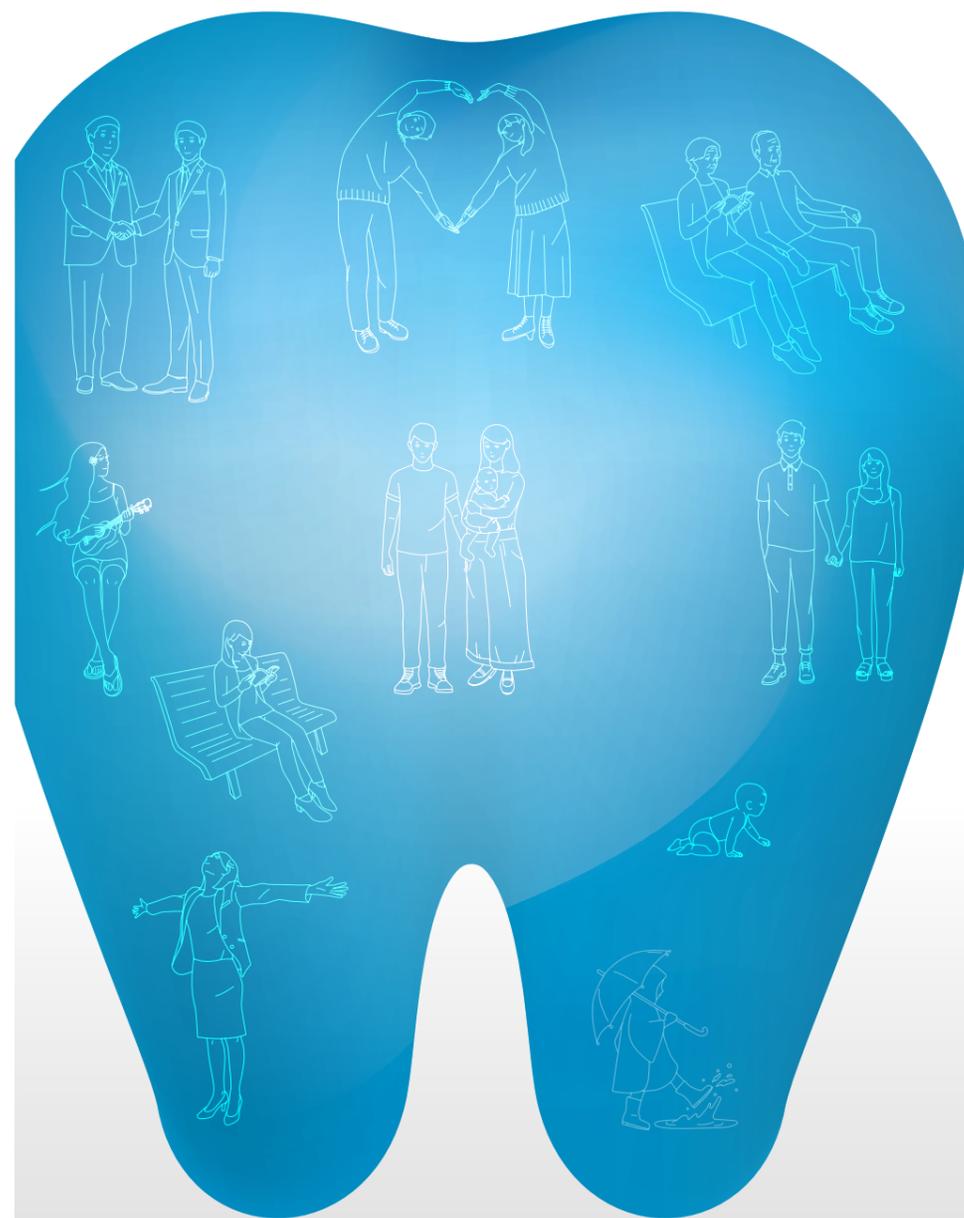


SHOFU INC. Integrated Report 2021



PROVEN PRODUCTS FOR BETTER DENTISTRY

SHOFU INC.

Headquarters:
11 Kamitakamatsu-cho, Fukuine, Higashiyama-ku, Kyoto 605-0983, Japan
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The major role of dentistry is to support people's *ability to live* by maintaining oral functions at all stages of life so that they can perform the basic activities of *eating* and *speaking*.

Whereas medicine is medical care for *life*, dentistry is medical care for *living*. Through the development of superior dental materials and equipment, we aim to contribute to better dental care together with dental professionals and doctors involved in dental education.

[Corporate Philosophy]

Contribution to dentistry through innovative business activities

[The Origin of Our Management — The Founder's Vision]

“The Japanese must eat rice with teeth made by the Japanese.”

Shofu's history began in 1922 about a hundred years ago. In the era of *valuing imported goods* when dental care depended mainly on imported goods from Europe and the United States, Kajo Shofu III, the founder, established SHOFU DENTAL Mfg. Co., Ltd. with high aspirations after he succeeded in domestic production of high-quality porcelain teeth.

In 1890, the founder Kajo Shofu III married into the Shofu family, a well-known member of the ceramics industry. Based on the Kiyomizu-ware technique, he was involved in many businesses, including exporting ceramics, industrializing ceramic manufacturing, and entering the insulator business.

In 1915 when he visited North America to expand sales channels for export ceramics, he met Dr. Mitsuru Okada (later professor of oral surgery at Keio University School of Medicine), who strongly persuaded him to produce high-quality porcelain teeth in Japan. Stemming from his desire to contribute to people's oral health and society, he decided to develop high-quality porcelain teeth on his own.

The development of high-quality porcelain teeth was no easy task as he faced many challenges to overcome, such as how to find a form that suits the Japanese and materials that can be used in the oral cavity, and how to produce them. However, with support from many people he finally made his dream come true after years of struggles and failures.

The founder's passion—to have high ambitions and achieve them—has been handed down from generation to generation and has now become the foundation of our strong focus on research and development.

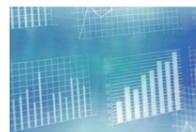


Kajo Shofu III, the founder

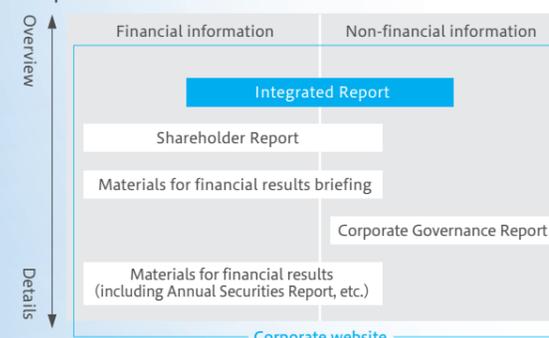


Japan's first high-quality porcelain teeth developed by Shofu

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Corporate communications



Visit our website for more detailed financial and non-financial information and figures.
<https://www.shofu.com/global/>

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, 2021 (April 1, 2020 through March 31, 2021) 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.)

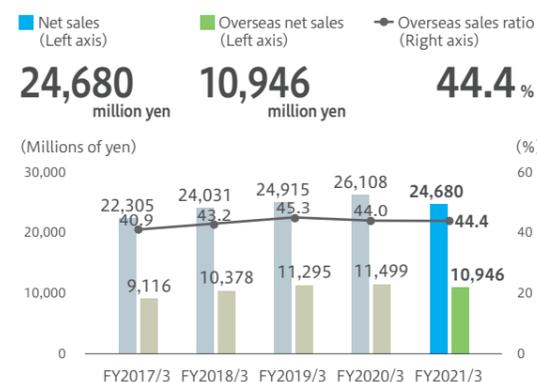
Forward-looking statements

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.

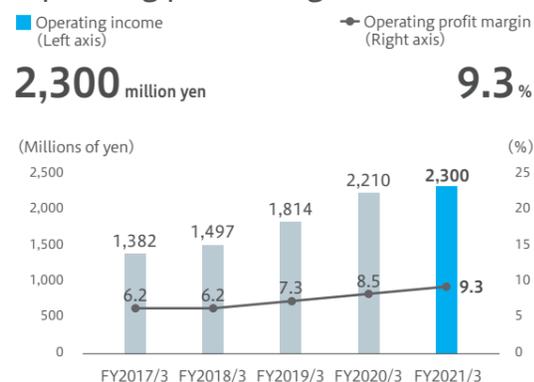
Financial and Non-financial Highlights

Financial Indicators

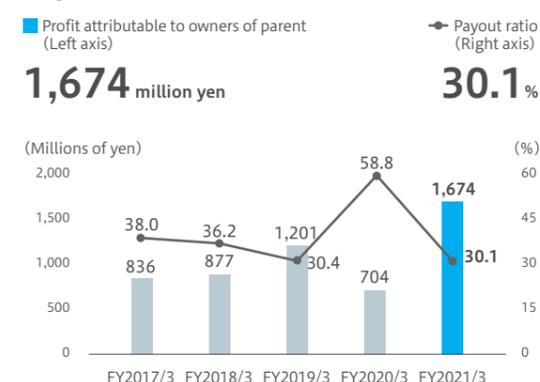
Net sales/Overseas net sales/ Overseas sales ratio



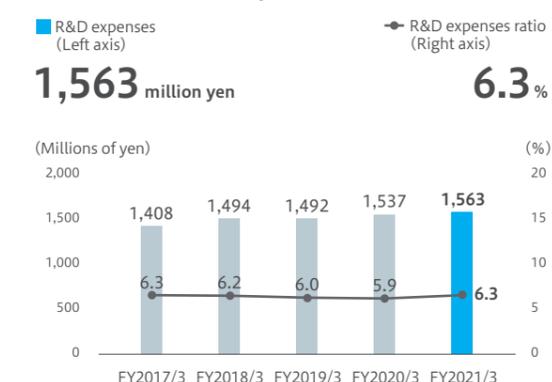
Operating income/ Operating profit margin



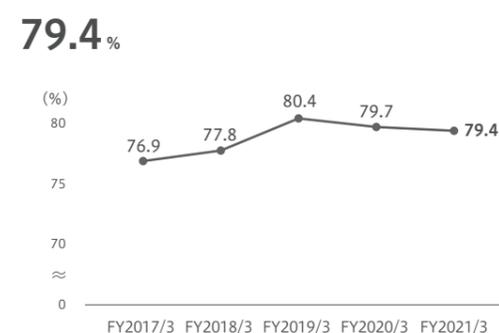
Profit attributable to owners of parent/ Payout ratio



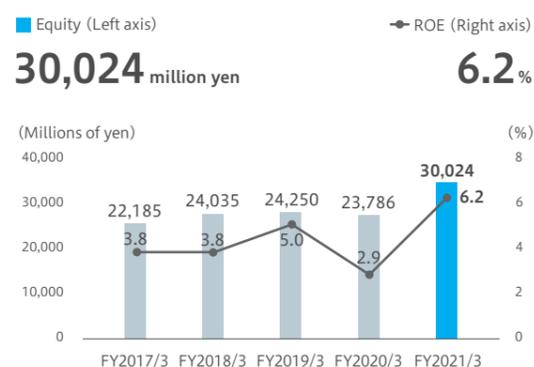
R&D expenses/ Ratio of R&D expenses to net sales



Equity ratio

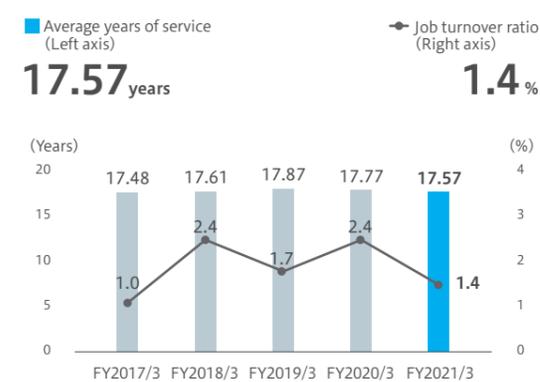


Equity/Return on equity (ROE)



Non-financial Indicators

Average years of service/ Job turnover ratio

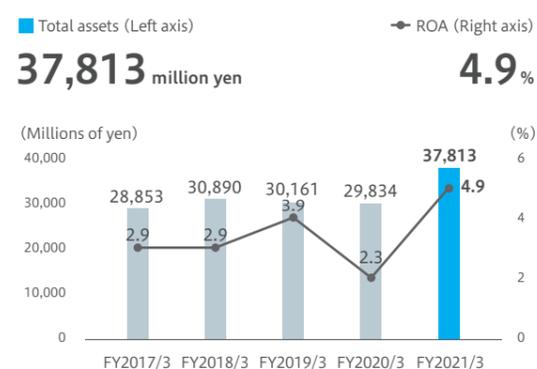


Average monthly overtime hours per employee

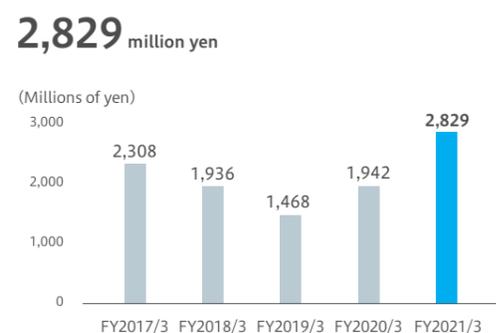


* The job turnover ratio does not include employees who have reached the mandatory retirement age.

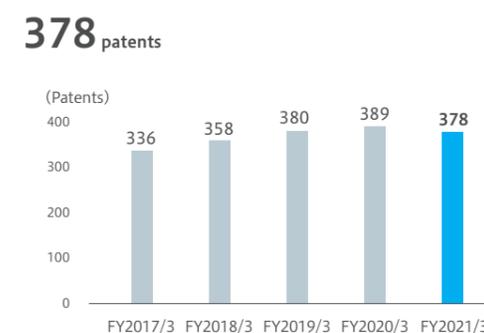
Total assets/Return on assets (ROA)



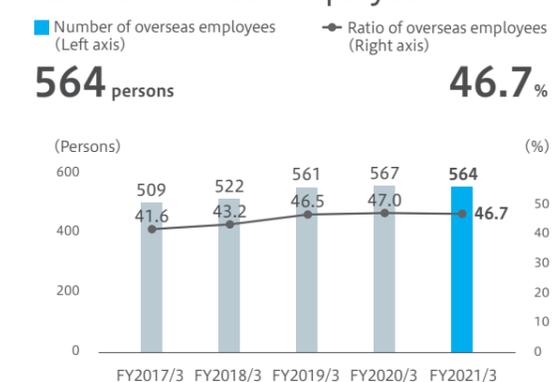
Cash flows from operating activities



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).

Shofu's history of value creation

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
The first president, Kajo Shofu III, established SHOFU DENTAL Mfg. Co., Ltd. Began manufacture and sale of artificial teeth and research and development of dental materials.



Photos of the Company at the time of establishment. Shofu developed Japan's first products one after another.

1937
Developed and began selling the Japan's first palladium alloy, SHOFU Palladium S.

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.

1955
Opened TOKYO SALES OFFICE in Azumabashi, Sumida-ku, Tokyo.

1956
Completed the laboratory building.

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, 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.

1978
Established a sales subsidiary, SHOFU DENTAL GmbH in the suburbs of Dusseldorf, Germany.

1980
Established a sales subsidiary, SHOFU DENTAL SINGAPORE in Singapore.

Era when imported goods were valued

High-growth period driven by the spread of the health insurance system

Entering an aging society



1983
Changed the Company's name to SHOFU INC. and conducted management reforms.

1985
Developed and began selling the Japan's first light-cured composite resin, Lite-Fil.

1986
Developed and began selling hybrid resin teeth, Endura—new generation artificial teeth.

1987
Liquidated SHOFU DENTAL SINGAPORE and opened SINGAPORE SALES OFFICE (currently, SHOFU DENTAL ASIA-PACIFIC PTE. LTD.).

1989
Listed on the Second Section of the Osaka Securities Exchange and on the Kyoto Stock Exchange.



1991
Acquired ADVANCED HEALTHCARE LTD., a dental material manufacturer in the U.K.

1997
Completed a new research center, the most advanced facility in the dental industry. Obtained CE Marking certification.

2003
Established a manufacturing subsidiary, SHANGHAI SHOFU DENTAL MATERIAL CO., LTD. in China.

2005
Established a sales subsidiary, SHOFU DENTAL (SHANGHAI) CO., LTD. in China. (currently, SHOFU DENTAL TRADING (SHANGHAI) CO., LTD.)

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 materials and equipment for professional nail care specialists.



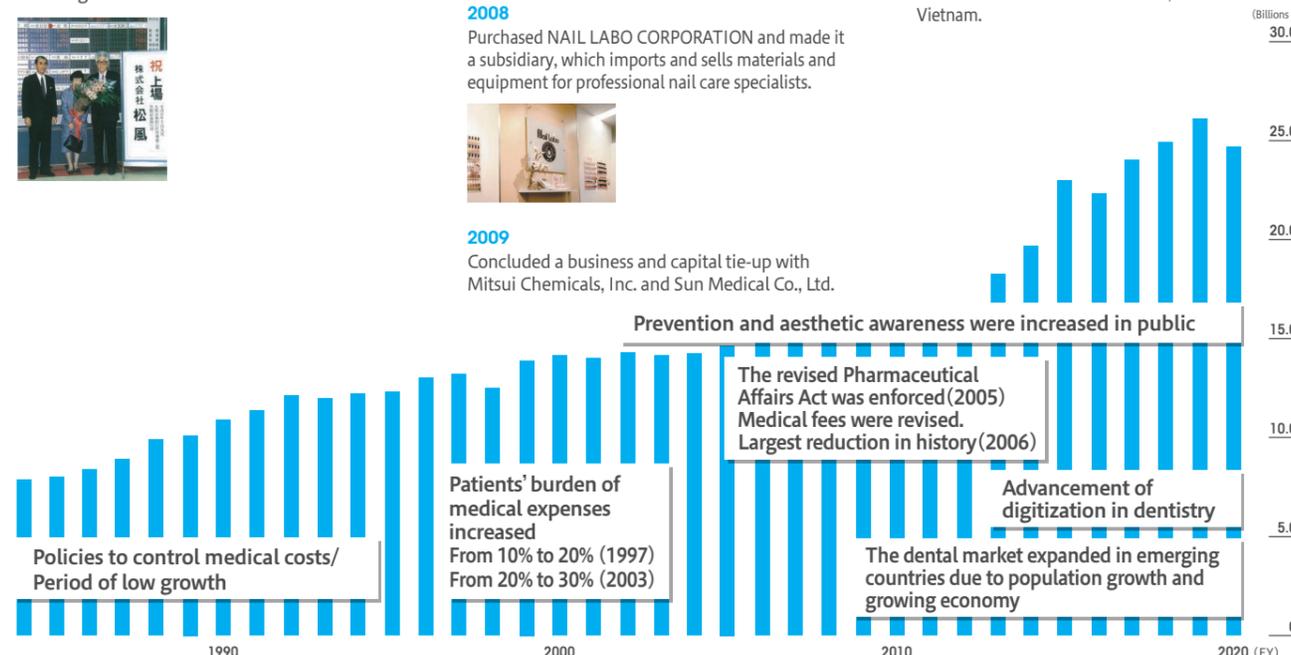
2009
Concluded a business and capital tie-up with Mitsui Chemicals, Inc. and Sun Medical Co., Ltd.

2012
Listed on the First Section of the Tokyo Stock Exchange.

2015
Purchased MERZ DENTAL GmbH and made it a subsidiary, which is a manufacturer of artificial teeth in Germany.

2017
Established a sales subsidiary, SHOFU DENTAL BRASIL COMERCIO DE PRODUTOS ODONTOLOGICOS LTDA. in Brazil. Established a sales subsidiary, SHOFU DENTAL INDIA PRIVATE LIMITED in India.

2020
Enhanced the business and capital tie-up with Mitsui Chemicals, Inc. and Sun Medical Co., Ltd. Established a manufacturing subsidiary, SHOFU PRODUCTS VIETNAM CO., LTD. in Vietnam.



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

1922 – 1951
SHOFU DENTAL Mfg. Co., Ltd. started business

1952 – 1970
Became a leading company of the dental industry

1971 – 1982
Expanded to the overseas market

1983 – 1989
Boldly implemented management reforms

1990 – 2011
Moved forward as a listed company

2012 and beyond
To be a 100-year company

Shofu's products that have been serving social needs

Japan's first high-quality porcelain teeth
SHOFU Anatome Form



Most artificial teeth used in dentistry in Japan were made in the U.S. or Europe and they were not designed to fit the Japanese bone structure. To meet the needs for high-quality porcelain teeth for Japanese people, the founder, Kajo Shofu III, started full-scale research in artificial teeth. With the cooperation of many people involved, he succeeded to develop Japan's first high-quality porcelain teeth through a number of challenges.

The world's first dental spherical amalgam
SHOFU Spherical Amalgam



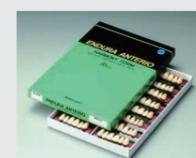
In the 1960s, Shofu worked to develop products that are competitive in the global market, and as a result, succeeded to launch dental spherical amalgam ahead of the rest of the world. We launched SHOFU Spherical Amalgam in 1965, which immediately had a great impact on the dental materials industry in and outside Japan as it was easy to be processed due to its spherical particles and small surface area.

Cement with HY agent
HY-Bond Carbo Cement



In 1980, Shofu developed dental cements with HY agent, which contains tannin, a material used for tooth-blackening dye. We applied HY agent to various dental cement products according to the research results that HY agent is expected to strengthen tooth structure like tooth blackening, which contributed to the prevention of dental caries in patients.

Japan's first hybrid resin teeth
Endura



After the management reforms, Shofu succeeded to develop Endura in 1986, Japan's first hybrid resin teeth, using newly developed materials. Endura was highly rated by the Japan Dental Association and the then Ministry of Health and Welfare for its biocompatible shape, color, and other characteristics, and adopted by the health insurance by its brand name, succeeding in anticipating the demands of an aging society.

Light-curing C+B Composite
SOLIDEX



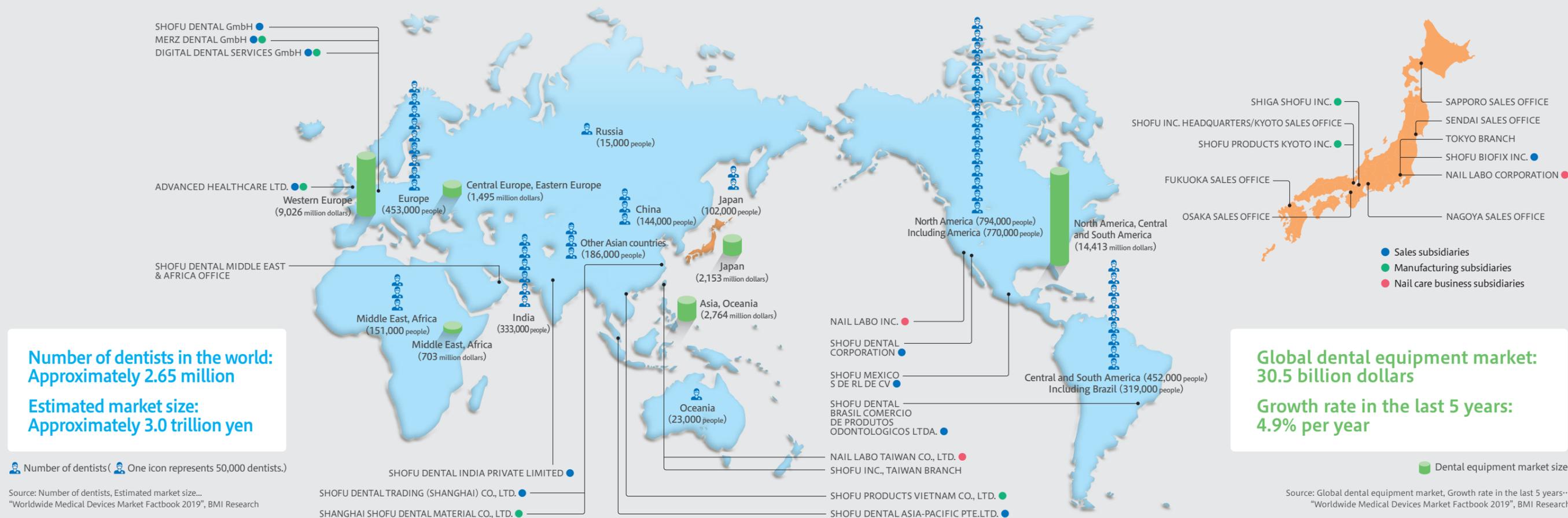
During this period, competitors already launched light-cured hard resin used to create resin-made prosthetic restorations such as crowns and inlays. Shofu focused on the operability and aesthetic quality of such resin and succeeded to develop SOLIDEX. With SOLIDEX, we increased operability of dental technicians and achieved color reproduction close to that of natural teeth.

Digital oral cavity photography device
EyeSpecial C-II



A digital oral cavity photography device used when obtaining informed consent from patients or making comparison before and after operation. It allows users to take high-quality intra-oral photographs with easy operation while being lightweight and compact, and helps improve communication between dental professionals and patients.

Global Network



Shofu's network around the world

Since the 1970s, when we first expanded operations overseas, the Company Group has been promoting overseas expansion by making the most of our global network, which is centered in North America and Central and South America, Europe, as well as Asia and Oceania.

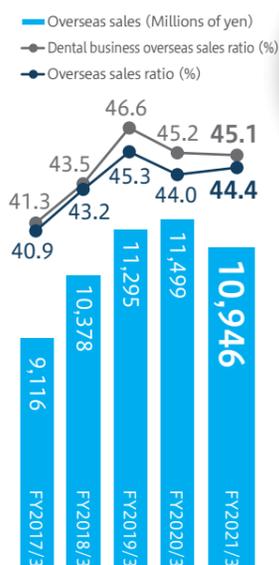
The Group currently sells Shofu's products in more than 100 countries, with overseas sales accounting for more than 40% of total sales. However, we have not been able to fully demonstrate our presence in the overseas market, which is about 14 times larger than the domestic market. We must

further increase our contribution to the world's dental care in order to realize the corporate philosophy.

We are actively promoting the establishment of sales subsidiaries and manufacturing subsidiaries in order to capture demand not only in developed markets with high levels of dental care, but also in emerging markets.

In order to promote Shofu's products around the world, we will aim to expand overseas business by increasing the recognition of the Shofu's brand through the development and expansion of overseas sites.

Overseas Sales/ Overseas Sales Ratio



Overseas sales (By region)

10,946 million yen (Fiscal year ended March 31, 2021)

■ North America/Central and South America

2,500 million yen
 Year-on-year decrease of 394 million yen (-13.6%)

In North America and Central and South America, sales decreased by 394 million yen, or 13.6%, due to the struggling sales of almost all product groups, except for artificial teeth and nail products, as well as the negative impact of foreign exchange rates.

■ Europe

4,237 million yen
 Year-on-year increase of 111 million yen (+2.7%)

In Europe, sales increased by 111 million yen, or 2.7%, due to flexible efforts in sales of disposable masks and gloves, as well as the positive impact of foreign exchange rates.

■ Asia/Oceania and others

4,208 million yen
 Year-on-year decrease of 270 million yen (-6.0%)

In Asia and Oceania and others, overall sales decreased by 270 million yen, or 6.0%. By district, sales in China decreased by 24 million yen, or 1.0%, due to the negative impact of foreign exchange rates, although sales in China increased on a local currency basis due to strong sales of chemical products.

Sales in elsewhere in Asia decreased by 246 million yen, or 12.0%, as a result of weak sales in all product groups except nail products due to the significant decline in sales in emerging countries including ASEAN countries and India, despite strong sales in South Korea and Taiwan.

Unit: millions of yen, [] shows component ratio

■ Asia/Oceania and others
 ■ Europe
 ■ North America/Central and South America



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

Financial capital

- Total capital: **30.198** billion yen
- Equity ratio: **79.4%**
- Rating and Investment Information, Inc. (R&I) Issuer rating: **BBB+** (stable)

Intellectual capital

- Ratio of R&D expenses to net sales: **6.3%**
- Number of patents held: **378**
* Includes utility model rights, etc.; non-consolidated basis
- Network involving industry, government, academia, and medical institutions

Manufactured capital

- 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

Human capital

- Number of Group employees: **642** (domestic), **564** (overseas)
- Total number of specialists with dental expertise: **63**
* Refers to employees qualified as dentists, dental hygienists, dental technicians, pharmacists, etc.; non-consolidated basis
- Improving skills and passing on knowledge through stable employment

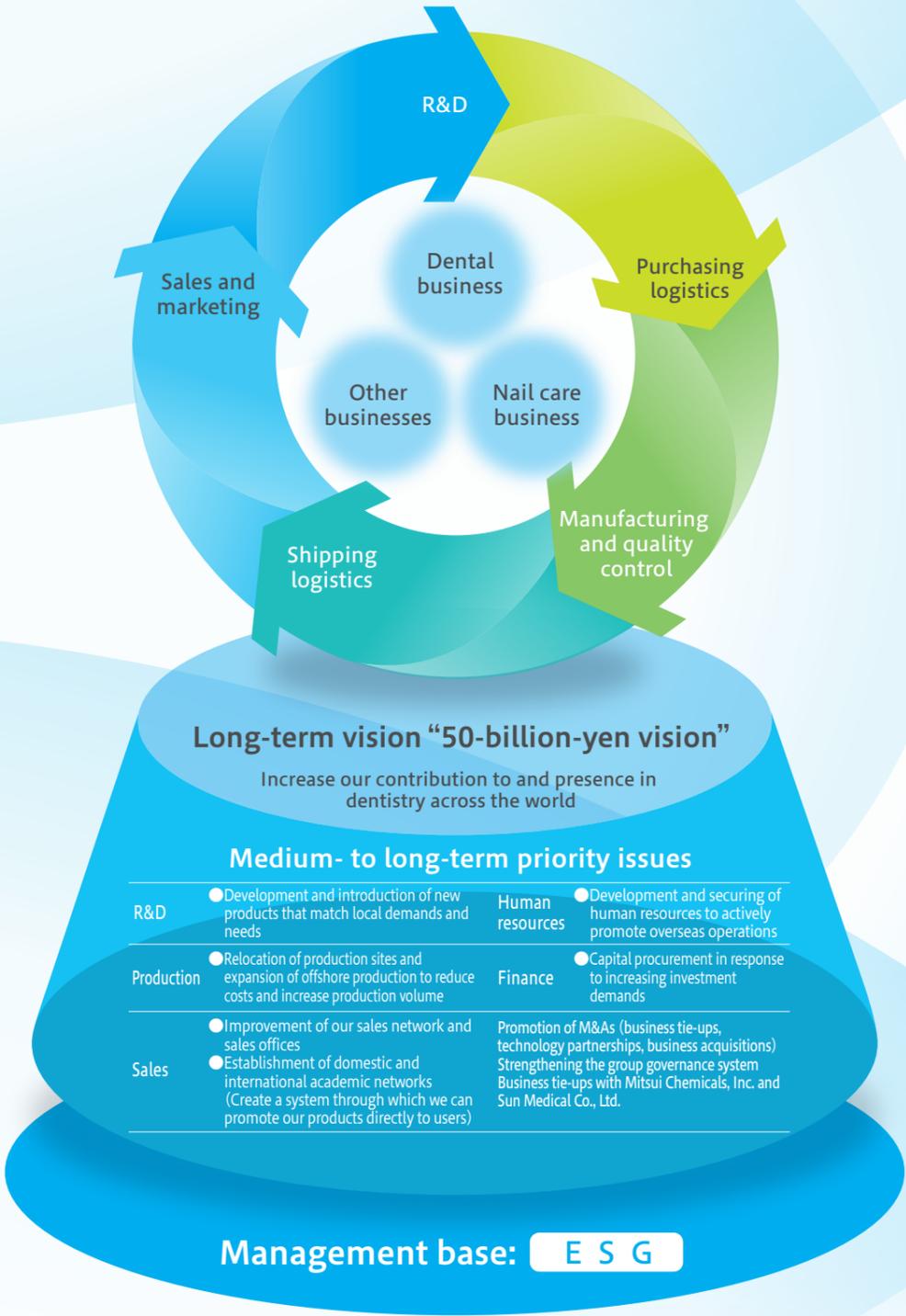
Social and relationship capital

- Global sales network covering Japan and the world (Number of countries in which products are sold: approx. 100; number of dealers: approx. 1,000 companies)
- Highly-trusted SHOFU brand
- Network of good relationships with dental professionals Membership of Shofu Dental Club: **13,661** persons

Natural capital

- 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 Value Chain

To provide products and services that can contribute to dentistry around the world, we identify social issues and measures to address them in each process of the value chain, from R&D to sales and marketing, and strive to resolve the social issues by improving quality and productivity and strengthening our marketing.

		R&D	Purchasing logistics	Manufacturing and quality control	Shipping logistics	Sales and marketing
						
Social issues and external environment	Opportunities	<ul style="list-style-type: none"> ● Arrival of super-aged society and expectations of longer healthy life expectancy ● Changes in disease pattern ● Globalization of markets and expansion of markets in emerging countries ● Increased digitalization of dentistry and advances in data utilization 	<ul style="list-style-type: none"> ● Reduced costs and shorter procurement times thanks to advances in automation ● Globalization of procurement environment and progress with economic partnership agreements (EPAs) 	<ul style="list-style-type: none"> ● Diversification of production options as a result of expanding global markets ● Cost reductions thanks to development / proliferation of digitalization and automation technology ● High barriers to entry due to small-lot manufacture of various products and the fact that this is a niche market 	<ul style="list-style-type: none"> ● Increased demand by companies for logistics outsourcing and presence of 3PL (third-party logistics) companies ● Expansion of free trade, increased globalization, and progress with EPAs ● Enhanced shipping precision and labor saving thanks to advances in automation technology 	<ul style="list-style-type: none"> ● Market globalization and expansion of overseas markets ● Emergence of new sales channels as a result of proliferation of online selling and settlement ● Advances in and expansion of digitalization in dental treatment
	Threats	<ul style="list-style-type: none"> ● Intensifying competition (entry into market of foreign companies and companies from other sectors) ● Changes in operative techniques as a result of new technologies and emergence of low-priced products ● Tightening of laws and regulations governing medical equipment around the world 	<ul style="list-style-type: none"> ● Supply-chain disruptions due to natural disasters, etc. (protracted suspension of supplies or shortages of supplies as a result of disasters, accidents, etc.) ● Instability in overseas procurement and foreign exchange risk ● Securing of vendors capable of meeting special requirements and producing in small lots ● Increased complexity in procurement as a result of stricter laws and regulations ● Concerns about creditworthiness of suppliers 	<ul style="list-style-type: none"> ● Increasingly serious labor shortages ● Diversification and increased complexity of laws and regulations around the world, increase in levels of quality demanded ● Suspension of production due to natural disasters, etc. 	<ul style="list-style-type: none"> ● Soaring logistics costs (personnel expenses, fuel costs, tariffs) ● Stricter laws and regulations in each country and stricter control of shipping conditions (temperature, humidity, etc.) ● Supply-chain disruptions due to natural disasters, etc. 	<ul style="list-style-type: none"> ● Slowdown in rise of dental care spending as a result of government policies aimed at curbing medical expenditures ● Obsolescence of analog products due to rapid progress in digitalization ● Intensification of sales competition (competition with large foreign rivals, market entry of foreign companies with low-priced products)
Strengths that are the source of our competitive advantage Our most important assets		<ul style="list-style-type: none"> ● Proprietary technologies and an R&D environment that allow competitive products to be developed 	<ul style="list-style-type: none"> ● Ability to procure what we need in a stable fashion thanks to strong relationships of trust with suppliers, the foundation of which is our creditworthiness and the administrative knowhow we have accumulated over the years 	<ul style="list-style-type: none"> ● Production engineering capabilities and quality assurance system that allow a wide variety of products to be manufactured in small lots 	<ul style="list-style-type: none"> ● Centralized management of logistics operations through use of 3PL 	<ul style="list-style-type: none"> ● Sales/academic networks that build a high level of trust in our corporate brand and enable us to operate around the world
Measures and initiatives		<ul style="list-style-type: none"> ● Increase in precision of development input related to market needs as a result of more powerful marketing functions ● Product development from a worldwide perspective ● Development and introduction of new products that match demands and needs in other countries and regions ● Further utilization of proprietary technologies ● Selection of and focus on certain product development themes ● Establishment of pharmaceutical affairs/regulatory network with overseas sites ● Strengthening of cooperation with external parties 	<ul style="list-style-type: none"> ● Reinforcement of overseas procurement functions ● Tightening of management of suppliers ● Efforts to procure from multiple companies ● Enhancement of efficiency and optimization of purchasing logistics through use of IT and AI ● Strengthening of response to the requirements of ISO 13485 (medical devices - quality management systems) 	<ul style="list-style-type: none"> ● Strengthening of functions of overseas manufacturing bases and cooperation among bases (rebuilding of production structure to cope with higher production volume, expansion of overseas production) ● Establishment of sustainable production and quality assurance structure ● Deployment of automation technology 	<ul style="list-style-type: none"> ● Boosting of logistics systems capacity to comply with laws and regulations in each country ● Construction of sustainable logistics system ● Reduction in logistics costs through joint delivery 	<ul style="list-style-type: none"> ● Reinforcement of business planning and strategy formulation functions ● Strengthening of functions for devising and executing tactics (establishment of sales network and sales offices) ● Sales activities that ensure we do not get caught up in price competition (construction of academic network [establishment of organization for advertising directly to users])

Message from the President



Noriyuki Negoro

President & Chief Executive Officer

Aiming for medium- and long-term sustained growth as we seek to be a company that contributes to dentistry across the world.

Firmly fulfilling our social mission particularly because of the challenging environment during the COVID-19 pandemic

We extend our sincere condolences to those who have lost their lives to COVID-19 and also 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.

We would also like to express our deepest gratitude for the support of all of our shareholders, investors and other stakeholders.

Although the fiscal year ended March 31, 2021 was a challenging year due to the COVID-19 pandemic, we believe that it is our role, in these severe circumstances, to supply dental materials and equipment required by dentists and dental technicians who have been providing dental care as well as their patients, and also our social mission to provide solid support for dental care.

In 2012, the Company established a medium-to long-term basic policy, which set forth the vision of the Company 10 years hence in 2022, our 100th year anniversary. We have aimed to realize sustained growth through steady execution of management plans up until the third medium-term management plan with goals set for the fiscal year ended March 31, 2021. Although the medium-to long-term basic policy upheld a plan to achieve the 50-billion-yen vision (Group net sales of 50.0 billion yen and Group operating income of 7.5 billion yen), our efforts have unfortunately not achieved an adequate pace of growth. Thus, capitalizing on the management base we have developed through previous investments, we will make certain to execute the fourth medium-term management plan, announced in May 2021, and accelerate growth. Through these measures, we hope to meet the expectations of all of our stakeholders including shareholders and investors.

We have honestly pursued the contribution to dental care throughout our 100 year history

The Company has secured a high product share in the Japanese market as a comprehensive manufacturer of dental materials and equipment. We have also been aggressive in overseas operations, which now account for almost half of our total net sales.

The Company's founder, Kajo Shofu III, was a potter who manufactured "Kyo-yaki," a traditional craft of ceramic making, in the Kiyomizuzaka area of Kyoto during the Meiji period. Through modernization of the techniques, the industrialization of ceramics manufacture, and entry into the insulator business, he

became involved in various businesses during which time he created the first Japanese-made porcelain teeth. At the time, there was a dependence on imported products for porcelain teeth and dentists requested that he create domestic porcelain teeth that suited the Japanese people and could be worn with confidence. He went to great pains to finally achieve domestic production of high-quality porcelain teeth and established the Company. In those days, there was enthusiasm within Japan to promote new industries and he was one who pursued the creation of goods that fulfilled both tradition and innovation.

The value that the Company places on research and development today is based on the philosophy of contributing to society without forgetting the spirit of taking on new challenges that was present when the Company was founded. We have strived to develop and disseminate dental materials and equipment that can contribute to dental care with patient safety first and foremost, using the best technologies available at the time.

Since I joined the Company, I have focused on research and development, learning from the founding spirit. My first role as a project leader was related to the development of light-curing C+B Composite "SOLIDEX," which I took on board the opinions of dentists and dental technicians. SOLIDEX was widely used as a dental material that combined both excellent product features and ease of use. That type of experience fostered a desire in myself to create products that would help the world, which became a driving force for my research and development activities.

A feature of the Company's research and development is the initiatives and outcomes that have been achieved through cooperation with university lecturers. We have developed many products through joint research. For example, for "Endura," which enjoys a high share of the hybrid resin teeth market, the Company was responsible for research of the material properties, while a research committee was formed among university researchers concerning the shape of the teeth. Development was possible as a result of thorough discussion through this structure, which is truly the fruit of joint research by industry and academia.

We have been supplying products to overseas markets for half a century with the aim of becoming a company that contributes to dentistry around the world

In addition to striving for research and development of products that contribute to dental care in Japan, the Company has been operating in overseas countries as well. We were the first in the Japanese dental materials manufacturers to expand into the U.S. market in 1971. There was nothing but challenges at the beginning, but

with resolve not to simply give up when facing difficulties, we have steadily worked towards the development of overseas markets.

About 10 years ago, we set a target to become one of the world's top ten companies by business scale based on our corporate philosophy of "Contribution to dentistry through innovative business activities," and have been conducting business with a strong awareness of contributing on a global scale. In our 50-billion-yen vision, we set targets for domestic net sales of 17.0 billion yen and overseas net sales of 33.0 billion yen so as to strengthen our business structure by back casting from the future.

Unfortunately, our current results have not reached the numerical targets. However, we have been making inroads in areas such as research and development aimed at expansion of overseas markets and have also been making steady progress in strengthening our production and sales systems. In regard to the fourth medium-term management plan, which was launched in April 2021, we have a strong resolve to move forward to achieve the 50-billion-yen vision utilizing the base that we have developed to date.

Look to stay ahead of the times, preempt change, and respond to dental care issues one by one

In the past, dental care mainly concerned the treatment of caries (cavities), but with the focus on healthy life expectancy in recent years, the treatment of periodontal disease or its prevention has become important issues in addition to caries. Deterioration within the oral cavity is said to increase the risk of lifestyle diseases such as diabetes and dementia, so it has become vital to maintain the strength of mastication with healthy teeth as well as maintain the health within the oral cavity. The Company recognizes that contributing to health within the oral cavity from the perspective of healthy life expectancy is a key issue for future business development. Therefore, in addition to the research and development of dental materials and equipment, we have developed and commercialized fluorescence observation device, which assists with early detection of oral cancers. This product is covered by insurance as an equipment that is used as a reference for the scope of ablation when operating on malignant tumors within the oral cavity.

On the other hand, apart from the falling number of dental technicians in Japan involved in the production of denture, the increase in their average age is also an issue. Therefore, the Company is putting its efforts into initiatives for digital dentistry (dental treatment that makes use of digital technology) that helps improve efficiency and automation of procedures. Through this, we want to contribute to further improvement in high-quality dental procedures and improve the working environment for dental technicians.

The most important thing for the Company's sustained growth is the provision of safe and sound products. To achieve this, we develop and manufacture products in compliance with each country's laws and regulations such as Japan's Act on Pharmaceuticals and Medical Devices, and strive to maintain quality. The Quality Assurance Department is positioned as the command tower for quality control, prompting company-wide awareness as well as thorough quality control. We will continue to maintain the best possible system in order to supply safe and sound products.

We will accelerate overseas operations, utilizing the management base developed to date

We have implemented the third medium-term management plan, aimed at realizing the 50-billion-yen vision, to contribute to the world's dental care. The domestic business is the Company's home ground. Since aggressive investment is not possible without a domestic business base, we have aimed to strengthen our domestic business base and expand our presence in the domestic market, while expanding our overseas business. With this in mind, we have engaged in priority issues such as the development and introduction of new products that match local demands and needs, as well as the improvement and realignment of our overseas sales network and sales offices, the establishment of domestic and international academic networks, relocation of production sites, and expansion of offshore production, and have achieved definite outcomes.

In regard to the development of the overseas sales network, we have improved our sales structure for the growing digital dentistry products in the U.S., which is the largest market, and established sales offices in growth markets such as India and Brazil. In addition, we constructed a company-owned office to enhance the sales structure in Germany, Europe, establishing a new training facility and aggressively developing initiatives such as training that is vital for market penetration. At the same time, we have proceeded with the submission of applications in accordance with each country's laws and regulations to create a structure that will enable us to supply our products around the world.

On the other hand, in order to improve production sites, apart from expanding factories in Japan, we established a CAD/CAM processing center and strengthened other leading-edge measures in the digital dentistry era. In addition, we also established a production site in Vietnam and started local production in Germany. Going forward, we aim to create a structure that can provide stable supply of products that match local needs.

Together with developing overseas markets, we will strive to develop state-of-the-art new products

In this way, I believe that we were able to establish a base for our future growth strategy by improving and



strengthening our structure in terms of both sales and manufacturing through the execution of the third medium-term management plan. Despite current restrictions on overseas operations due to the COVID-19 pandemic, we will focus on product sales during the period of the fourth medium-term management plan.

As there is much scope to expand sales, particularly in the enormous markets of the U.S. and Europe, strengthening sales is an urgent issue. In conjunction with the improvement of the sales network, we also see the provision of scientific information to dentists and approaches to key opinion leaders (KOLs) as some of the priority issues.

Together with improving the sales and manufacturing structure, the Company has strived to develop world-class new products. We plan to supply the products that the Company has developed in Japan globally according to the state of economic development in each region in the world. For example, for regions where the electric power infrastructure is inadequate, we will supply dental materials that can be used without using electricity.

Meanwhile, we will accelerate the development of new products with an eye to the future. In this regard, we have been strengthening our relationship with Mitsui Chemicals, Inc. since entering into a business tie-up in 2009. From May 2020, we established five working groups covering the areas of domestic sales, overseas sales, digital, R&D and production to look at strengthening the business tie-ups with Mitsui Chemicals, Inc. and Sun Medical Co., Ltd. Members were selected from the three companies to select themes and implement initiatives for the creation of synergies. We believe that the speed of new product development will accelerate all at once by combining the strengths of Mitsui Chemicals, Inc. in new materials R&D and our strengths in areas such as applied technology and commercialization of products. Through this, we will develop market-leading products moving forward.

Strengthening the human resources base is important for accelerating overseas operations

Strengthening the human resources base is essential for our future sustained growth. With the acceleration of overseas operations, it is important to develop human resources able to be effective in all countries around the world, which is reportedly 14 times the size of the domestic Japanese market, and therefore we are strengthening education and training. In addition, we have been actively recruiting foreigners in recent years. At the same time, we also consider the development

and promotion of local human resources in each region around the world to be important. Along with empowering women, the Company aims to recruit and promote people from a broadly-defined diversity perspective not restricted by gender or nationality, and also plans to establish an optimal personnel appraisal scheme.

We also think it is important to strengthen corporate governance as well as the human resources base. In December 2020, the Company's U.S. subsidiary was defrauded by approximately 100 million yen. This caused considerable concern to all of our stakeholders including shareholders and investors, and we took measures to strengthen the internal audits of domestic and overseas offices through the Internal Audit Department that reports directly to the President. This was in addition to other measures to address such risks including reminders and education about IT security, and improving internal regulations. Due to concerns that previously unforeseen risks could emerge as we advance our overseas operations, we will continue to implement initiatives to strengthen governance, including thorough compliance.

We will steadily implement the medium-term management plan to achieve Group net sales of 50.0 billion yen and Group operating income of 7.5 billion yen

As we invested aggressively in overseas bases and other areas under the first to third medium-term management plans, under the fourth medium-term management plan, we will work to improve our performance by recouping these investments from this year onward. In addition, we will aim to improve corporate value by utilizing the strengths and experience we have developed under past medium-term management plans and build the base for growth ahead of the fifth medium-term management plan, which is to commence from fiscal 2024.

In terms of the dividend policy, in addition to having a dividend payout ratio of at least 30%, we have set a new indicator with a tentative target of 1.7% for the ratio of dividends to net assets (DOE), aimed at achieving stable dividends.

The Group will continue to work to achieve Group net sales of 50.0 billion yen and Group operating income of 7.5 billion yen to realize its corporate philosophy and also aim for sustained growth and improvements in medium- and long-term corporate value. Through this, we will create social and economic value and meet the expectations of all of our stakeholders.

I would like to ask for the ongoing patronage and support of all of our stakeholders.

Dividend related indices

	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020	Year ended March 31, 2021	Year ending March 31, 2022 (Forecast)
Net income per share	55.20 yen	75.54 yen	44.24 yen	96.29 yen	69.48 yen
Dividend per share	20 yen	23 yen	26 yen	29 yen	32 yen
Payout ratio	36.2 %	30.4 %	58.8 %	30.1 %	46.1 %
Return on equity	3.8 %	5.0 %	2.9 %	6.2 %	4.1 %
Net assets per share	1,511 yen	1,524 yen	1,491 yen	1,690 yen	—
Ratio of dividends to net assets	1.4 %	1.5 %	1.7 %	1.8 %	—

The Shofu Group's Medium-term Management Plan

Striving to achieve our long-term vision

In 2012, the year of its 90th anniversary, the Shofu Group established a "50-billion-yen vision," a long-term vision that looks ahead to how the Group should be in the future. In brief, the aim of the vision is to achieve 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%) by shifting a large portion of our management resources overseas, based on the recognition that "the Shofu Group has no future if it cannot grow overseas," and in order to increase our contribution to dentistry around the world and our presence in the market.

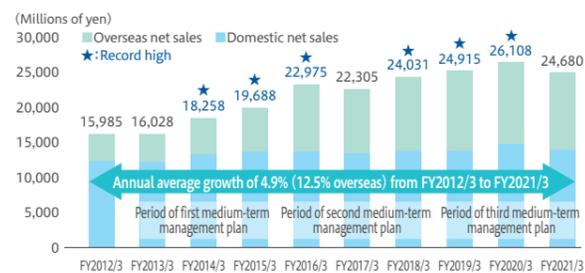
Since then, nine years have passed since we formulated the first to third medium-term management plans every three years with the aim of achieving our long-term 50-billion-yen vision. During that time, we worked on a number of issues. From the current fiscal year, which began in April 2021, we will continue to make efforts to achieve our vision under the fourth medium-term management plan.



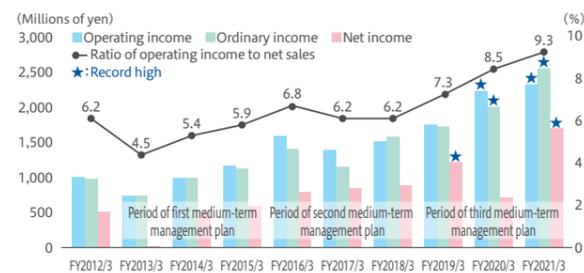
Medium- to long-term priority issues

Priority issues	Achievements from initiatives taken during the period of the previous medium-term management plan
1 Development and introduction of new products that match local demands and needs	<ul style="list-style-type: none"> Developed and launched new products suited to digital dentistry Launched new products and boosted sales in the areas of chemical products in the Americas and chemical products and artificial teeth products in China
2 Improvement of our sales network and sales offices	<ul style="list-style-type: none"> Established sales networks around the world, including the foundation of local subsidiaries in India and Brazil
3 Establishment of domestic and international academic networks (Create a system through which we can promote our products directly to users)	<ul style="list-style-type: none"> Ramped up academic activities (boosted the number of academic personnel, enhanced the lineup of reference documents such as clinical trial results, held product briefings, organized hands-on seminars, etc.)
4 Relocation of production sites and expansion of offshore production to reduce costs and increase production volume	<ul style="list-style-type: none"> Established a production base in Vietnam
5 Development and securing of human resources to actively promote overseas operations	<ul style="list-style-type: none"> Secured human resources to promote globalization of our business
6 Capital procurement in response to increasing capital requirements	<ul style="list-style-type: none"> Created a flexible funding environment that can meet capital requirements Achieved an issuer rating upgrade from Rating and Investment Information, Inc. (R&I)
7 Promotion of M&As (business tie-ups, technology partnerships, business acquisitions)	<ul style="list-style-type: none"> Established a new organizational structure (based on full-timers) to gather information from multiple sources and study potential projects
8 Business tie-ups with Mitsui Chemicals, Inc. and Sun Medical Co., Ltd.	<ul style="list-style-type: none"> Concluded a capital and business tie-up agreement and established stronger relationships than ever before
9 Strengthening the group governance system	(Newly established issues from the fourth medium-term management plan)

Net sales performance trends



Operating income, ordinary income, and net income



Overview of the fourth medium-term management plan

Positioning of the fourth medium-term management plan in the context of our basic approach and long-term vision

The Shofu Group has achieved substantial change during the nine years since the establishment of the 50-billion-yen vision in 2012. As a result of our various efforts to create an environment in which each and every employee can think about their own role, set goals, and strive for growth opportunities, we have been able to accumulate knowledge in a multitude of areas. We will continue to maintain and raise the foundation of our domestic business and our presence in the domestic market, while pivoting the allocation of our corporate resources to overseas and staying committed to

following the path of expanding our overseas business.

On the other hand, in light of the two-year delay in progress we have experienced due to the COVID-19 outbreak, which occurred during the period of the third medium-term management plan, we will successfully execute the fourth medium-term management plan with a greater sense of speed than before, and by deciding on and implementing measures that are not merely extensions of what we have done in the past, we will accelerate the pace of business expansion to achieve the 50-billion-yen vision.

Toward successful execution of the fourth medium-term management plan

We will take action to address the medium- to long-term priority issues with a greater sense of speed than in the past.

At the beginning of this fiscal year, we opened a representative office in Dubai, UAE to develop the Middle East and African markets, and we will continue to establish our sales networks and sales offices in important countries and regions going forward. In connection with the priority issue of "Relocation of production sites and expansion of offshore production," we will put the production plant of our Vietnamese production subsidiary into full-fledged operation. The subsidiary was established during the period of the third medium-term management plan, and the plant will produce grinding materials mainly for overseas markets. Looking ahead, we

will be expanding the range of items it produces and grow it into one of the Group's most important production bases.

In addition, from the fourth medium-term management plan, we have made "Strengthening the group governance system" a new priority issue. 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.

Key numerical targets

	Target for the year ending March 31, 2022	Target for the year ending March 31, 2023	Target for the year ending March 31, 2024
★: Record high (net sales and profit)			
Net sales	26,105	★ 28,097	★ 30,182
Domestic net sales	13,627	★ 14,319	★ 14,745
Overseas net sales	★ 12,478	★ 13,777	★ 15,437
Operating income	1,799 (6.9%)	2,017 (7.2%)	★ 2,618 (8.7%)
Ordinary income	1,837 (7.0%)	2,064 (7.3%)	★ 2,668 (8.8%)
Net income	1,234 (4.7%)	1,379 (4.9%)	★ 1,874 (6.2%)
Net income per share	69.48 yen	77.70 yen	105.53 yen
Return on equity	4.1%	4.4%	5.8%

Figures in parentheses represent the percentage to net sales (Millions of yen)

In the fiscal year ending March 31, 2022, the first year of the fourth medium-term management plan, we expect net sales to recover to the pre-pandemic level in the fiscal year ended March 31, 2020. Later, we expect to achieve record high performance in Japan and overseas from the second year of the Plan.

In terms of profits, in the fiscal year ending March 31, 2021, business activities were severely restricted due to the COVID-19 pandemic, and investment for future growth was curtailed. But under the fourth medium-term management plan, we will actively resume some of these upfront investments. Although profits will remain flat during the fiscal years ending March 31, 2022 and 2023, in the final year of the Plan, the fiscal year ending March 31, 2024, we expect that these investments will bear fruit and we can achieve record high profits.

Executive Vice President's Message



Pursuing further financial soundness and improving profitability.

Wataru Fujishima

Representative Director
Executive Vice President

Strong financial base that enables the supply of safe products

Since its founding, the Company has sought to contribute to the field of dental care. Inheriting the founder's will that "Japanese people must eat rice with teeth made by the Japanese," which was expressed in an era when imported goods were highly respected, we have continuously strived to develop dental materials and equipment as an R&D company. Since a strong financial base is vital for continuous investment in development, our predecessors have worked to improve the Company's financial soundness during its long history in order to reinforce its shareholders' equity, which has become one of the Company's strengths.

At present, the Company's equity ratio is high at approximately 80%. This stable financial base has enabled the Company to develop products with

excellent quality and performance that are firsts in Japan and in the world, as well as to supply safe products. In particular, as the Company's products require a long development period and also have a relatively long life span, a strong financial base is vital to maintain such product cycle. And needless to say, it is also important to improve profitability and capital efficiency. We are always mindful of these points in formulating and executing our financial strategies.

We are planning for approximately 1.7 billion yen of capital investment in the fiscal year ending March 31, 2022. We expect investment related to facilities maintenance and upgrades to be equivalent to the amount of depreciation, which has been approximately 1.0 billion yen in recent years. This investment does not only include maintenance and upgrades but also proactive investment to improve productivity.

Furthermore, we are planning to invest an amount equivalent to the investment for maintenance and upgrades in future growth. On this point, since the Company's operating cash flows are running at 2.0 to 3.0 billion yen per annum, capital investment can be covered within that range. We are currently considering investing beyond the level of operating cash flows in order to realize strategic and active investment for growth going forward.

Achieved record high profits amid the harsh environment caused by the COVID-19 pandemic

Reflecting on the past year, the economic environment

in Japan had been harsh due to the COVID-19 pandemic. Meanwhile, as the domestic dental materials industry in which the Company operates is insusceptible to the impact of economic fluctuations, the Company's domestic net sales did not decrease beyond 6.0% in the fiscal year ended March 31, 2021. In regard to overseas markets, net sales decreased by only 4.8%, despite some cities being affected by lockdowns.

In addition, in terms of income, operating income, ordinary income, and net income all reached record highs. This was attributable to the large decline in overseas business trip expenses as well as the cancellation of exhibitions, which offset the decrease in net sales.

In terms of capital requirements, as mentioned above, we had absolutely no concerns about our cash on hand despite the COVID-19 pandemic due to our strong financial base. Nevertheless, to prepare for unforeseen circumstances, we increased our bank commitment lines by 2.0 billion yen, but did not need to call upon such funds due to a large decline in our expenses.

Further growth in the growth industry of dental materials

From a financial perspective, although there are no issues with regard to our financial soundness, as pointed out by our shareholders, we do recognize that we must work to improve our profitability. In the fiscal year ended March 31, 2021, return on equity (ROE) was 6.2% and the ratio of ordinary income to total assets was 7.5%. These upward trends could be attributable to the growth in net sales in overseas markets. In overseas operations, as the products we launch in the markets are primarily in-house products with high profit margins, the growth in net sales is directly linked to improved profitability. Under the new medium-term management plan, we have set the target ROE for the fiscal year ending March 31, 2024 at 5.8%, which we currently believe is achievable. However, instead of being satisfied with the current situation, we are committed to increasing the ROE from around 6% to 8% or 10% over the medium- to long-term in the course of steadily resolving the priority issues.

Furthermore, in terms of the dividend policy, we have previously set a consolidated dividend payout ratio of at least 30%. In addition to this, we have newly introduced a dividend on equity (DOE) ratio, setting a numerical target of 1.7% in DOE. For reference, the DOE for the fiscal year ended March 31, 2021 was 1.8%, and we plan to increase this to the 2.5% level over the medium- to long-term.

In regard to the Company's investor relations (IR) activities, we have made proactive efforts towards investors and individual shareholders.

However, we recognize that our current issue is to be able to show a clearer picture of our growth story.

On this point, we would like to take this opportunity to convey the fact that the field of dental materials is a growth industry. While the market in Japan is shrinking due to the low birth rate and aging society, we believe that the fields of preventative dentistry and aesthetic dentistry will continue to grow into the future.

In addition, looking at the world, the economies of countries in Asia such as China, as well as in Africa and South America are developing and we expect that there will be a dramatic increase in demand for dental care in the future. In light of these facts, we realize the importance of being very specific in conveying both the economic value and social value that we are aiming to realize.

Aiming to improve governance to remain a company that is trusted by society

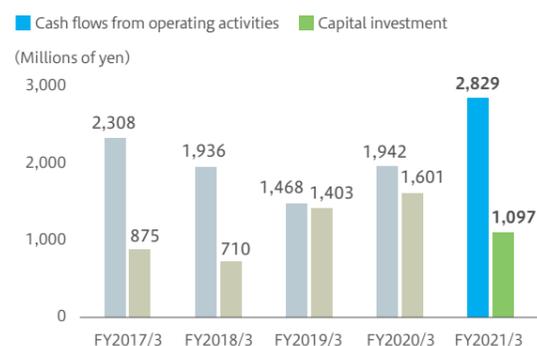
We naturally recognize that the Company needs to strengthen corporate governance to achieve sustained growth. We will strive to further strengthen governance also in terms of fulfilling our social mission as a listed company.

At present, four of the nine Directors on the Company's Board of Directors are Outside Directors, and there is active exchange of opinions regarding each agenda item at the Board of Directors' meeting. In addition, the Corporate Governance Committee has been established as an advisory body to the President, and we discuss priority issues of the medium-term management plan and business strategies with Outside Directors through such forums.

Apart from this, the Company recognizes sustainability initiatives to be issues from the perspective of ESG management, and is therefore committed to sincerely engaging in each of the issues. In addition, to continue to be a company that is trusted by society, we aim to realize efficient and highly transparent management through enhancement of corporate governance. Therefore, I would like to ask for the ongoing support of all of our stakeholders.



Cash flows from operating activities/capital investment



Shofu's Core Competence

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 its establishment.

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

Ratio of R&D expenses to net sales: **6.3%**

Ratio of R&D personnel: **18.2%**

Number of patents held: **378**

Ratio of sales of new products to net sales: **18.8%**

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

Production technology and quality control 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: **83** countries

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

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: **13,661**

Human resources supporting SHOFU

Number of Group employees:

642 persons in Japan **564** persons overseas

Total number of specialists with expert knowledge (employees qualified as dentists, dental hygienists, dental technicians, pharmacists and others): **63** persons

Average years of service:

17.76 years (men) **16.79** years (women)

Women empowerment: **100%** of women employees return to work after maternity or childcare leave

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

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, and other regions.

Main products

1 Artificial teeth products

Artificial teeth and implant materials

- Porcelain teeth, porcelain powder, and resin teeth

2 Abrasives products

Materials for removing diseased areas and polishing crowns

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

3 Metal products

Materials for use as dental crowns and as the base for implants

- Alloys for casting and silver alloys
- Other metals

4 Chemical products

Materials for use in a variety of applications including implants, diseased area fillings, gums for artificial teeth, etc.

- Synthetic resins
- Impression materials
- Waxes

5 Cement products and others

Materials for use in the adhesion of implants, fillings, etc.

- Dental cements
- Dental stones and investments

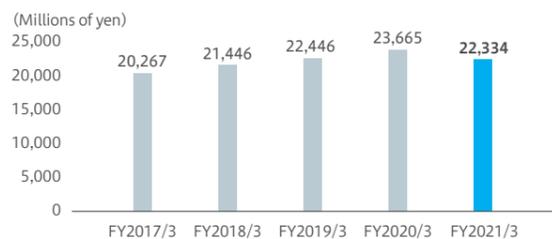
6 Machinery, equipment, and others

Machinery and equipment for dental treatment and dental prostheses

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



Net sales

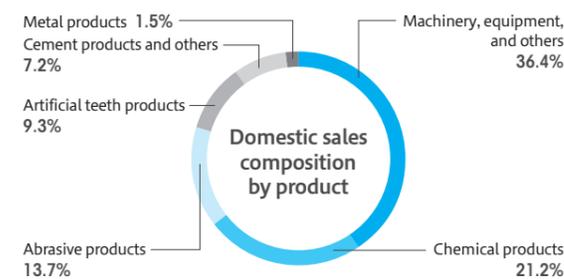


Operating income



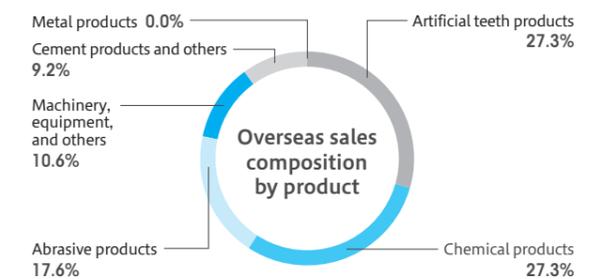
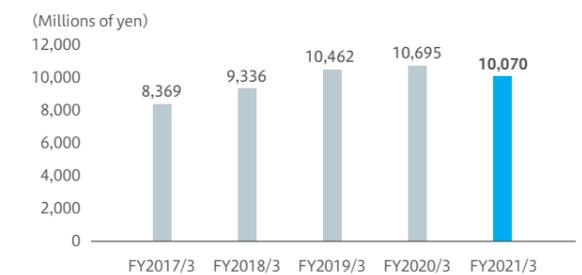
[Domestic]

Domestic net sales



[Overseas]

Overseas net sales



Business activities in the fiscal year ended March 31, 2021

In addition to developing online seminars and sales promotion tools using online systems both in Japan and overseas, we aggressively launched CAD/CAM-related products in the digital dentistry field.

We worked to develop our sales network mainly in emerging countries, such as Brazil and India, and actively implemented initiatives with an eye to future growth despite the constraints on business activities amid the COVID-19 pandemic, including preparations for the start of operations at a manufacturing subsidiary in Vietnam in the fall of 2021.

Domestically, although sales of the EyeSpecial C-IV, a digital oral cavity photography device, which was launched during the previous consolidated fiscal year, and sales of new CAD/CAM-related products were strong, sales in each product area generally decreased due to a decline in opportunities for dental consultations and restrictions on sales activities caused by the COVID-19 pandemic, resulting in a year-on-year decline in sales.

Looking overseas, although sales were strong in China and Europe, they decreased year on year in North America, Central and South America, and other regions due to lockdowns and curfews, as well as the impact of foreign exchange rates.

Initiatives for growth

Under the fourth medium-term management plan, which was launched in April 2021, we will accelerate the speed of business development and steadily implement measures for priority issues with the full force of the Group in order to build a solid foundation for further growth as we celebrate our 100th anniversary in 2022.

In Japan, we will pursue targeted sales activities focused on CAD/CAM-related products, which are expected to attract demand, and key areas. We will also put efforts into activities providing information to dental and medical professionals by developing online seminars and sales promotion tools.

Overseas, we will promote sales expansion by developing online sales activities and revitalizing business activities in each region.

In addition, we will strengthen the cooperation with both Mitsui Chemicals, Inc. and Sun Medical Co., Ltd. to create more synergy. At the same time, we will make efforts to enhance the internal control structure to increase the effectiveness of corporate governance and achieve medium- to long-term improvement of the Group's corporate value.

Enhancement of business and capital tie-ups with Mitsui Chemicals, Inc.

The Company concluded a business and capital tie-up agreement with Mitsui Chemicals, Inc. on May 14, 2020 to further strengthen the business and capital tie-ups with Mitsui Chemicals, Inc. and its subsidiary, Sun Medical Co., Ltd.

Details of the capital tie-up

To further strengthen the trusted relationships and cooperation among the three companies that have so far been cultivated through the tie-ups, the Company issued new shares to Mitsui Chemicals, Inc. by means of third-party allotment with the aim of raising funds for business investment for future growth of the Group.

In addition, we acquired Sun Medical Co., Ltd.'s 20,000 shares (20.00% of the total number of issued shares) from Mitsui Chemicals, Inc.

Details of the business tie-up

- 1 Promoting new product development by using technologies in each company's fields of expertise
- 2 Enhancing product ranges with complementary products
- 3 Pursuing synergy by tapping into domestic and overseas distribution networks
- 4 Studying ways to complement and share manufacturing functions

Special feature

Developing unique technologies and products to meet customers' needs backed by research and development capabilities we have built since our establishment

In the long history of Shofu, we have brought indispensable products for dentistry to market while maintaining the management style that emphasizes research and development under our corporate philosophy, "Contribution to dentistry through innovative business activities."

Shofu offers dental material products, most of which are used in the oral cavity, where conditions are severe due to large temperature differences and high humidity. At the same time, several elements for such products must be balanced at a high level, which include aesthetics close to natural teeth, operability in clinical practice, cost-effectiveness as many of such products are covered by the health insurance system, and most importantly, safety and compatibility to living organisms. To address such challenges, research and development covering a wide range of technologies are required. The Group has accumulated technologies such as those in organic chemistry, inorganic chemistry, metal, machinery, electrical, electronic, and biotechnology fields and is capable of developing new products by optimally combining those technologies. This is our advantage and strength.

S-PRG Filler, which contributes to oral health and extension of the life of teeth

Shofu succeeded to develop S-PRG Filler after conducting researches many times with the aim of contributing to oral health and extension of the life of teeth. S-PRG Filler releases six types of ions including fluoride and has the fluoride release and recharge function. It contributes to patients' oral health with its characteristics that help to prevent plaque from sticking to the surface of teeth and helps to bring the oral environment from acidic to near

neutral, where dental caries are less likely to occur. S-PRG Filler can be applied to a wide range of dentistry fields. Many of our products contain S-PRG Filler and we collectively call those products "Giomer." To respond to the increased awareness of prevention around the world, we are proactively working to promote "material care" as the third type of dental care after daily home care by patients and professional care by dental professionals.

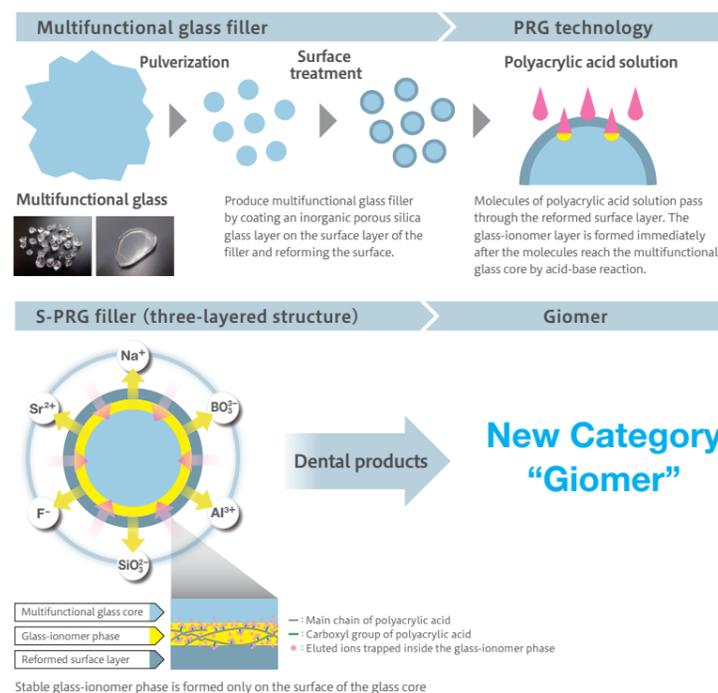
What is S-PRG Filler?

S-PRG Filler is a bioactive glass filler with a three-layered structure that is designed to be applied to various dental materials.

S-PRG Filler is created as follows: pulverize multifunctional glass we developed and reform the surface, react the glass with polyacrylic acid solution to form a stable glass-ionomer phase on the surface of the core glass.

The glass-ionomer phase serves as the storage of multiple ions. Thanks to this, S-PRG Filler releases multiple ions of fluoride, strontium, boric acid, silicic acid, aluminum, and sodium, which brings bioactive effects and contributes to oral health.

Furthermore, depending on the external surroundings (ion concentration gradient), reversible switching between ion release and recharge occurs like an ion storage battery. Research institutions in and outside Japan have reported that multiple ions released from S-PRG Filler bring bioactive effects such as strengthening of teeth, anti-plaque effect, and neutralization of acid.



[Giomer products]

BEAUTIFIL Flow Plus X, composite resin for dental fillings

This product is a restorative paste material to fill the area where caries is removed. While featuring aesthetic quality and operability, it helps maintain patients' oral health after surgery with the application of nanosized S-PRG Filler.



Nail care business

Line of business

In the nail care business, We manufactures, imports, exports, and sells nail care products and equipment based on its technologies fostered in the dental materials field. For some products including gel nail products, we have an integrated system within the Group from development to manufacturing and distribution.



Business activities in the fiscal year ended March 31, 2021

Domestically, despite strong sales of "ageha," a gel nail product with tie-ups with famous manicurists, and "by Nail Labo" gel nail products for home use, sales decreased due to the temporary closure of nail salons and the cancellation of major exhibitions, resulting in a year-on-year decline in sales.

Looking overseas, 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), and sales also increased in Taiwan as the recognition of our mainstay gel nail products increased. However, net sales decreased from the previous fiscal year as a whole, impacted by a decrease in domestic sales.

Net sales



Operating income



Initiatives for growth

For the nail care business, we will strive to increase sales with a focus on our core lineup of gel nail products. At the same time, we aim to further strengthen relationship with manicurists to develop products to meet market needs and proactively conduct promotion activities.

Other businesses

Line of business

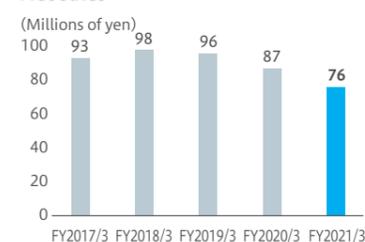
SHOFU PRODUCTS KYOTO INC., a group company We manufactures and sells industrial polishing materials by using the manufacturing technology of dental polishing materials. In the industrial polishing materials market, we use advanced polishing and cutting technologies that we have accumulated over the years.



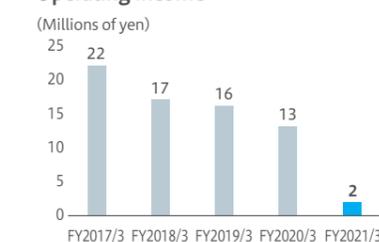
Business activities in the fiscal year ended March 31, 2021

Due to the COVID-19 pandemic, production adjustments were made throughout the industrial world. Because of this, orders in industrial polishing materials decreased, and as a result, net sales decreased from the previous fiscal year.

Net sales



Operating income



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

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 stakeholders.

through enhancement of corporate governance to fulfill its social responsibility. Accordingly, we aim to enhance corporate governance in accordance with the following basic policies.

[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.

Evaluation of effectiveness of the Board of Directors

The Company has conducted evaluation of the effectiveness of the Board of Directors since FY2016.

Specifically, we have conducted questionnaire surveys of Directors and Auditors on the effectiveness of the Board of Directors. The results are evaluated and analyzed by the Board of Directors.

In FY2020, it was concluded that the effectiveness of the Board of Directors was largely ensured as the way the Board of Directors was operated, as well as its roles and responsibilities were appropriate and free and open discussions and opinion exchange were encouraged.

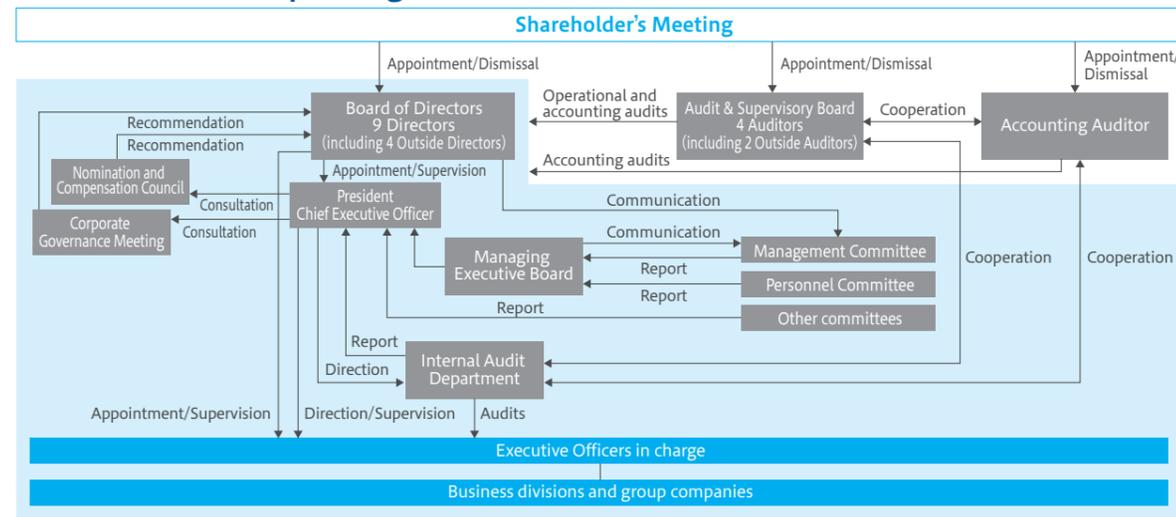
At the same time, we confirmed and informed that there was room for improvement in the roles and the member composition of the Corporate Governance Meeting, discussions and the method of discussions with regard to medium- to long-term corporate strategies, and materials of the Board of Directors. As part of efforts to address these issues, we reviewed the roles and the member composition of the Corporate Governance Meeting to stimulate discussions for the realization of the management vision and also conducted executive training on ESG.

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 President who is authorized by the Board of Directors after consultation with

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

Overview of the corporate governance structure



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

Name	Overview	Number of meetings held in FY2021/3
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 resource development) and then provides the Board of Directors with recommendations so as to strengthen fairness, transparency, and objectivity on the procedure of nomination of Directors and determination of their compensation, etc.	2
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.	48
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.	13
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

Officer category	Details
	<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.
Directors (excluding Outside Directors)	<p>①Basic compensation Shall be monthly fixed compensation and determined depending on the position and responsibility with comprehensive consideration for the levels of other companies, the Company's business performance, and the level of employees' salaries.</p> <p>②Performance-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 according to the report from the Nomination and Compensation Council.</p> <p>③Non-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.</p>
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 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 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 up to 50 million yen per annum to the Company's Directors.

[Status in FY2020]

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)	188	134	42	11	7
Auditors (excluding Outside Auditors)	36	36	—	—	3
Outside officers	37	37	—	—	6

* The amount of restricted share-based compensation represents the amount of expenses reported in the current fiscal year.
* The number of people above includes two Directors and one Auditor who retired at the close of the 148th Shareholders' Meeting held on June 24, 2020.

Officers



Directors and Auditors

Akira Kawashima

Auditor

[Attendance]
Board of Directors meetings:
18/18 (100%)
Audit & Supervisory Board meetings:
16/16 (100%)

Yoshiyuki Nakajima

Outside Director

[Attendance]
Board of Directors meetings:
12/12 (100%)

Tetsuo Takami

Director
Managing Executive Officer
Sales

[Attendance]
Board of Directors meetings:
18/18 (100%)

Fumitaka Yamazaki

Director
Managing Executive Officer
Corporate Planning

[Attendance]
Board of Directors meetings:
18/18 (100%)

Kazuhiko Murakami

Director
Managing Executive Officer
International

[Attendance]
Board of Directors meetings:
18/18 (100%)

Daizo Nishimura

Outside Director

[Attendance]
Board of Directors meetings:
12/12 (100%)

Mitsuo Kamimoto

Outside Auditor

[Attendance]
Board of Directors meetings:
18/18 (100%)
Audit & Supervisory Board meetings:
16/16 (100%)

Yasushi Sakemi

Outside Auditor

[Attendance]
Board of Directors meetings:
18/18 (100%)
Audit & Supervisory Board meetings:
16/16 (100%)

Kenji Nishida

Outside Director

[Attendance]
Board of Directors meetings:
18/18 (100%)

Wataru Fujishima

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

[Attendance]
Board of Directors meetings:
18/18 (100%)

Noriyuki Negoro

President
Chief Executive Officer

[Attendance]
Board of Directors meetings:
18/18 (100%)

Kiichi Suzuki

Outside Director

[Attendance]
Board of Directors meetings:
18/18 (100%)

Takao Aoyagi

Auditor

[Attendance]
Board of Directors meetings:
18/18 (100%)
Audit & Supervisory Board meetings:
16/16 (100%)

* The Board of Directors meetings were held 18 times in the current fiscal year and the Audit & Supervisory Board meetings were held 16 times. The number of the Board of Directors meetings held after Daizo Nishimura and Yoshiyuki Nakajima assumed the office is 12.

Executive Officers

(excluding those who also serve as Directors)

Executive Vice President

Takashi Chikamochi

Senior Managing Executive Officer

Mikito Deguchi

Managing Executive Officer

Satoshi Iwasaki
Takahiro Umeda
Shinya Teramoto

Senior Executive Officer

Yoshikazu Nakajima

Executive Officer

Toshinori Sakurai
Ryuichi Yoshimoto

Toshiyuki Nakatsuka
Junichi Sugawara

Takashi Wakayama
Syuji Sonoi

Corporate Governance

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.
	—	Yoshiyuki Nakajima	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. As an Outside Director, he has appropriately supervised the Company's management by providing advice based on his experience and insights.
	Outside Auditor	○	Yasushi Sakemi
○		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.

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. 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.

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.

Internal audits

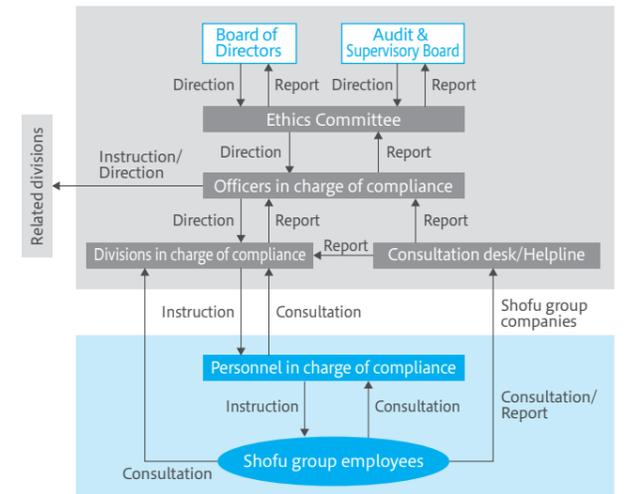
The Internal Audit Department in charge of internal audits conducts audits under the direction of the Chief Executive Officer by working with the Audit & Supervisory Board and the Accounting Auditor according to the internal audit plan. Specifically, the department conducts audits on the appropriateness 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 risk management, and state of compliance with laws, regulations, and internal rules. We have been working to enhance the audit function with the collaboration with the Auditors and the Accounting Auditor by reporting the results of internal audits and discussing them as needed.

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's code of conduct

We stipulate the Group's 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's 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. We have an internal consulting desk and another consulting desk with outside lawyers to ensure to

expand reporting and consultation opportunities. In addition, we prohibit any disadvantageous treatment of whistleblowers and strictly manage information so that whistleblowers are not identified.

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.

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 >

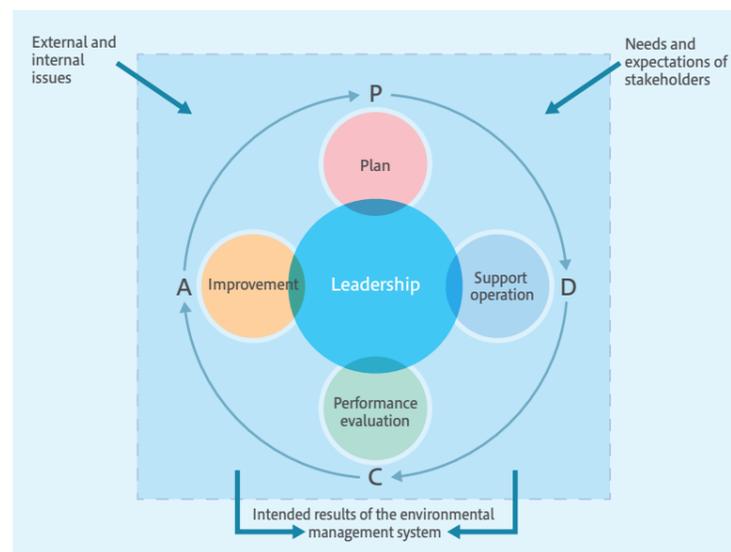
As a company that contributes to dentistry worldwide, Shofu will strive to reduce the environmental impact of its business activities.

< Environmental Policy >

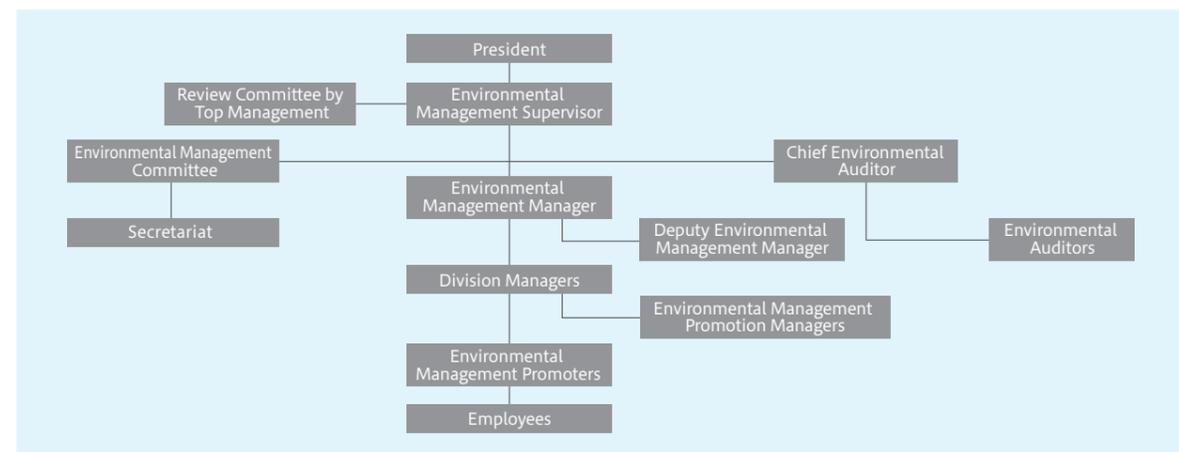
1. Set environmental targets and systematically implement initiatives that contribute to reducing environmental impact and achieving management plans.
2. Comply with environmental laws and regulations and other requirements to which Shofu agrees.
3. Strive to prevent environmental pollution throughout 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.

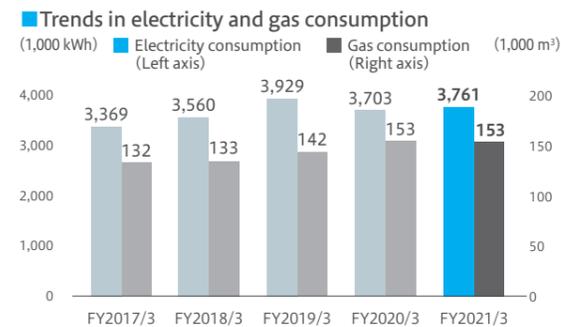


Environmental management system chart



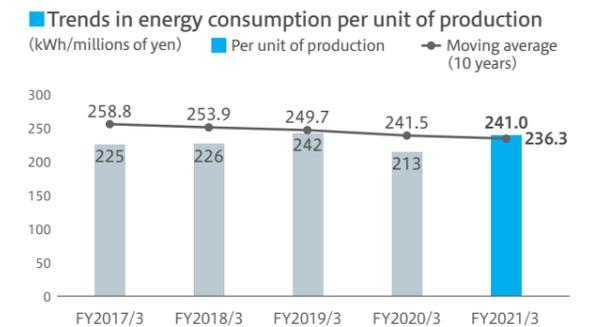
Efforts to reduce CO₂ emissions

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.

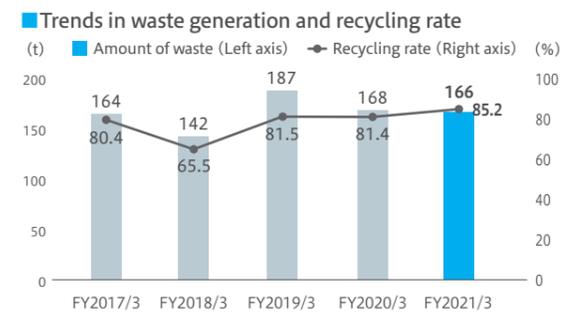
In recent years, our consumption of electricity and gas has been on the rise. However, it has been affected mainly by the expansion of our business activities. As a result, our energy consumption per unit of production has remained flat.



Waste reduction and appropriate disposal

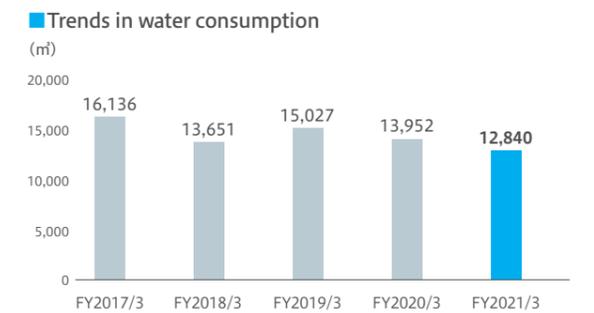
Shofu is committed to reducing and reusing waste generated by our business activities to reduce the consumption of resources and the generation of waste, thereby reducing the burden on the global environment.

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

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 to monitor and reflect the results in the following year's activities.

Network with dental professionals

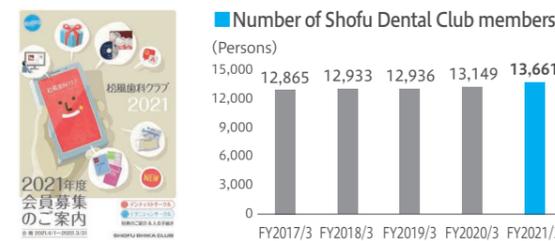
Shofu Dental Club

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, 2021, there were 13,661 members (including

10,649 dentists and 3,012 dental technicians), a 3.8% 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.

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.



Picture book reading activities

Since fiscal 2012, Shofu has conducted picture-book reading activities on the theme of teeth at nursery schools near our headquarters on November 8 (Good Teeth Day). The activities include instructions on brushing by our dental hygienists and reading of the web picture books on *Haiku*, our dental education website for parents and children. In fiscal 2020, due to the COVID-19 pandemic, we donated picture books to nursery schools near our Kyoto Headquarters instead of visiting them. Through these activities, we teach children the importance of teeth and brushing.



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

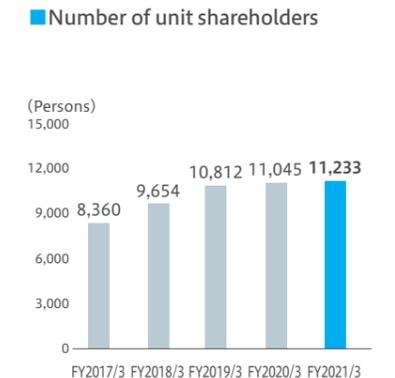
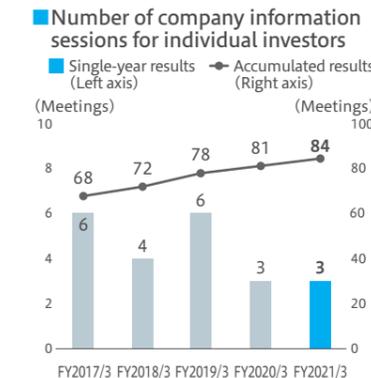
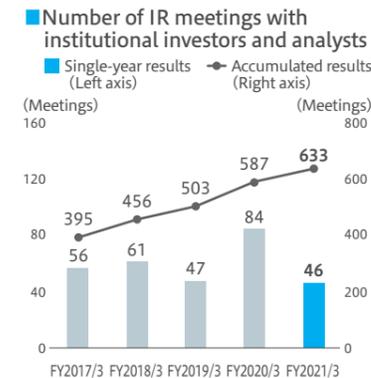
sharing within the company evaluations and requests obtained through dialogue with shareholders and investors. We also believe that our important mission is to communicate the importance of dental care to individual shareholders and investors through dialogue.

Outline of activities

- Dialogue with shareholders
 - Holding an annual general meeting of shareholders, exercising 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



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

■ 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
Chiefs	Training for newly appointed chiefs
New graduate hires and mid-career hires	Education for newly hired employees and follow-up training
Prospective employees	Education for prospective employees

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.

■ Selective training

Target	Training name
Those recommended by each division	Training for next-generation leaders

■ 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 in-house 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

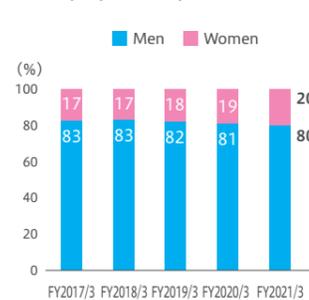
Training name	Target	Purpose and details	Results (cumulative number)
Overseas dispatch training (long-term)	Those recommended by each division	Experience and learn in-depth about business practices and customs at overseas subsidiaries for one to three months.	10 persons
Overseas dispatch training (short-term)	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

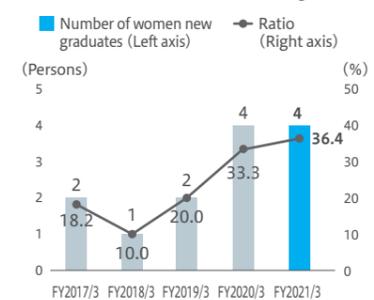
Women's participation and advancement

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.

■ Employee composition



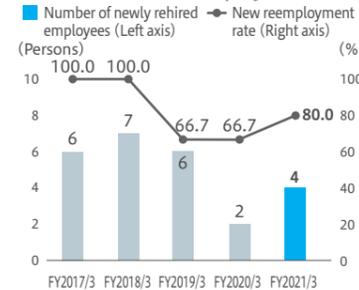
■ Number and ratio of women new graduates



Elderly resources

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 new 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



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 maximum 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 percentage of employees taking paid leave



Health support for employees

Based on the concepts that companies should promote the mental and physical health of their employees and that employees should be healthy in mind and body and provide a healthy workforce, Shofu recognizes that considering employees' health has a significant effect on business management.

To improve the health of our employees, we implement health checkups, stress checks, working hour management, health maintenance and promotion measures, thereby creating an environment where employees can work with peace of mind.

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
 * Severity rate: the number of working days lost per 1,000 actual working hours, which indicates the degree of severity of an industrial accident

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's 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 managers.

Financial Summary for Past 11 Years

Fiscal year (Millions of yen)	139th Fiscal Year (Ended March 31, 2011)	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)
Net sales	15,711	15,985	16,028	18,258	19,688	22,975	22,305	24,031	24,915	26,108	24,680
Cost of sales	7,006	7,176	7,184	8,229	8,598	9,798	9,357	10,267	10,469	11,423	11,083
Selling, general and administrative expenses	7,761	7,811	8,118	9,041	9,929	11,608	11,564	12,266	12,631	12,474	11,296
Operating income	942	997	725	987	1,159	1,568	1,382	1,497	1,814	2,210	2,300
Ordinary income	758	962	732	978	1,114	1,393	1,141	1,565	1,709	1,988	2,523
Net income before income and other taxes	766	962	356	978	965	1,352	1,141	1,357	1,709	1,184	2,370
Income taxes	311	451	338	472	387	557	299	478	512	460	672
Profit attributable to owners of parent	455	510	18	506	581	789	836	877	1,201	704	1,674
Comprehensive income	212	476	642	1,361	2,169	(15)	1,194	2,156	523	(46)	3,618
Capital expenditure	582	280	1,209	1,282	1,650	713	875	710	1,403	1,601	1,097
Depreciation expense	613	623	571	656	783	1,007	888	920	862	949	955
R&D expenses	1,040	1,185	1,219	1,332	1,410	1,431	1,408	1,494	1,492	1,537	1,563
Fiscal year end (Millions of yen)											
Current assets	13,464	13,966	12,965	13,298	15,625	14,265	14,286	15,345	14,975	15,416	17,829
Noncurrent assets	9,184	8,829	9,851	10,741	13,816	14,039	14,566	15,545	15,186	14,417	19,983
Current liabilities	3,220	3,244	2,969	2,801	5,510	3,049	3,215	3,663	3,820	3,680	4,212
Noncurrent liabilities	1,194	1,111	1,185	1,490	2,150	3,755	3,341	3,070	1,957	2,216	7,614
Net assets	18,233	18,439	18,662	19,747	21,781	21,500	22,296	24,157	24,383	23,936	30,198
Total assets	22,649	22,795	22,817	24,039	29,442	28,305	28,853	30,890	30,161	29,834	37,813
Other information											
ROE (%)	2.5	2.8	0.1	2.6	2.8	3.7	3.8	3.8	5.0	2.9	6.2
ROA (%)	2.0	2.2	0.1	2.2	2.2	2.7	2.9	2.9	3.9	2.3	4.9
Equity ratio (%)	80.5	80.8	81.6	81.9	73.7	75.7	76.9	77.8	80.4	79.7	79.4
Net assets per share (Yen)	1,134.39	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
Net income per share (Yen)	28.32	31.77	1.17	31.77	36.45	49.43	52.61	55.20	75.54	44.24	96.29
Payout ratio (%)	63.6	63.0	1,623.9	56.7	49.4	36.4	38.0	36.2	30.4	58.8	30.1
Price earnings ratio (Times)	26.6	27.4	788.9	27.6	37.7	27.9	25.1	26.0	16.9	39.8	20.6
Cash flows from operating activities (Millions of yen)	1,162	1,210	383	823	710	1,511	2,308	1,936	1,468	1,942	2,829
Cash flows from investing activities (Millions of yen)	(1,050)	(223)	(1,201)	(441)	(3,139)	748	(1,052)	(772)	(1,519)	(1,768)	(4,081)
Cash flows from financing activities (Millions of yen)	(325)	(318)	(477)	(1,305)	2,810	(2,152)	(835)	(592)	(844)	(224)	3,023
Number of employees (Persons)	810	814	829	834	881	1,080	1,103	1,124	1,168	1,189	1,206

Company Profile and Stock Information

(As of March 31, 2021)

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	First Section of the Tokyo Stock Exchange (Securities Code: 7979)
Number of employees	1,206 (consolidated), 468 (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 (established on April 1, 2021)
Shofu group companies	<p>Domestic SHIGA SHOFU INC. SHOFU PRODUCTS KYOTO INC. SHOFU BIOFIX INC. NAIL LABO CORPORATION</p> <p>Overseas 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 NAIL LABO INC. NAIL LABO TAIWAN CO., LTD.</p>
Affiliated company	Domestic Sun Medical Company, Ltd.

Status of shares

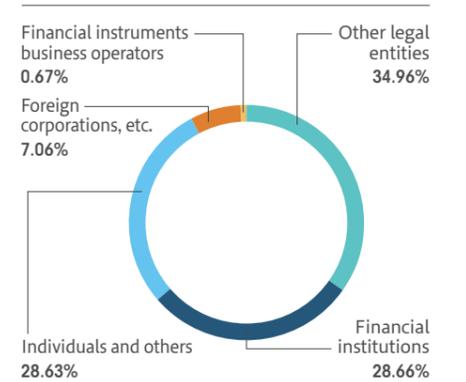
Total number of shares authorized to be issued	64,000,000 shares
Total number of shares issued	17,894,089 shares
Number of shareholders	12,347

Major shareholders

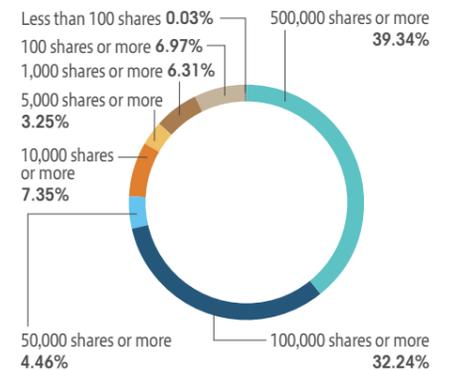
Shareholder name	Number of shares held (Thousands of shares)	Shareholding ratio (%)
Mitsui Chemicals, Inc.	3,580	20.15
Custody Bank of Japan, Ltd. (Trust account)	964	5.43
The Bank of Kyoto, Ltd.	712	4.01
Nippon Life Insurance Company	646	3.63
The Shiga Bank, Ltd.	602	3.39
The Master Trust Bank of Japan, Ltd. (Trust account)	534	3.00
MLI FOR CLIENT GENERAL OMNI NON COLLATERAL NON TREATY-PB	451	2.54
Sumitomo Mitsui Trust Bank, Limited	364	2.04
Shofu Employee Stock Ownership Association	359	2.02
SCREEN Holdings Co., Ltd.	330	1.85

* The shareholding ratio is calculated by deducting the number of treasury shares (132,642 shares).

Distribution of shares by owner



Distribution of shares by number of shares held



Trends in stock price and trading volume

