable-trade	3,138	3,199
Securities	5	5
Merchandises and finished goods	3,666	3,923
Work in process	882	895
Raw materials and supplies	817	894
Other	871	1,053
Allowance for doubtful accounts	-93	-96
Total current assets	14,286	14,720
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	8,096	8,122
Accumulated depreciation	-4,917	-4,994
Buildings and structures, net	3,179	3,127
Other	9,557	9,738
Accumulated depreciation	-6,054	-6,188
Other, net	3,503	3,550
Total property, plant and equipment	6,682	6,677
Intangible assets		
Goodwill	558	582
Other	980	1,012
Total intangible assets	1,538	1,595
Investments and other assets		
Investment securities	5,304	5,845
Net defined benefit asset	710	661
Other	338	341
Allowance for doubtful accounts	-8	-8
Total investments and other assets	6,345	6,840
Total non-current assets	14,566	15,113
Total assets	28,853	29,834

	(Millions of yen)	
	Previous fiscal year (as of March 31,2017)	End of First Quarter of Fiscal 2017 (as of June 30, 2017)
Liabilities		
Current liabilities		
Accounts payable-trade	612	706
Current portion of long-term loans payable	505	505
Income taxes payable	312	261
Provision for directors' bonuses	30	8
Other	1,753	2,045
Total current liabilities	3,215	3,526
Noncurrent liabilities		
Long-term loans payable	1,225	1,100
Net defined benefit liability	198	205
Other	1,918	2,081
Total noncurrent liabilities	3,341	3,386
Total liabilities	6,556	6,912
Net assets		
Shareholders' equity		
Capital stock	4,474	4,474
Capital surplus	4,576	4,576
Retained earnings	11,150	11,251
Treasury shares	-252	-236
Total shareholders' equity	19,949	20,066
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,318	2,704
Foreign currency translation adjustment	-176	-61
Remeasurements of defined benefit plans	93	108
Total accumulated other comprehensive income	2,235	2,751
Subscription rights to shares	92	84
Non-controlling interests	18	18
Total net assets	22,296	22,921
Total liabilities and net assets	28,853	29,834

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

(Millions of yen)

	First Quarter of Fiscal 2016 (from April 1, 2016 to June 30, 2016)	First Quarter of Fiscal 2017 (from April 1, 2017 to June 30, 2017)
Net sales	5,708	5,736
Cost of sales	2,282	2,420
Gross profit	3,425	3,315
Selling, general, and administrative expenses	2,885	2,968
Operating profit	540	346
Non-operating income		
Interest income	1	1
Dividend income	37	45
Membership fee income	31	25
Foreign exchange gains	-	68
Other	22	23
Total non-operating income	93	164
Non-operating expenses		
Interest expenses	2	2
Sales discounts	43	38
Membership fee	38	28
Foreign exchange losses	224	-
Other	6	9
Total non-operating expenses	316	79
Ordinary profit	317	432
Extraordinary income		
Gain on sales of investment securities	-	8
Total extraordinary income	-	8
Profit before income taxes	317	441
Income taxes	87	146
Profit	229	294
Profit (loss) attributable to non-controlling interests	-0	0
Profit attributable to owners of parent	230	294

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	First Quarter of Fiscal 2016 (from April 1, 2016 to June 30, 2016)	First Quarter of Fiscal 2017 (from April 1, 2017 to June 30, 2017)
Profit	229	294
Other comprehensive income		
Valuation difference on available-for-sale securities	37	386
Foreign currency translation adjustment	-476	114
Remeasurements of defined benefit plans, net of tax	12	14
Total other comprehensive income	-426	515
Comprehensive income	-197	810
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	-195	810
Comprehensive income attributable to non-controlling interests	-1	0

(3) Notes to Quarterly Consolidated Financial Statements

(Notes Relating to Assumptions for the Going Concern)

Not applicable.

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

Not applicable.

(Application of Special Accounting Processing in the Compilation of Quarterly Financial Statements).

Calculation of tax expenses

To calculate tax expenses, we made a reasonable estimate of the effective tax rate after the application of tax effect accounting to current net income before tax for the current consolidated fiscal year and then multiplied the current net income before tax for the quarter under review by the estimated effective tax rate. However, where use of the estimated effective tax rate to calculate tax expenses would result in an unreasonable figure, we have used the legal effective tax rate instead.

(Segment Information,etc)

Previous fiscal year (April 1, 2016—June 30, 2016)

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

(Millions of yen)

	Reporting segment				Adjustment *1	Consolidated financial statements *2
	Dental Business	Nail care business	Other businesses	Total		
Net sales						
(1) Sales to external customers	5,268	428	21	5,708	-	5,708
(2) Internal sales or transfers	0	0	1	2	(2)	-
Total	5,259	428	22	5,710	(2)	5,708
Segment profit (loss)	554	(21)	6	539	1	540

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

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

Fiscal year under review (April 1, 2017—June 30, 2017)

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

(Millions of yen)

	Reporting segment				Adjustment *1	Consolidated financial statements *2
	Dental Business	Nail care business	Other businesses	Total		
Net sales						
(1) Sales to external customers	5,174	538	23	5,736	-	5,736
(2) Internal sales or transfers	0	0	1	2	(2)	-
Total	5,175	538	25	5,738	(2)	5,736
Segment profit(loss)	354	(14)	5	345	1	346

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

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