

[Translation]

GUNZE LIMITED

[**Disclaimer:** Please note that the following purports to be an excerpt translation from the original Proxy Statement of GUNZE LIMITED prepared for the convenience of shareholders outside Japan with voting rights. However, in case of any discrepancy between the translation and the Japanese original, the latter shall prevail. Please also be advised that certain expressions for domestic procedures that are not applicable to the aforesaid shareholders have been omitted or modified to avoid confusion.]

June 3, 2019

To Our Shareholders:

**NOTICE OF CONVOCATION OF
THE 123RD ORDINARY GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholders:

You are cordially invited to attend the 123rd Ordinary General Meeting of Shareholders of GUNZE LIMITED. The meeting will be held as described below.

If you are unable to attend the meeting, you are requested to study the reference materials for the general meeting of shareholders below, and then please either complete and send by mail the enclosed Voting Rights Exercise Form indicating your approval or disapproval for each matter for resolution so that it shall arrive at the Company no later than 5:00 P.M. on Monday, June 24, 2019, or make an entry for approval or disapproval for each matter for resolution on the site provided for exercising your voting right in the Internet (<https://evote.tr.mufg.jp/>) as designated by the Company no later than the aforementioned date and time.

Yours very truly,

GUNZE LIMITED
1 Zeze, Aono-cho, Ayabe-shi
Kyoto, Japan

By: Atsushi Hirochi
Representative Director and President

[Translation]

PARTICULARS

1. **Date and Time of the Meeting:** 1:00 P.M., Tuesday, June 25, 2019
[Registration starts at 12:00 Noon]
2. **Place of the Meeting:** Auditorium, Head Office of the Company
1 Zeze, Aono-cho, Ayabe-shi, Kyoto, Japan
3. **Agenda of the Meeting:**

Matters for Reporting:

1. Report on the Results of Operations, the Consolidated Accounting Documents and Non-Consolidated Accounting Documents for the 123rd Business Term (from April 1, 2018 to March 31, 2019).
2. Report on the Results of Audits for the Consolidated Accounting Documents by Accounting Auditors and the Board of Corporate Auditors for the 123rd Business Term (from April 1, 2018 to March 31, 2019).

Matters for Resolution:

- | | |
|----------------------------|---|
| First Proposition: | Proposed Disposal of Surplus |
| Second Proposition: | Election of Ten (10) Directors |
| Third Proposition: | Election of Two (2) Corporate Auditors |
| Fourth Proposition: | Determination of Compensation for Granting Restricted Stock to Directors |

[Translation]

Guide to Exercising Voting Rights via the Internet, etc.

When you exercise your voting rights via the Internet, please check the following guidelines and follow the procedures outlined below.

Deadline for accepting votes via the Internet:
5:00 p.m. on Monday, June 24, 2019

Voting via the Internet is possible only by accessing the Site for Exercising Voting Rights (the “Voting Site”; <https://evote.tr.mufg.jp/>) designated by the Company. After accessing the Voting Site, log in using the login ID and temporary password shown on the voting form. Then select “approve” or “disapprove” for each proposition by following the guidelines on the screen. (Please note that this site will be closed every day between the hours of 2:00 a.m. and 5:00 a.m.)

Votes via the Internet will be accepted until 5:00 p.m. on Monday, June 24, 2019. However, we ask that you vote sooner if possible.

Please note you will have to bear expenses incurred in accessing the Voting Site (Internet connection expenses, etc.).

If you vote more than once via the Internet, only your last vote will be considered valid. Also if you vote both from your computer, smartphone and mobile phone, only your last vote will be considered valid.

For inquiries regarding the system, etc.
Mitsubishi UFJ Trust and Banking Corporation Stock Transfer Agent Department (Help Desk)
TOLL FREE: 0120-173-027
(Hours of operation: 9:00 a.m. through 9:00 p.m.)

Electronic Voting Platform for Institutional Investors

Institutional investors are entitled to use the Electronic Voting Platform operated by ICJ, Inc. for electromagnetically exercising their voting rights for this Ordinary General Meeting of Shareholders of GUNZE LIMITED.

**REFERENCE MATERIALS CONCERNING
GENERAL MEETING OF SHAREHOLDERS**

Propositions and Reference Matters:

First Proposition: Proposed Disposal of Surplus

It is proposed that surplus be disposed as follows:

1. Matters related to the term-end dividend:

Returning earnings to shareholders is one of the most important management policies of the Company. Accordingly, the Company works to continue providing a stable dividend based on the medium-term business outlook, with a target payout ratio of approximately 50% on a consolidated basis. In line with this basic policy, it is proposed that the 123rd term-end dividend shall be as follows:

- (1) Kind of asset distributed:
Cash
- (2) Matter related to distribution of asset to shareholders and total amount:
¥110 per share of common stock of the Company
Total amount: ¥1,995,333,780
- (3) Effective date for distribution of surplus:
June 26, 2019

Second Proposition: Election of Ten (10) Directors

The terms of office of all eleven (11) Directors will expire at the close of this General Meeting of Shareholders. It is therefore proposed that ten (10) Directors will be elected. The Company has established a policy regarding qualifications for Directors and nomination procedures in its Corporate Governance Guidelines. (Refer to the Company's website: <http://www.gunze.co.jp/ir/policy/governance/>.) All candidates for Directors in this Proposition are selected in accordance with the said policy. For more information, please note the Reference below.

The candidates are as follows:

Candidate No.		Name	Current Posts and Responsibilities	Percentage of Attendance in BOD Meetings
1	Reelection	Atsushi Hirochi	President, Representative Director and President Corporate Officer	100% (13/13)
2	Reelection	Toshiyasu Saguchi	Representative Director, Managing Corporate Officer and General Manager of Management & Strategy Department	100% (13/13)
3	Reelection Outside Independent	Hiroe Nakai	Director	100% (9/9)
4	Reelection	Yasuhiro Akase	Director, Corporate Officer and Representative Director and President, Gunze Development Co., Ltd.	100% (13/13)
5	Reelection	Nobuya Oka	Director, Corporate Officer and General Manager of Threads & Accessories Division	100% (13/13)
6	Reelection	Katsuhiko Kimura	Director, Corporate Officer and General Manager of Engineering Plastics Division	100% (13/13)
7	Reelection	Katsuya Anno	Director, Corporate Officer, Company President of Apparel Company	100% (13/13)
8	Reelection	Katsuhiko Oikawa	Director, Corporate Officer and General Manager of Research & Development Department	100% (13/13)
9	Reelection	Makoto Kumada	Director, Corporate Officer and General Manager of Finance & Accounting Department	100% (13/13)
10	New Outside Independent	Osamu Kujiraoka	--	--

Note: As for Ms. Hiroe Nakai, her status after she was appointed a Director on June 26, 2018 is shown above.

No.	Name (Date of Birth)	Brief Personal Record, Current Posts, Responsibilities and Additional Important Posts		Number of Shares of the Company Owned
1	Atsushi Hirochi (Jan. 11, 1960) <div style="border: 1px solid black; padding: 2px; display: inline-block;">Reelection</div>	Mar. 1983 Jun. 2012 Jan. 2013 Apr. 2014 Jun. 2014 Apr. 2016 Jun. 2016 Apr. 2017	Joined "GUNZE" Director, Corporate Officer, General Manager of Leg Wear Divisions Group, Apparel Company and CCO, GUNZE Director, Corporate Officer, General Manager of Innerwear Divisions Group, Apparel Company and CCO, GUNZE Director, Corporate Officer, Company President of Apparel Company, General Manager of Innerwear Divisions Group and CCO, GUNZE Managing Director, Managing Corporate Officer, Company President of Apparel Company, General Manager of Innerwear Divisions Group, Apparel Company, CMO and CLO, GUNZE Managing Director, Managing Corporate Officer, General Manager of Management & Strategy Department, CHO, CCSRO and CMO, GUNZE Senior Managing Director, Representative Director, Senior Managing Officer, General Manager of Management & Strategy Department, CHO, CCSRO and CMO, GUNZE President, Representative Director and President Corporate Officer, GUNZE (to present)	5,100
<p>Reasons for supporting the candidate for Director The Company would like Mr. Atsushi Hirochi to continue serving the Company as a Director, as he led the management of the GUNZE Group through the implementation of each strategy of its medium-term management plan and the reinforcement of its corporate governance since he was appointed the President and Representative Director of the Company. Moreover, as the Chairman of the Board of Directors, Mr. Hirochi has been working to vitalize the Board. In expectation that he will continue to appropriately perform his duties as a Director, the Company proposes that he be elected as a Director.</p>				
2	Toshiyasu Saguchi (Nov. 14, 1961) <div style="border: 1px solid black; padding: 2px; display: inline-block;">Reelection</div>	Mar. 1984 Jun. 2014 Apr. 2017 Jun. 2018	Joined "GUNZE" Director, Corporate Officer and Company President of Plastic Film Company, GUNZE Managing Director, Managing Corporate Officer and General Manager of Management & Strategy Department, GUNZE (to present) Representative Director, Managing Corporate Officer and General Manager of Management & Strategy Department, GUNZE (to present)	1,400
<p>Reasons for supporting the candidate for Director The Company would like Mr. Toshiyasu Saguchi to continue serving the Company as a Director, given his ample experience and broad knowledge, mainly in the field of plastic film. Since he was appointed General Manager of the Management & Strategy Department, Mr. Saguchi has proactively promoted the formulation of company-wide strategies, M&A, etc. In June 2018, he also took on the position of Representative Director. In expectation that he will continue to appropriately perform his duties as a Director, the Company proposes that he be elected as a Director.</p>				

No.	Name (Date of Birth)	Brief Personal Record, Current Posts, Responsibilities and Additional Important Posts		Number of Shares of the Company Owned
3	Hiroe Nakai (May 20, 1961) Reelection Outside Independent	Apr. 1988 Apr. 1995 Sep. 2011 Jun. 2013 Aug. 2016 Jun. 2018	Registered as an attorney (at Osaka Bar Association) (to present) Established "Inoue and Nakai Law Office" Established "Hinata Law Office" (to present) Outside Auditor, Endo Lighting Corp. Outside Auditor, Kansai Paint Co., Ltd. Director, GUNZE (to present)	100
		<p>Reasons for supporting the candidate for outside Director The Company would like Ms. Hiroe Nakai to continue serving the Company, given her approximately one year of experience as an outside Director of the Company, as well as her ample experience as an attorney and knowledge in the field of corporate legal and civil affairs. During her time of service, she provided appropriate guidance and advice from an objective viewpoint regarding decisions made by the Company's Board of Directors, covering the entire corporate society including laws and ordinances. For these reasons, the Company proposes that she be elected as an outside Director.</p>		
4	Yasuhiro Akase (Jul. 6, 1958) Reelection	Apr. 1982 Apr. 2010 Jun. 2013 Jun. 2014 Apr. 2017 Apr. 2019	Joined "GUNZE" Corporate Officer, General Manager of Personnel & General Affairs Department and Deputy CHO, GUNZE Director, Corporate Officer, General Manager of Personnel & General Affairs Department and Deputy CHO, GUNZE Director, Corporate Officer, General Manager of Personnel & General Affairs Department, CCO and Deputy CHO, GUNZE Director, Corporate Officer, General Manager of Personnel & General Affairs Department, GUNZE Director and Corporate Officer, GUNZE and Representative Director and President, Gunze Development Co., Ltd. (to present)	2,400
		<p>Reasons for supporting the candidate for Director The Company would like Mr. Yasuhiro Akase to continue serving the Company as a Director, given his ample experience and broad knowledge, mainly in the field of apparel as well as personnel and general affairs. Since he was appointed the Representative Director and President of Gunze Development Co., Ltd. in April 2019, he has been striving to make effective use of the GUNZE Group's real estate assets. In expectation that he will continue to appropriately perform his duties as a Director, the Company proposes that he be elected as a Director.</p>		
5	Nobuya Oka (Aug. 28, 1959) Reelection	Apr. 1985 Apr. 2012 Jun. 2014	Joined "GUNZE" Corporate Officer and General Manager of Threads & Accessories Division, GUNZE Director, Corporate Officer and General Manager of Threads & Accessories Division, GUNZE (to present)	1,400
		<p>Reasons for supporting the candidate for Director The Company would like Mr. Nobuya Oka to continue serving the Company as a Director, given his ample experience and broad knowledge, mainly in the field of threads and accessories. As the general manager in charge of the threads and accessories business, he has been working to enhance the stability of the Company's business in Japan and strengthen international business development. In expectation that he will continue to appropriately perform his duties as a Director, the Company proposes that he be elected as a Director.</p>		

No.	Name (Date of Birth)	Brief Personal Record, Current Posts, Responsibilities and Additional Important Posts		Number of Shares of the Company Owned
6	Katsuhiko Kimura (Apr. 2, 1963) Reelection	Apr. 1986 Apr. 2012 Jun. 2016	Joined “GUNZE” Corporate Officer and General Manager of Engineering Plastics Division, GUNZE Director, Corporate Officer and General Manager of Engineering Plastics Division, GUNZE (to present)	700
<p>Reasons for supporting the candidate for Director The Company would like Mr. Katsuhiko Kimura to continue serving the Company as a Director, given his ample experience and broad knowledge, mainly in the field of engineering plastics. As the general manager in charge of the engineering plastics business, he has been working to build a profitable business base and promoting the creation of newly developed products. In expectation that he will continue to appropriately perform his duties as a Director, the Company proposes that he be elected as a Director.</p>				
7	Katsuya Anno (Apr. 3, 1955) Reelection	Mar. 1979 Apr. 2014 Apr. 2015 Jun. 2016 Apr. 2017 Jan. 2019 Apr. 2019	Joined “GUNZE” Corporate Officer, Deputy General Manager of Innerwear Divisions Group, Apparel Company and General Manager of Innerwear Production Department, Apparel Company, GUNZE Corporate Officer, General Manager of Technology & Development Department and CTO, GUNZE Director, Corporate Officer, General Manager of Technology & Development Department and CTO, GUNZE Director, Corporate Officer, General Manager of Technology & Development Department, GUNZE Director, Corporate Officer, General Manager of Technology & Development Department and Company President of Apparel Company, GUNZE Director, Corporate Officer and Company President of Apparel Company, GUNZE (to present)	800
<p>Reasons for supporting the candidate for Director The Company would like Mr. Katsuya Anno to continue serving the Company as a Director, given his ample experience and broad knowledge, mainly in the technical field. Since he was appointed Company President of the Apparel Company in January 2019, Mr. Anno has been working on the improvement of profitability through the promotion of a growth strategy and production innovation. In expectation that he will continue to appropriately perform his duties as a Director, the Company proposes that he be elected as a Director.</p>				

No.	Name (Date of Birth)	Brief Personal Record, Current Posts, Responsibilities and Additional Important Posts		Number of Shares of the Company Owned
8	Katsuhiko Oikawa (Apr. 12, 1963) Reelection	Apr. 1986 Apr. 2014 Jun. 2014 Jun. 2016 Apr. 2017	Joined "GUNZE" Corporate Officer and General Manager of Research & Development Department, GUNZE Corporate Officer, General Manager of Research & Development Department and CRO, GUNZE Director, Corporate Officer, General Manager of Research & Development Department and CRO, GUNZE Director, Corporate Officer and General Manager of Research & Development Department, GUNZE (to present)	698
<p>Reasons for supporting the candidate for Director The Company would like Mr. Katsuhiko Oikawa to continue serving the Company as a Director, given his ample experience and broad knowledge, mainly in the field of production and research & development. As the General Manager of the Research & Development Department, he has been working on the promotion of various research themes as well as the development and cultivation of new businesses. In expectation that he will continue to appropriately perform his duties as a Director, the Company proposes that he be elected as a Director.</p>				
9	Makoto Kumada (Jul. 24, 1961) Reelection	Mar. 1984 Apr. 2017 Jun. 2017	Joined "GUNZE" Corporate Officer and General Manager of Finance & Accounting Department, GUNZE Director, Corporate Officer and General Manager of Finance & Accounting Department, GUNZE (to present)	800
<p>Reasons for supporting the candidate for Director The Company would like Mr. Makoto Kumada to continue serving the Company as a Director, given his ample experience and broad knowledge, mainly in the field of accounting and administration. As the General Manager of the Finance & Accounting Department, he has been adequately performing his duties. In expectation that he will continue to appropriately perform his duties as a Director, the Company proposes that he be elected as a Director.</p>				
10	Osamu Kujiraoka (Sept. 25, 1955) New Outside Independent	Mar. 1978 Mar. 1988 Mar. 2003 Jan. 2006 Mar. 2009 Feb. 2015	Joined Nikkei Inc. Seconded to Nikkei McGraw-Hill, Inc. (presently, Nikkei Business Publications, Inc.) Executive Officer and Chief of General Affairs, Nikkei Inc. Executive Officer and Chief of Medical Affairs, Nikkei Inc. and President and CEO, Nikkei Medical Publishing Inc. Executive Officer, Nikkei Inc., President and CEO, Nikkei Business Publications America, Inc. and Nikkei Business Publications Europe, Ltd. President and CEO, Nikkei Medical Publishing Inc.	--
<p>Reasons for supporting the candidate for outside Director The Company would like Mr. Osamu Kujiraoka to serve the Company as an outside Director, given his experience as an executive officer of a publishing company, successively taking on important positions over many years, as well as his broad knowledge especially in the medical field, one of the Company's high-growth businesses. As such, the Company would like him to provide appropriate guidance and advice regarding decisions by the Company's Board of Directors. For these reasons, the Company proposes that he be elected as an outside Director.</p>				

- Note 1: There is no special interest between the Company and each of the candidates for Director.
- Note 2: When selecting candidates for outside Directors, the Company selected those who met the requirements of the Companies Act, as well as the independence criteria stipulated in the Tokyo Stock Exchange regulations, and who will not cause conflict of interest against general shareholders. Once Ms. Hiroe Nakai and Mr. Osamu Kujiraoka are elected, as proposed, the Company will inform the Tokyo Stock Exchange of their appointments as independent officers.
- Note 3: Candidates for outside Directors
- (1) Agreement to limit liability of the candidates for outside Directors
- The Company has entered into a limited liability agreement with Ms. Hiroe Nakai, under which each outside Director's liability to compensate the Company under Article 423, Paragraph 1 of the Companies Act shall be limited to ¥6,000,000 or the minimum amount stipulated by laws and ordinances, whichever is higher, under the condition that the outside Director discharges his duties in good faith and without gross negligence. The Company will also enter into the same agreement with Mr. Osamu Kujiraoka to limit liability.
- (2) Name notation
- Ms. Hiroe Nakai's legal name on family register is Hiroe Asami.
- Note 4: Abbreviation of titles
- CCO: Chief Compliance Officer
CMO: Chief Marketing Officer
CLO: Chief Logistics Officer
CHO: Chief Human Resources Officer
CCSRO: Chief Corporate Social Responsibility Officer
CTO: Chief Technical Officer
CRO: Chief Research and Development Officer
- The Company discontinued the Chief Officer system on April 1, 2017.

There are no matters other than the above that need to be stated in the proposition relating to the election of Directors pursuant to Article 74 of the Ordinance for Enforcement of the Companies Act.

Third Proposition: Election of Two (2) Corporate Auditors

The term of office of Corporate Auditors Mr. Keigo Inoue and Mr. Yoshio Suzuka will expire at the close of this Ordinary General Meeting of Shareholders. It is therefore proposed that two (2) Corporate Auditors be elected. The Company has established a policy regarding qualifications for Corporate Auditors and nomination procedures in its Corporate Governance Guidelines. (Refer to the Company's website: <http://www.gunze.co.jp/ir/policy/governance/>.) All candidates for Corporate Auditors in this Proposition are selected in accordance with the said policy. For more information, please note the Reference below.

We have obtained consent from the Board of Corporate Auditors with respect to this Proposition.

The candidates are as follows:

No	Name (Date of Birth)	Brief Personal Record, Current Posts and Additional Important Posts		Number of Shares of the Company Owned
1	Keigo Inoue (Apr. 23, 1955) Reelection Outside Independent	Apr. 1984	Registered as an attorney (at Osaka Bar Association) Joined "Amimoto Law Office" (presently, AIMANN AND ASSOCIATES) (to present)	1,300
		Nov. 2013	Corporate Auditor, GUNZE (to present)	
		May 2016	Outside Corporate Auditor, Kintetsu Department Store Co., Ltd. (to present)	
		Reasons for supporting the candidate for Corporate Auditor The Company would like Mr. Keigo Inoue to continue serving the Company as an outside Corporate Auditor, given his five years and seven months of experience as an outside Corporate Auditor of the Company. During his time of service, Mr. Inoue provided appropriate suggestions from an objective viewpoint in consideration of compliance, while maintaining independence. He did this based on his professional knowledge as an attorney, in addition to his ample and wide range of practical experience. For these reasons, the Company proposes that he be elected as an outside Corporate Auditor.		
2	Yoshio Suzuka (Oct. 28, 1952) Reelection Outside Independent	Apr. 1975	Joined National Tax Agency	500
		Jul. 1997	Chief of Finance Office, Finance Department, West Japan Railway Company	
		Jul. 2003	District Director, Maizuru Tax Office	
		Jul. 2011	District Director, Amagasaki Tax Office	
		Jul. 2012	Manager of Second Taxation Department, Osaka Regional Taxation Bureau	
		Sep. 2013	Established Suzuka Tax Accountant Office (to present)	
		Jun. 2014	Outside Corporate Auditor, Hurxley Corporation (to present)	
		Jun. 2015	Auditor, GUNZE (to present)	
		Reasons for supporting the candidate for Corporate Auditor The Company would like Mr. Yoshio Suzuka to continue serving the Company as an outside Corporate Auditor, given his four years of experience as an outside Corporate Auditor of the Company. During his time of service, Mr. Suzuka provided appropriate suggestions from an objective viewpoint in consideration of soundness in finance and accounting, while maintaining independence. He did this based on his ample experience as a tax accountant, as well as his professional knowledge regarding finance and accounting. For these reasons, the Company proposes that he be elected as an outside Corporate Auditor.		

Note 1: There is no special interest between the Company and each of the said candidates.

Note 2: Mr. Keigo Inoue and Mr. Yoshio Suzuka are candidates for outside Corporate Auditors. When selecting candidates for outside Corporate Auditors, the Company selected those who met the requirements of the Companies Act, as well as the independence criteria stipulated in the Tokyo Stock Exchange regulations, and who will not cause conflict of interest against general shareholders. Once Mr. Keigo Inoue and Mr. Yoshio Suzuka are elected, as proposed, the Company will inform the Tokyo Stock Exchange of their appointments as independent officers.

Note 3: Agreement to limit liability of the candidates for outside Corporate Auditors

The Company has entered into a limited liability agreement with Mr. Keigo Inoue and Mr. Yoshio Suzuka, under which an outside Corporate Auditor's liability to compensate the Company under Article 423, Paragraph 1 of the Companies Act shall be limited to ¥6,000,000 or the minimum amount stipulated by laws and ordinances, whichever is higher, under the condition that the outside Corporate Auditor discharges his duties in good faith and without gross negligence.

Note 4: In October 2018, Kintetsu Department Store Co., Ltd., for which Mr. Keigo Inoue serves as an outside Corporate Auditor, received a cease-and-desist order and a surcharge payment order from the Japan Fair Trade Commission due to its violation of the provision in Article 3 of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade. This was regarding the complementary postage that the company receives from customers for the gifts. The violation occurred during the period from July to September of 2015, which was prior to Mr. Inoue's appointment as an outside Corporate Auditor of the said company (on May 30, 2016). Therefore, he was not able to detect this fact of legal violation in advance. After the receipt of the said cease-and-desist order, however, Mr. Inoue has been taking measures to prevent any recurrence of this legal violation, and has been working to strengthen the compliance system at the said company. Moreover, he has been concentrating on audit and supervision to ensure that management decisions and judgments made by directors and execution of business are conducted appropriately, after having undergone necessary procedures and discussion. By so doing, he has been adequately performing his duties as an outside Corporate Auditor.

There are no matters other than the above that need to be stated in the proposition relating to the election of Corporate Auditors pursuant to Article 76 of the Ordinances for Enforcement of the Companies Act.

Reference: An Excerpt from GUNZE Corporate Governance Guidelines

1. Qualifications for Directors and Nomination Procedures

(1) The Company's Directors must have an excellent personality, good insight, high skill, abundant experience, as well as a strong sense of ethics.

(2) Upon selecting candidates for Directors, the Company's basic policy is to create a well-balanced Board that is constituted in a manner to achieve diversity in order to ensure swift and proper decision-making and effective oversight of the Group's business activities. To do so, while taking into account diversity including gender and internationality, the Company selects Directors with knowledge, experience, and skill regarding various business fields, human resources management, finance and accounting, as well as R&D of technologies from the Company's human resources. The Company also selects a number of outside Directors who are capable of actively providing advice and suggestions from a fair and objective standpoint based on their expert knowledge and experience.

(3) All Directors of the Company shall be elected subject to approval at the General Meeting of Shareholders of each year.

(4) Candidates for new Directors (including substitute Directors) shall be determined at a meeting of the Board of Directors based on the provision of this Article. This will be done after having undergone deliberations by the Nomination/Remuneration Committee regarding the balance of the Board composition in terms of knowledge, experience, and skills, as well as diversity and scale. The Nomination/Remuneration Committee is an advisory body composed of Representative Directors and outside Directors, and is chaired by an outside Director.

2. Qualifications for Audit & Supervisory Board Members and Nomination Procedures

(1) The Audit & Supervisory Board members of the Company must have excellent personality, good insight, high skill, abundant experience, as well as a strong sense of ethics. At least one (1) member of the Audit & Supervisory Board must have sufficient knowledge and expertise on finance and accounting.

(2) Candidates for new Audit & Supervisory Board members (including substitute members) shall be determined at a meeting of the Board of Directors based on the provision of this Article, after having undergone deliberations by the Nomination/Remuneration Committee, and after having received the consent of the Audit & Supervisory Board.

3. Term of Office of Outside Directors and Outside Audit & Supervisory Board Members, and Limitations to Concurrent Posts

(1) The Board of Directors stipulates in its independence criteria that outside Directors and outside Audit & Supervisory Board members, who have held their office for a term exceeding eight (8) years since they first assumed their office, do not satisfy eligibility criteria for outside Directors and outside Audit & Supervisory Board members, respectively. However, the outside Audit & Supervisory Board members in mid-term may continue to hold their office until the end of their respective terms.

(2) The outside Directors and outside Audit & Supervisory Board members of the Company must not concurrently assume posts of Director or Audit & Supervisory Board member at more than three (3) listed companies besides GUNZE LIMITED.

4. Remuneration, etc. for Directors

(1) Remuneration, etc. for Directors in charge of business execution shall be linked to the long-term interests of the Company's shareholders. At the same time, they must be set appropriately and in a fair and well-balanced manner so as to fully motivate the Directors to maximize the value of the Company.

(2) The total amount of remuneration, etc. for Directors shall be specified through deliberations by the Nomination/Remuneration Committee based on the remuneration limit for Directors resolved at a General Meeting of Shareholders, and shall be decided at a meeting of the Board of Directors.

(3) The amounts of remunerations, etc. for individual Directors shall be decided through deliberation by the Nomination/Remuneration Committee based on the compensation plan specified by the Board of Directors. Directors excluding outside Directors will be granted stock-based compensation as incentives for improvement of the Company's medium- to long-term performance and corporate value.

(4) Remuneration, etc. for outside Directors must reflect the time during which each outside Director is involved with the Company's business and each outside Director's duties, and must not include any proportions linked to the Company's business results, such as stock-based compensation.

Fourth Proposition: Determination of Compensation for Granting Restricted Stock to Directors

At the 111th Ordinary General Meeting of Shareholders held on June 27, 2007, approval was granted to cap the total amount of compensation for Directors of the Company at three hundred million (300,000,000) yen per year (including twenty-four million (24,000,000) yen for outside Directors; however, the employee salaries for Directors concurrently serving as employees are not included). Separate from this compensation, approval was granted at the said Ordinary General Meeting of Shareholders for the compensation related to stock acquisition rights to be allotted to Directors of the Company (excluding outside Directors), as stock options not exceeding one hundred million (100,000,000) yen per year.

As part of the Company's efforts to review the director compensation plan, the Company hereby asks for approval to introduce a new compensation plan, with the aims of sharing more value with shareholders, and achieving a greater rise in the Company's stock price, and a more sustainable improvement in its corporate value. The new compensation plan will allot shares of common stock of the Company, which is subject to a specific transfer restriction period, acquisition at no cost, etc. (hereinafter referred to as "Restricted Stock") to Directors of the Company (excluding outside Directors) as a substitute for the aforementioned stock acquisition rights to be allotted as stock options as follows:

The total amount of monetary compensation receivables to be granted to Directors of the Company as Restricted Stock Compensation, separate from the aforementioned monetary compensation to Directors of the Company (excluding outside Directors) shall not exceed one hundred million (100,000,000) yen per year. Provided that this Proposition is approved by the shareholders, the provision regarding the stock-related compensation in terms of stock acquisition rights shall be discontinued, and stock acquisition rights will no longer be issued as stock options based on the said provision (except for those that have already been allotted),

The allocation of shares of Restricted Stock to Directors of the Company was determined after deliberations by the Nomination/Remuneration Committee, which is an advisory body for the Board of Directors chaired by an outside Director. Taking into consideration the degree of contribution each Director has made in the Company and other matters, this decision is deemed reasonable. The Company currently has eleven (11) Directors (including two (2) outside directors). Should Second Proposition: "Election of Ten (10) Directors" be approved in its original form, the number of Directors will become ten (10), including two (2) outside Directors. The Company has established a policy regarding compensation and other matters for Directors, etc. in its Corporate Governance Guidelines. (Please refer to the Company's website (<http://www.gunze.co.jp/ir/policy/governance/>.) For an Outline of the Compensation System for Directors, and Changes in the Stock-based Compensation, please note the Reference below.

Outline of Restricted Stock to be Allotted to Directors of the Company (Excluding Outside Directors) and the Maximum Number of Shares to be Allotted

1. Allotment of Restricted Stock and payment

The Company shall grant monetary compensation receivables related to Restricted Stock to Directors of the Company (excluding outside Directors), within the limits of one hundred million (100,000,000) yen per year, pursuant to a resolution of the Board of Directors of the Company, while

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each Director shall receive shares of Restricted Stock to be allotted to him/her by making an in-kind contribution of all monetary compensation receivables to be granted.

The amount to be paid per share of restricted stock shall be determined by the Board of Directors of the Company, and the basis of such amount shall be the closing price of the common stock of the Company on the Tokyo Stock Exchange on the business day immediately preceding the date of the resolution of the Board of Directors for the issuance or disposal of shares of common stock of the Company (or, if there is no closing price on such business day, immediately prior thereto), and that within a range not to be particularly favorable to the Directors subscribing for the said shares of Restricted Stock.

In addition, the aforementioned monetary compensation receivables shall be granted, provided that Directors of the Company agree upon in-kind contribution and that a Restricted Stock Allotment Contract that includes the provisions in 3. below, has been concluded between the Company and the respective Directors.

2. Total number of shares of Restricted Stock to be allotted

The total number of shares of Restricted Stock to be allotted to Directors of the Company (excluding outside Directors) in each fiscal year shall not exceed twenty-six thousand (26,000). However, in the event that adjustment of the total number of shares of Restricted Stock to be allotted becomes necessary due to a share split (including gratis distribution of shares) or consolidation of shares of common stock of the Company conducted after the date of a resolution for this proposition at this Ordinary General Meeting of Shareholders, or other cases, the total number of shares of the said Restricted Stock may be reasonably adjusted.

3. Provisions of Restricted Stock Allotment Contract

In the case of allotting Restricted Stock to Directors of the Company, the contract concluded between the Company and relevant Directors subject to allotment of Restricted Stock based on a resolution of the Board of Directors of the Company shall include the following provisions:

(1) Transfer restriction

Directors to whom shares of Restricted Stock are allotted shall not transfer to third party, set pledges or collateral rights for, give living donations, make a bequest, or otherwise dispose of the shares allotted to them (hereinafter referred to as “Allotted Shares”) for a period of thirty (30) years after the receipt of such Restricted Stock (hereinafter referred to as the “Transfer Restriction”).

(2) Acquisition of Restricted Stock at no cost

In the event that the Director to whom shares of Restricted Stock is allotted resigns his post as both Director and Corporate Officer of the Company after the commencement date of the Transfer Restriction Period to the day immediately before the date of the first Ordinary General Meeting of Shareholders that arrives thereafter, the Company shall automatically acquire all of the relevant Allotted Shares at no cost, unless there is a reason that the Board of Directors deems justified. If any Allotted Shares exist for which transfer restriction has not been removed, pursuant to the provisions prescribed in (3) below at the time of expiration of the Transfer Restriction Period described in (1) above, the Company shall automatically acquire such shares at no cost.

(3) Removal of transfer restriction

The Company shall remove the transfer restriction on all of the Allotted Shares upon expiration of the Transfer Restriction Period, provided that the relevant Director held the position of Director or

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corporate officer of the Company continuously during the period from the commencement date of the Transfer Restriction Period to the day immediately before the date of the first Ordinary General Meeting of Shareholders that arrives thereafter. However, if a Director resigns his/her post of both Director and Corporate Officer of the Company before the expiration of the Transfer Restriction Period for a reason the Board of Directors of the Company deems justified, the Company shall make reasonable adjustments to the number of Allotted Shares for which transfer restriction will be removed, as well as the timing of transfer restriction removal, as necessary.

(4) Treatment upon reorganization, etc.

If, during the Transfer Restriction Period, a merger agreement under which the Company will become the absorbed company, or a share exchange agreement or share transfer plan under which the Company will become a wholly owned subsidiary, or any other matters relating to reorganization of the Company, etc. is approved by the General Meeting of Shareholders of the Company (or approved by the Board of Directors of the Company if approval for a reorganization, etc. by a General Meeting of Shareholders of the Company is not necessary), the Company shall remove, prior to the effective date of the said reorganization, etc., the transfer restriction for the number of Allotted Shares that will be reasonably determined based on the period from the commencement date of the Transfer Restriction Period to the date of approval for the said reorganization by a resolution of the Board of Directors of the Company.

In such a case, the Company shall automatically acquire, at no cost, the Allotted Shares for which transfer restriction has not been removed at the time immediately after the removal of transfer restriction under the provisions set forth above.

Note:

After the close of this Ordinary General Meeting of Shareholders, the Company will also allot the same Restricted Stock as described above to corporate officers of the Company (excluding those who concurrently serve as Directors).

Reference:


Outline of the Compensation Plan for Directors and Change in Stock-based Compensation

The outline of the compensation plan for Directors of the Company is as follows:

Compensation for Directors consists of a base salary, a bonus that varies depending on the consolidated performance of the Company and the degree of each Director's achievement of goals, as well as stock-based compensation designed to provide incentives to increase the stock price of the Company and achieve sustainable improvement of corporate value.

Only internal Directors are eligible to receive bonuses and stock-based compensation, and outside Directors receive base salary only.

To share more value with shareholders, the Company hereby puts on the agenda of the Ordinary General Meeting of Shareholders the proposition to shift from the current stock-based compensation-type stock options to a new stock-based compensation with transfer restriction (Restricted Stock Compensation).

Type of compensation	Cap amount	Resolution at General Shareholder Meeting
Base salary	300 million yen per year for sum of base salary and bonus	June 27, 2007
Bonus		
Stock-based compensation	Issuance of stock options 100 million yen per year (current plan)	June 27, 2007
	Fourth Proposition 	Determination of Compensation for Granting Restricted Stock to Directors
	Restricted Stock Compensation 100 million yen per year (after shift)	June 25, 2019 Shift provided that approval is given

Results of Operations (April 1, 2018 to March 31, 2019)

Items Related to the Current Status of the GUNZE Group

1. Business Progress and Results

Reviewing economic conditions during the fiscal year ended March 31, 2019, the Japanese economy as a whole showed signs of mild recovery, with ongoing improvements in corporate performance and the employment situation. However, the GUNZE Group's management environment continued to face uncertainty due to several factors. These include a drop in consumer sentiment caused by a series of natural disasters, as well as concerns for rising prices of food and other daily necessities. Other factors include trade conflicts between the U.S. and China, as well as uncertainty regarding international economies, including emerging economies.

Faced with this situation, the GUNZE Group's medium-term management plan, called "CAN 20," has entered the second year of its second phase (fiscal 2017 through fiscal 2020). With the key concept of "Focus and Concentration," the GUNZE Group promoted three pivotal strategies: implementation of segment-specific business strategies, creation of new businesses, and reinforcement of the management foundation.

The GUNZE Group's functional solutions business enjoyed strong performance mainly in the areas of plastic films and engineering plastics. While the apparel business was adversely impacted by increasing budget-mindedness among consumers and unfavorable weather conditions, stronger efforts were made to expand sales of differentiated innerwear products and promote high-growth sales channels. But legwear sales suffered sluggish performance.

Consequently, the GUNZE Group's consolidated net sales for the fiscal year under review amounted to ¥140,706 million (a year-over-year increase of 0.1%). Consolidated operating income amounted to ¥6,690 million (a year-over-year increase of 7.2%). Consolidated ordinary income was ¥7,152 million (a year-over-year increase of 11.0%). While a loss on the sale of an overseas affiliate was posted, a gain on the sale of fixed assets was also recorded. As a result, GUNZE posted a consolidated net income attributable to owners of the parent amounting to ¥4,087 million (a year-over-year increase of 17.2%).

Results by Business Segment

[Functional Solutions]

In plastic film, mainstay shrink films enjoyed firm sales both in Japan and abroad, and nylon film sales were also strong. Engineering plastics sales remained robust in the semiconductor and industrial equipment markets. In electronic components, touch screens for business use posted solid sales, and profitability of the Chinese factory improved. In medical materials, a new domestic sales system for bioabsorbable reinforcement felt was launched smoothly, while sales of artificial dermis were also solid. However, the medical materials business was adversely affected by the increase in clinical trial costs.

Consequently, the functional solutions business posted net sales of ¥53,234 million (a year-

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over-year increase of 4.7%) and operating income of ¥6,160 million (a year-over-year increase of 14.5%).

[Apparel]

In innerwear, in addition to the new developments in differentiated products, such as *BODYWILD AIRZ*, sales steadily expanded for sports category products, as well as for mainstay products such as *CUTOFF* items. Legwear sales remained sluggish due to changes in trends of fashion bottoms and unfavorable weather conditions. The threads and accessories business was adversely affected by the decline in productivity caused by changes in the overseas business environment.

Consequently, the apparel business posted net sales of ¥72,609 million (a year-over-year decrease of 1.9%) and operating income of ¥2,507 million (a year-over-year decrease of 4.6%).

[Lifestyle Creations]

In the real estate category, the shopping center business remained firm thanks to local community-based operations. Revenues from new properties contributed to the healthy performance of the rental property business. The sports club business suffered from sluggish performance due to increasingly intense competition.

Consequently, the lifestyle creation business recorded net sales of ¥15,285 million (a year-over-year decrease of 5.2%) and operating income of ¥1,241 million (a year-over-year decrease of 10.5%).

Net Sales and Operating Income by Segment

(Millions of yen)

	122 nd (FY2017)		123 rd (FY2018)	
	Net sales	Operating income	Net sales	Operating income
Functional solutions	50,828	5,381	53,234	6,160
Apparel	74,012	2,628	72,609	2,507
Lifestyle creations	16,122	1,386	15,285	1,241
Total	140,964	9,396	141,129	9,908
Eliminations/Corporate	(442)	(3,157)	(423)	(3,218)
Consolidated	140,521	6,239	140,706	6,690

The main products handled in each business segment are as follows:

Functional solutions business: Plastic films, engineering plastics, electronic components, machinery, medical materials, etc.

Apparel business: Innerwear, leg wear, textiles, threads and accessories

Lifestyle creation business: Leasing, buying and selling of real estate, trees and plants, operation and management of sports facilities, etc.

2. Medium-to-Long Term Management Strategy and Key Management Issues for the GUNZE Group

The Japanese economy is continuously showing a mild recovery trend, with an improvement tendency in employment conditions supported by the positive effects of various governmental policies. Still, there are concerns of a downturn in the economy due to unstable international situations, rising prices of food and daily necessities, and the scheduled consumption tax hike, resulting in a deep-rooted savings-oriented attitude when it comes to personal spending. These factors are expected to cause the business environment surrounding the GUNZE Group to remain unpredictable.

Against this backdrop, fiscal 2019 marks the third year of the second phase (fiscal 2017 through fiscal 2020) of GUNZE's medium-term management plan, called "CAN 20 (fiscal 2014 through fiscal 2020)." As such, GUNZE will combine the efforts of all members of the Group to deal with strategic issues related to the maturation of mainstay products and channels. By so doing, GUNZE will front-load measures intended to promote further growth.

In CAN 20, GUNZE has been promoting its portfolio strategy with the key concept of "Focus and Concentration." It has been classifying its current business segments into strategic business units (SBU) and evaluating them, in order to realize its Group management vision. As the heart of its growth strategy, GUNZE has set up a cross-divisional Cross Functional Approach (CFA) project. This is designed to combine the GUNZE Group's management resources to efficiently create and cultivate new businesses. As part of this effort, GUNZE has been working on expanding business in the health and medical care field, related to improving quality of life (QOL). As a measure for reinforcing the management foundation to support its growth strategy, GUNZE has been striving to enhance its core technological strengths and global responsiveness, while strengthening its intangible assets, including corporate brand value.

In the second phase of CAN 20, GUNZE is determined to focus on three pivotal strategies: implementation of segment-specific business strategies, creation of new businesses, and reinforcement of the management foundation. By so doing, GUNZE will seek to revive growth in the functional solutions business, such as plastic films, by leveraging its technological strengths with inherent high potential. At the same time, GUNZE will accelerate the growth of the apparel business. These two endeavors will serve as the two wheels that support the GUNZE Group's business management. At the same time, GUNZE will promote its QOL-related business, such as medical materials, as a growth engine essential for attaining its strategic goals.

In the Corporate Governance Code revised in June 2018, companies are required to accurately recognize their capital cost as they draw up business plans and capital policies. They also must review their business portfolios and allocate their management resources, and deal with cross-shareholdings based on the recognized capital cost. Focusing on shareholders, the GUNZE Group has also been working to raise return on equity (ROE), which it views as the Group's key performance indicator. Starting in fiscal 2019, GUNZE will promote capital cost-based

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management, by adding such metrics as (1) invested capital, (2) return on invested capital (ROIC), and weighted average cost of capital (WACC) for overseeing business management. As for business performance as well, efforts will be exerted to change the mindset across the Group by evaluating invested capital based on the capital cost.

Moreover, since fiscal 2018 the GUNZE Group has been promoting CSV (Creating Shared Value)-based management aimed at solving social issues through business activities by taking SDGs (Sustainable Development Goals) into account.

With a firm determination to contribute to society by thoroughly providing customers with a “feeling of comfort” through its products and services. GUNZE remains committed to enhancing customer satisfaction and corporate value. We meet this commitment by continuously serving as a company that fulfills the needs of society and that grows sustainably alongside society.

In the functional solutions business, with its plastic film business enjoying expansion, GUNZE will promote the development of new markets and products and strengthen the global production system through the set-up of a new factory in Vietnam. In engineering plastics, the expansion of the Konan factory is being planned, with the aim of expanding mainstay products targeting the office equipment market, as well as products employing GUNZE’s fiber technology, such as that related to semiconductors. In medical materials, GUNZE will turn Medical U&A, Inc. into its subsidiary as the company seeks to expand the bone fixation device business.

As for the apparel business, in innerwear GUNZE will work to increase the number of stores handling *BODYWILD AIRZ*, while also expanding sales of completely seamless and *CUTOFF* items, as well as sports category products. At the same time, efforts will be concentrated on expanding EC and other new sales channels. In legwear, GUNZE will strive to develop new markets and products centered on mainstay brands such as *SABRINA* by anticipating and meeting potential consumer needs and market trends.

In the lifestyle creation business, GUNZE will promote effective use of its assets by seeking investment efficiency, as the company aims to improve the profitability of its commercial facilities and promote the Group’s growth.

The continued support and patronage of our shareholders will be greatly appreciated.

[Translation]

3. Financial Conditions

Consolidated Operating Results and Summary of Assets

(Millions of yen)

	120 th term (FY2015)	121 st term (FY2016)	122 nd term (FY2017)	123 rd term (FY2018)
Net sales	138,324	136,579	140,521	140,706
Operating income	3,662	4,206	6,239	6,690
Ordinary income	791	4,671	6,446	7,152
Net income (loss) attributable to owners of the parent	(1,201)	3,102	3,486	4,087
Net income (loss) per share (¥)	(63.90)	165.95	189.30	225.60
Total assets	169,749	169,460	171,273	169,632
Net assets	106,639	108,353	112,129	111,068

Note 1: GUNZE carried out consolidation of its shares in which every ten shares of the Company's common stock would be consolidated into one share effective October 1, 2017. Accordingly, net income per share and net loss per share, shown above, were calculated assuming that the said share consolidation was carried out at the beginning of the 120th term.

Note 2: The average number of shares of the Company's common stock during the period used for calculating net income per share during the 122nd term (fiscal 2017) and the 123rd term (fiscal 2018) excludes the number of GUNZE shares held by the GUNZE Group Employee Shareholding Association Trust.

4. Main Offices and Factories

Headquarters:

Registered Head Office (Ayabe, Kyoto), Osaka Head Office (Osaka), Tokyo Office (Tokyo), Research & Development Department (Moriyama, Shiga, etc.)

Production Bases in Japan:

Miyazu Factory (Miyazu, Kyoto), Ayabe Factory (Ayabe, Kyoto), Yanase Factory (Asago, Hyogo), Kuse Factory (Maniwa, Okayama), Moriyama Factory (Moriyama, Shiga), Konan Factory (Konan, Aichi), Kameoka Factory (Kameoka, Kyoto), Tohoku Gunze Co., Ltd. (Sagae, Yamagata), Kyushu Gunze Co., Ltd. (Kobayashi, Miyazaki), Fukushima Plastics Co., Ltd. (Motomiya, Fukushima), Gunze Packaging Systems Co., Ltd. (Moriyama, Shiga), Gunze Kobunshi Corp. (Isehara, Kanagawa)

Sales Bases in Japan:

Sales Departments of Companies/Business Divisions (Tokyo, Osaka, etc.)

Overseas Production Bases:

Gunze Plastics & Engineering Corporation of America (U.S.A.), Shanghai Gunze New Plastics Film Co., Ltd. (China), Dongguan Guan Zhi Electronics Ltd. (China), Shangdong Gunze Apparel Ltd. (China), Gunze (Vietnam) Co., Ltd. (Vietnam), Shanghai Gunze Fiber Co., Ltd. (China), PT. Gunze Indonesia (Indonesia)

Others:

Gunze Development Co., Ltd. (Amagasaki, Hyogo), Tsukashin Town Create Co., Ltd. (Amagasaki, Hyogo), Gunze Sports Co., Ltd. (Amagasaki, Hyogo), Gunze Green Co., Ltd. (Amagasaki, Hyogo)

5. Systems to Ensure Propriety in Business Operations

(1) Systems to ensure Directors' compliance with laws and regulations and the Articles of Incorporation

- 1) The Company continually promotes and keeps all its employees informed about the GUNZE Activity Guidelines that stipulate guidelines for conduct, which all Directors and employees of the GUNZE Group must follow, in order to ensure implementation of its corporate philosophy.
- 2) The Company appoints a Director/Corporate Officer in charge of CSR to strengthen the GUNZE Group's CSR practices. A Director/Corporate Officer in charge of compliance is also appointed to ensure strict legal and regulatory compliance and establish high standards of corporate ethics. Moreover, in accordance with its Rules concerning CSR, the CSR Committee, a cross-divisional team chaired by the Director/Corporate Officer in charge of CSR, strives to strengthen the corporate structure intended to ensure strict compliance with laws and regulations.
- 3) In accordance with its Rules concerning the Board of Directors, the Company's Board of Directors (BOD), as a basic rule, meets once a month. The BOD is responsible for deliberating and resolving important corporate and business matters, while overseeing the Directors' performance of management duties.
- 4) To further strengthen the BOD's management oversight functions, the Company selects highly independent outside Directors to join the Board.
- 5) The Company makes diligent efforts to prevent illegal or unethical acts by Directors, Corporate Officers and Corporate Auditors by holding CSR seminars targeting them on a regular basis.
- 6) In accordance with its Auditing Rules for Corporate Auditors, Standing Executive Auditors attend BOD meetings and other important corporate meetings, and conduct audits to monitor the performance of Directors in carrying out their duties.
- 7) The Company implements quick and organized measures to deal with demands from antisocial forces or groups that threaten public order and security, and stands firm in rejecting such demands through cooperation with external specialized agencies.
- 8) In accordance with its Information Disclosure Rules, the Company appoints an officer responsible for handling information to ensure appropriate management and control of the GUNZE Group's corporate information, and discloses appropriate information quickly and fairly as an open-door corporate group.

(2) Systems of retention and management of information concerning Directors' execution of their duties

The Company manages and retains documents, records and information materials, including minutes of the General Meetings of Shareholders, minutes of Board of Directors meetings, circulars for managerial approval, and contracts, in accordance with its Documentation Rules and other regulations.

(3) Rules and other systems concerning risk management

- 1) In accordance with its Risk Management Rules, the Company builds a solid cross-divisional risk management system that covers the entire Group in order to avoid any kind of risks and to appropriately prepare for unexpected contingencies. For information-related risks in particular, the Company strives to protect the GUNZE Group's information assets based on its IT (Information Technology) Security Policy and Standard Countermeasures against IT (Information Technology) Security Issues.
- 2) In accordance with its Rules concerning Management of Trade Secrets, the Company sets up a cross-divisional supervisory team, the Trade Secrets Management Committee (chaired by the Director/Corporate Officer in charge of compliance), in order to appropriately manage trade secret assets available across the Group and prevent leakage of important trade secrets.

(4) Systems to ensure that Directors efficiently perform their duties

- 1) To enhance the Board of Directors' functions and improve management efficiency, the Company, in accordance with its Rules concerning Executive Officer Meetings, holds an Executive Officer meeting attended by Representative Directors, Managing Directors, and Directors/Corporate Officers in charge of specific functions. This is held roughly once a week to deliberate important matters related to the Group's business operations.
- 2) The Company adopts a Corporate Officers System to clearly separate decision-making regarding business practices and management oversight functions from business operations, and augment the Board of Directors' monitoring functions. It is also intended to vitalize the BOD and facilitate quicker decision-making.
- 3) To swiftly and flexibly respond to radical changes taking place in the Company's management environment and clearly define management responsibility, the term of office of Directors at the Company is designated as one (1) year.
- 4) The Company sets forth its internal Rules concerning Division of Duties, Rules concerning the Authority and Responsibility of Internal Company Presidents, and Rules concerning the Authority and Responsibility of Business Group General Managers, to ensure propriety of the GUNZE Group's internal controls, clarify procedures for business practices, and enhance efficiency of management and administration.
- 5) To conduct efficient business operations for the GUNZE Group, the Company promotes business reforms utilizing information technology.
- 6) Corporate Auditors monitor and assess the establishment and operation of the internal control system of the GUNZE Group, which Directors conduct while exercising the due care of a responsible manager.

(5) Systems to ensure that employees' performance of their duties conforms to laws and regulations and the Articles of Incorporation

- 1) To ensure strict legal and regulatory compliance, the Company regularly provides all

employees of the GUNZE Group with the necessary education and training. The Company responds quickly to the enactment of a new law or amendment to existing law by offering relevant education and training. The Company also offers relevant education and training quickly in the event that material misconduct or an accident arises within the Group or at other companies.

- 2) The Company posts all rules and regulations applicable to the GUNZE Group on intranets so that Group employees can access and view them whenever necessary.
- 3) The Company has a whistleblower system in place, by which employees can directly report compliance-related information or ask compliance-related questions via the Advice Hotline for Employees, in order to prevent misconduct and accidents. Should material violation of laws or regulations, or other compliance-related problems be discovered, employees should also report directly to the President or the Director/Corporate Officer in charge of compliance.

(6) Systems to ensure the propriety of business operations of the GUNZE Group

- 1) Under the supervision of the CSR Committee, a Risk Management Officer is in place at each business department or Group company to ensure strict legal and regulatory compliance. For information security in particular, a Division Information Officer (DIO) responsible for maintaining IT security is in place at each business division or Group company to ensure strict management of information.
- 2) As for the management of individual companies comprising the GUNZE Group, the Company gives guidance or advice to them based on their periodical business reports, prior discussions regarding important matters or other arrangements, while respecting their individual initiative, in order to ensure propriety of business operations for the Group as a whole.
- 3) The Business Audit Section conducts internal audits to inspect the operating effectiveness of the GUNZE Group's internal controls for overall business practices, in order to maintain the propriety and efficiency of business operations for the Group as a whole.
- 4) When deemed necessary from reported results of audits, as discussed in item 3) above, Corporate Auditors conduct audits of the Group companies to monitor the operating effectiveness of their internal controls, as well as the propriety and efficiency of business operations as a corporate group. Should Corporate Auditors consider it necessary, Corporate Auditors will directly perform audits of the Group companies.

(7) Systems to ensure reliability of financial reporting

To appropriately assess the validity of the GUNZE Group's internal controls over financial reporting, as stipulated by the Financial Instruments and Exchange Act, the Company assigns an officer responsible for assessing the internal control system (Director/Corporate Officer in charge of finance) and various other responsible personnel based on the Internal Control Standards. By so doing, the Company maintains, implements and assesses internal controls of the Company and its consolidated subsidiaries, which comprise the Group's consolidated financial statements, and announces the results of assessment through internal control reports.

(8) Assignment of employees to assist Corporate Auditors when so requested by Corporate Auditors

In accordance with the Auditing Rules for Corporate Auditors, Corporate Auditors may, as necessary, assign staff of the Business Audit Section and other sections to assist Corporate Auditors in performing their duties.

(9) Matters concerning independence of supporting employees from Directors and ensuring effectiveness of Directors' instructions to supporting employees

Supporting employees who have received the necessary commands for auditing practices from a Corporate Auditor(s) will not be subject to any orders or control from higher-ranked employees such as Directors and the Manager of the Business Audit Section regarding the aforementioned command issued by the Corporate Auditor(s).

(10) System for reporting by Directors, employees, and officers and employees of the Company's subsidiaries to Corporate Auditors and other systems concerning reporting to Corporate Auditors

- 1) Officers and employees of the GUNZE Group report to Corporate Auditors without delay while taking appropriate measures in the event that they discover any fact that could have a negative impact, in a material degree, on the GUNZE Group, such as impairment of its credibility or adverse effects on its business operations and financial performance.
- 2) Officers and employees of the GUNZE Group make reports necessary for auditing to Corporate Auditors of the Company without delay when so requested by Corporate Auditors.
- 3) The Group Board of Corporate Auditors meeting is held regularly, at which Corporate Auditors of the Company's subsidiaries report compliance risks concerning the subsidiaries.
- 4) The Manager of the Business Audit Section reports to Corporate Auditors without delay issues discovered through auditing of the GUNZE Group by the Business Audit Section.
- 5) Officers and employees of the GUNZE Group report to Corporate Auditors without delay important matters among information as described in item 3) of section (5) above.
- 6) In accordance with the Whistleblower Protection Rules, GUNZE prohibits making any detrimental treatment to officers or employees of the GUNZE Group who made reports such as described in item 5) above for the reason of having made such reports.

(11) Systems to ensure that audits by Corporate Auditors are conducted effectively

- 1) Corporate Auditors formulate an auditing policy and assign work in accordance with the Board of Auditors Regulations and Auditing Rules for Corporate Auditors, and periodically exchange views and information with Representative Directors, independent accounting auditors and the staff of the Business Audit Section.
- 2) Corporate Auditors submit issues discovered through their audits to Directors and

employees, and give recommendations for improvement or advice to the concerned department as necessary in order to ensure that internal controls function effectively.

- 3) Outside auditors account for half or more of all Corporate Auditors to ensure transparency of audits.
- 4) In the event that Corporate Auditors make requests to the Company to pay or reimburse expenses, etc. in accordance with Article 388 of the Companies Act, the Company shall promptly respond to such requests, except in cases where it proves that the expenses relating to such requests are not necessary for the execution of their duties. The Company also provides an annual budget with a fixed amount for expenses, etc. arising from the execution of their duties.

6. Outline of Implementation of Systems to Ensure Appropriate Business Operations of the Company

(1) Legal and regulatory compliance system

Every year, the Company distributes a pamphlet entitled “Gunze-no-Ze” (Policy of GUNZE), which introduces its Founding Philosophy and GUNZE Activity Guidelines across the GUNZE Group. The pamphlet is designed to help all Directors and employees of the GUNZE Group understand the GUNZE Activity Guidelines and put them into practice. The Company offers a course with an introduction to compliance to new employees when they are hired and during all new employee training, using “Gunze-no-Ze” and other educational materials. In fiscal 2018, the Company established the GUNZE Group CSR Procurement Guidelines (effective January 1, 2019) for GUNZE Group suppliers in order to thoroughly ensure a CSR mindset throughout its entire supply chain. The Company also conducted a seminar with the theme of “How to implement CSV-based management with SDGs in Mind” along with group discussions targeting CSR Committee members, divisional general managers and CSR promotion leaders. Moreover, social contribution activities were conducted under the leadership of CSR promotion leaders in 45 business units, and unity among employees was cultivated.

Moreover, the Company has the Advice and Report Hotline for Employees in place for compliance-related advice and reporting. In fiscal 2018, there were 19 hotline contacts to seek advice or make reports. Hotline issues are reported to the responsible personnel of the relevant office upon obtaining consent of the whistleblower, aiming at swift resolution of compliance-related problems and prevention of their recurrence. Hotline issues are also reported to the Directors in charge of CSR and compliance, Corporate Auditors, and the President to share information.

(2) Risk management system

As for risk management related to business operations, in fiscal 2018 the Company shifted its focus from sharing information and implementing counteractions after the occurrence of an incident to preventive measures. The degree of impact on society and customers/partners, as well

the probability of occurrence, was also taken into consideration. Accordingly, the Company concentrated its efforts on preventing risks under the leadership of the Risk Management Committee.

The Risk Management Committee has specified four key control issues—workstyle reform, protection of personal information, compliance in the Medical Division, and governance in overseas subsidiaries, strengthening efforts in these areas.

For the protection of personal information, which is a particularly important issue, the Company has revised in-house rules and conducted internal seminars in order to ensure strict management of personal information of customers for EC business channels in Japan and GUNZE Sports Co., Ltd.

The Medical Division established “Transparency Guidelines for Its Relationship with Medical Institutions, etc.” and disclosed information regarding funding. The Medical Division has also been working to strengthen its compliance promotion system by accelerating conformance with laws and regulations in overseas countries, to keep up with international expansion of its business.

(3) Information retention system

The documents, records and information materials pertaining to the execution of duties by Directors are managed and retained by the secretariat of each meeting or the responsible department in accordance with the Documentation Rules. Management and retention of information pertaining to business divisions and subsidiaries of the Company are inspected and confirmed by the Business Audit Section mainly during auditing.

(4) Systems to ensure efficiency

The Company adopts a Corporate Officers System in order to facilitate quicker decision-making and reinforce its business execution system, selecting 15 Corporate Officers, nine (9) of whom concurrently assume the position of a Director. To clarify the management responsibilities to be assumed by Directors and Corporate Officers and build a management system capable of swiftly responding to changes in the Company’s management environment, the term of office of Directors and Corporate Officers is designated as one (1) year. As a basic rule, the Board of Directors meeting is held once a month (held 13 times in the fiscal year ended March 31, 2019) to decide important matters regarding execution of business and matters stipulated in laws or the Articles of Incorporation, while also overseeing the Directors’ execution of their duties. Along with this, an Executive Officer meeting is held roughly once a week (held 25 times in the fiscal year ended March 31, 2019). Seven (7) persons including the Representative Director, Managing Director, and Directors and Corporate Officers in charge of specific functions attend the Executive Officer meeting to deliberate on important matters regarding business execution, while seeking to facilitate quicker decision-making.

(5) Internal controls for the corporate group

For the purpose of auditing the appropriateness of the business process and management efficiency of the GUNZE Group including the Company's affiliated companies, the Company has a Business Audit Section in place as a department under the direct control of the President to conduct internal audits. At present, six (6) staff members of the Business Audit Section conduct internal audits with the aim of enhancing the internal control functions of the Group as a whole.

Business operations of the Company's subsidiaries are managed on a monthly basis. At a management meeting held at the time of drawing up the budget, and the Executive Officer meeting pertaining to annual financial reporting, the Company receives direct reports from representatives of overseas subsidiaries.

As for the educational system, the Overseas Subsidiary President meeting is held regularly to provide representatives of subsidiaries with training regarding important compliance risks, etc.

In China, where many of the Company's subsidiaries are gathered, a department tasked with managing business in China has been set up in Shanghai. The department is working to enhance response to risks pertaining to China by eliminating duplication of indirect administrative functions dispersed in multiple local Chinese companies and augmenting functions that are insufficient.

(6) Internal controls for financial reporting

In conformance with the Internal Control Standards, the establishment and implementation status of internal controls over financial reporting were assessed. The results of the assessment were put on the agenda of a Board of Directors meeting, etc. after having undergone deliberations by the Internal Control Validity Assessment Committee. Based on the resolution reached at the Board of Directors meeting, the Company disclosed that its internal controls over financial reporting were deemed valid.

(7) Systems to ensure effectiveness of audits conducted by Corporate Auditors

At the beginning of each fiscal year, Corporate Auditors and the Board of Corporate Auditors draw up the Board's auditing plan and make prior confirmation with the independent accounting auditors and the Business Audit Section (a department for conducting internal audits) regarding the outline of plans for auditing by accounting auditors and internal audit plans, as well as their audit items. Corporate Auditors also attend onsite audits and audit reviews of independent accounting auditors and the Business Audit Section as necessary, while receiving reports on the results of audits from the independent accounting auditors and the Business Audit Section. In fiscal 2017, Corporate Auditors attended 22 audit sessions for GUNZE Group sites inside and outside of Japan, including interviews with representatives of all business divisions, based on the audit plans. Corporate Auditors also held regular meetings with Directors including the Representative Directors, senior executives, independent accounting auditors, and the staff of the Business Audit Section, to exchange views and information. The Group Board of Corporate Auditors meeting was held twice, receiving reports from Corporate Auditors of the Company's subsidiaries regarding audit plans, status of audits, etc.

7. Basic Policy for Corporate Control

(1) Basic policy

In conformance with its “quality first” policy and its commitment to “technology-oriented management,” the GUNZE Group promotes customer-focused business operations. In doing so, the Group lives up to its founding philosophy that underscores a people-oriented approach, a commitment to quality, and harmonious coexistence. Based on this philosophy, the Group strives to fulfill its corporate social responsibility (CSR). With a strong determination to provide customers with a “Feeling of Comfort” through the products and services offered by each business line, the GUNZE Group aims to become “a corporate group that fulfills the needs of society” and “a corporate group that grows sustainably alongside society.”

With the aim of raising its corporate value, and in accordance with its basic stance of promoting shareholder-focused management attitudes, the Company endeavors to increase profitability and enhance capital efficiency. Moreover, returning earnings to shareholders is one of the Group’s most important management policies. Accordingly, the Company works to distribute earnings to shareholders in a continual and stable manner, based on the medium- and long-term business perspective, through the payment of dividends and the repurchase of treasury stock.

The Company also believes that decisions regarding which parties are entitled to be shareholders of the Company should be reached through free trading of the Company’s shares. The Company therefore considers that, in the event of a takeover offer that accompanies transfer of controlling stakes, the decision to accept or reject the proposal should ultimately be the responsibility of the shareholders.

However, to realize sustained enhancement of the Group’s corporate value and common interests of its shareholders through the efforts described above, it is essential that the Company maintain and develop appropriate relations not only with shareholders but also other parties comprising the Company’s stakeholders, including customers, business associates, employees and local communities. Consequently, the Company considers that persons who control the decisions on the financial and operational policies of the Company must fully understand the financial position and business operations of the Company, as well as the sources of its corporate value, and implement management practices in consideration of stakeholders’ interests.

Accordingly, the Company concludes that persons attempting to conduct a large-scale acquisition of the Company’s shares or other assets in a way that could possibly impair the GUNZE Group’s corporate value, the Company’s interests, and the common interests of its shareholders consequently, will be unsuited to executing the decision on the financial and operational policies of the Company. The Company thus believes that the implementation of necessary and suitable defense measures against the said acquisition will be necessary to secure the GUNZE Group's corporate value and the interests of the Company, as well as the common interests of its shareholders.

(2) Efforts to contribute to the implementation of the basic policy

To contribute to the implementation of the basic policy, the Company promotes the following strategies as it pursues the enhancement of the GUNZE Group's corporate value and common interests of its shareholders.

1) Promotion of medium-term management plan

The GUNZE Group is currently carrying out its medium-term management plan ("CAN 20 Plan" for the period covering the 119th business term to the 125th business term (FY2020)). With the key concept of "Focus and Concentration," the Group will strive to enhance the GUNZE Group's corporate value by implementing the three basic strategies. These are: selection and focus for existing businesses based on strategic business units (SBUs); cultivation and creation of new high-growth businesses through the Cross-Functional Approach (CFA) initiatives; and reinforcement of the management foundation to support the company's growth strategy.

Focusing on shareholders, the GUNZE Group will seek to raise return on equity (ROE), which it views as the Group's key performance indicator. As part of this effort, the Group will implement various measures aimed at increasing profitability, using capital more productively, and repurchasing treasury stock. Toward this end, the GUNZE Group will also set a return on assets (ROA) target for each business division or affiliated company as a measure to gauge the efficiency of business investments. This is part of the drive to improve both profit margin on sales and total asset turnover.

2) Strengthening of corporate governance

To facilitate more agile decision-making and strengthen management oversight functions, the Company launched a Corporate Officers System and reduced the maximum number of members of the Board of Directors in the 110th business term (fiscal year ended March 31, 2006). In the 111th business term (fiscal year ended March 31, 2007), the term of office of Directors was reduced from two (2) years to one (1) year to clarify the management responsibility of Directors and establish a management system capable of quickly responding to changes in the business environment. The Company is committed to strengthening corporate governance through these measures, while at the same time inviting outside Directors to join the Board with the aim of maintaining transparency in all management practices.

At its Board of Directors meeting held on December 18, 2015, the Company established the GUNZE Corporate Governance Guidelines as the basic policy regarding the GUNZE Group's corporate governance. The Guidelines are posted on the Gunze corporate website (<http://www.gunze.co.jp/ir/policy/governance/index.html>).

(3) Efforts to prevent inappropriate control of the Company

The Company will take appropriate measures as far as are permitted by the Financial Instruments and Exchange Act, the Companies Act, and other related laws and regulations. These

[Translation]

include requesting the party intending to make the large-scale acquisition of the Company's shares to submit to the Company necessary and sufficient information, and to secure a sufficient amount of time for its shareholders to make appropriate judgments on the said proposal of acquisition.

(4) Judgment of the Board of Directors of the Company regarding the above efforts and rationale thereof

The Company's Board of Directors concludes that these efforts conform to the Company's Basic Policy for Corporate Control and are not detrimental to its corporate value and the common interests of its shareholders, nor are they intended to protect the position of any of the Directors in the Company.

Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	End of FY2017 (Mar. 31, 2018)	End of FY2018 (Mar. 31, 2019)
Assets		
Current assets		
Cash and cash equivalents	9,477	8,102
Notes & accounts receivable, trade	30,277	30,376
Finished products and goods	19,468	20,082
Work in process	5,906	6,413
Raw materials and supplies	4,387	4,635
Short-term loans	874	672
Other current assets	2,386	2,753
Allowance for doubtful accounts	(9)	(8)
Total current assets	72,769	73,030
Fixed assets		
Property, plants and equipment		
Buildings and structures	114,993	118,649
Accumulated depreciation	(75,887)	(77,536)
Buildings and structures (Net)	39,106	41,113
Machinery, equipment and vehicles	95,255	94,905
Accumulated depreciation	(84,819)	(85,008)
Machinery, equipment and vehicles (Net)	10,436	9,897
Tools, furniture and fixtures	7,614	7,681
Accumulated depreciation	(6,014)	(6,167)
Tools, furniture and fixtures (Net)	1,599	1,514
Land	12,516	13,005
Leasehold assets	1,001	1,178
Accumulated depreciation	(410)	(588)
Leasehold assets (Net)	590	589
Construction in progress	604	362
Total property, plants and equipment	64,853	66,483
Intangible fixed assets		
Software	1,031	1,086
Other intangible fixed assets	786	1,056
Total intangible fixed assets	1,817	2,143
Investments and other assets		
Investments in securities	23,775	19,170
Long-term loans	581	14
Deferred income taxes	2,601	3,191
Other assets	4,958	5,853
Allowance for doubtful accounts	(84)	(254)
Total investments and other assets	31,832	27,975
Total fixed assets	98,503	96,602
Total assets	171,273	169,632

(Millions of yen)

	End of FY2017 (Mar. 31, 2018)	End of FY2018 (Mar. 31, 2019)
Liabilities		
Current liabilities		
Notes & accounts payable, trade	9,640	9,910
Short-term debt	6,501	6,416
Commercial paper	6,000	6,200
Current portion of long-term debt	5,077	2,101
Accrued income taxes	337	1,376
Allowance for employees' bonuses	1,229	1,314
Notes payable on acquisition of property, plants and equipment	612	908
Other current liabilities	9,360	8,442
Total current liabilities	38,760	36,669
Long-term liabilities		
Long-term debt	9,912	10,972
Allowance for loss on guarantees	74	102
Liabilities related to retirement benefits	5,263	5,534
Long-term deposits & guarantee deposits	4,293	4,500
Other long-term liabilities	839	784
Total long-term liabilities	20,383	21,894
Total liabilities	59,143	58,563
Net assets		
Shareholders' equity		
Common stock	26,071	26,071
Capital surplus	13,942	6,754
Retained earnings	79,718	82,050
Treasury stock	(11,152)	(5,293)
Total shareholders' equity	108,579	109,583
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	2,711	224
Deferred gain (loss) on hedge	(81)	19
Revaluation differences on land	(54)	(54)
Foreign currency translation adjustments	1,248	745
Accumulated adjustments related to retirement benefits	(1,261)	(1,011)
Total accumulated other comprehensive income	2,561	(76)
Stock acquisition rights	281	260
Non-controlling interests	706	1,301
Total net assets	112,129	111,068
Total liabilities and net assets	171,273	169,632

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

Consolidated Statements of Income

(Millions of yen)

	FY2017 (Apr. 1, 2017 to Mar. 31, 2018)	FY2018 (Apr. 1, 2018 to Mar. 31, 2019)
Net sales	140,521	140,706
Cost of sales	100,548	99,812
Gross profit	39,972	40,893
Selling, general & administrative expenses	33,733	34,203
Operating income	6,239	6,690
Non-operating income		
Interest income	70	58
Dividend income	404	459
Rental income	265	319
Exchange gain	-	71
Gain on valuation of derivatives	37	111
Other	418	222
Total non-operating income	1,196	1,242
Non-operating expenses		
Interest expenses	203	229
Rental expenses	234	308
Exchange loss	296	-
Other	253	242
Total non-operating expenses	988	780
Ordinary income	6,446	7,152
Extraordinary income		
Gain on sale of fixed assets	396	690
Gain on sale of investment securities	14	182
Gain on sale of shares of affiliated companies	214	-
Other	-	3
Total extraordinary income	625	877
Extraordinary loss		
Loss on sale or disposal of fixed assets	670	801
Loss on sale of shares of affiliated companies	84	450
Loss on valuation of shares of affiliated companies	-	277
Impairment loss	597	-
Business structure improvement expenses	281	-
Other	163	205
Total extraordinary loss	1,797	1,733
Income before income and other taxes	5,275	6,295
Income, residential and enterprise taxes	821	1,730
Adjustment for income and other taxes	853	323
Total income and other taxes	1,674	2,053
Net income	3,600	4,242
Net income attributable to non-controlling interests	113	154
Net income attributable to owners of the parent	3,486	4,087

Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2017 (Apr. 1, 2017 to Mar. 31, 2018)	FY2018 (Apr. 1, 2018 to Mar. 31, 2019)
Net income	3,600	4,242
Other comprehensive income (loss)		
Unrealized gain (loss) on available-for-sale securities	2,774	(2,487)
Deferred gain (loss) on hedge	(81)	101
Foreign currency translation adjustments	260	(539)
Adjustments related to retirement benefits	72	250
Total other comprehensive income	<u>3,025</u>	<u>(2,675)</u>
Comprehensive income	<u>6,625</u>	<u>1,566</u>
<Breakdown>		
Comprehensive income attributable to owners of the parent	6,487	1,439
Comprehensive income (loss) attributable to non-controlling interests	137	126

Consolidated Statements of Cash Flows

(Millions of yen)

	FY2017 (Apr. 1, 2017 to Mar. 31, 2018)	FY2018 (Apr. 1, 2018 to Mar. 31, 2019)
Cash flows from operating activities	9,007	11,491
Cash flows from investing activities	(5,954)	(7,373)
Cash flows from financing activities	(1,783)	(5,483)
Effect of exchange rate changes on cash & cash equivalents	(1,364)	(581)
Increase (decrease) in cash and cash equivalents	(94)	(1,946)
Cash and cash equivalents at the beginning of the period	9,670	9,477
Increase (decrease) in cash and cash equivalents due to change in scope of consolidation	(98)	571
Cash and cash equivalents at the end of the period	<u>9,477</u>	<u>8,102</u>