

Summary of Consolidated Financial Statements for the Third Quarter of the Fiscal Year Ending March 31, 2007

This document is an English translation of the Japanese-language original. All financial information has been prepared in accordance with accounting principles generally accepted in Japan.

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1. Preparations for summary of quarterly report

(1) Use of simplified accounting method: Yes

- Annual tax rates projected based on the statutory tax rates are applied for accounting for corporate income taxes.

(2) Changes in accounting treatment from the most recent fiscal year: No

(3) Changes in scope of consolidation and application of equity method: No

2. Consolidated results for the third quarter of FY2006

(April 1, 2006 to December 31, 2006)

(1) Consolidated operating results (Amounts less than one million yen are omitted)

	Net sales		Operating income		Ordinary income	
	¥ millions	%	¥ millions	%	¥ millions	%
Nine months ended Dec. 2006	129,271	2.1	8,851	3.7	8,971	6.0
Nine months ended Dec. 2005	126,666	1.1	8,532	7.8	8,463	4.4
(Ref.) Year ended Mar. 2006	165,697		9,014		8,945	

	Net income (loss)		E.P.S.	Diluted E.P.S.
	¥ millions	%	¥	¥
Nine months ended Dec. 2006	6,952	18.3	32.37	-
Nine months ended Dec. 2005	5,876	(26.7)	26.88	-
(Ref.) Year ended Mar. 2006	6,220		28.33	-

Note: Indicated percentages for net sales, operating income, etc. show year-over-year increase or decrease compared to the same period of the previous year.

(2) Consolidated financial position

	Total assets	Net assets	Net worth ratio	Net assets per share
	¥ millions	¥ millions	%	¥
Nine months ended Dec. 2006	220,729	135,698	60.9	629.04
Nine months ended Dec. 2005	218,086	135,134	62.0	622.91
(Ref.) Year ended Mar. 2006	212,486	136,318	64.2	628.69

Note: In the above table, numbers for shareholders' equity, equity ratio, and equity per share are listed for net assets, net worth ratio, and net assets per share for the third quarter and for the full year of FY2005, respectively.

3. Projected results for FY2006 (April 1, 2006 to March 31, 2007)

	Net sales	Ordinary income	Net income
	¥ millions	¥ millions	¥ millions
FY2006 full-year	170,100	10,400	8,400

(Ref.) Projected earnings per share (full-year): ¥39.16

The above projections are based on business conditions as of the publication date of this report. Actual results could differ from projections due to various unforeseen factors that may occur in the future.

Review of Operations

(For the Nine Months Ended December 31, 2006)

During the first three quarters of the current fiscal year (April 1, 2006 to December 31, 2006), the Japanese economy continued to advance steadily with a general improvement in corporate earnings stimulated by robust capital investment and exports. However, the retail industry, including department stores and general merchandizing stores, experienced sluggish sales for autumn/winter season clothing products, mainly due to unseasonable weather conditions, including an extremely warm autumn and winter. Faced with these continued challenges, the Gunze Group proactively worked to boost its corporate value. Specific measures were taken, including the creation of new business categories through the development of highly distinguished products, and strengthening of comprehensive approaches for clients. Gunze also made proactive investments in promoting overseas strategies for its apparel business as well as in expanding functional solutions and lifestyle creation businesses. Cost reductions were another area on which group-wide efforts were concentrated. As a result, the Gunze Group's consolidated net sales for the period under review totaled ¥129,271 million, or a year-over-year increase of 2.1%. Operating income rose 3.7% to ¥8,851 million. Ordinary income also grew 6.0% to ¥8,971 million. Consolidated net income was ¥6,952 million, a substantial improvement of 18.3% compared with a year earlier. Net sales and operating income by business segment during the period under review are detailed below.

[Apparel]

Net sales declined 4.3% from the same period of the previous year to ¥76,594 million while operating income decreased 13.4% to ¥5,267 million.

Men's and Kids' Wear Company

In men's innerwear, despite an extensive and proactive "Put on your best undergarments" campaign, extremely warm weather had a negative impact on autumn/winter seasonal sales, resulting in overall sluggishness in the category's sales.

Although "Warm Biz"-related products, mainly casual innerwear, enjoyed strong sales, sales for the *GAIA* category of new innerwear brands centering on *BODY WILD* as well

as basic white products were slow. Consequently, the Men's and Kids' Wear Company posted a decrease in both revenues and profits.

Ladies' and Leg Wear Company

In women's innerwear, efforts were concentrated on promoting the "Flaty" campaign and the "*Kaiteki Kobo* — Thanks to Customers" campaign. However, unseasonable weather conditions for winter forestalled the traditional surge in seasonal store sales, dragging down sales for both the new innerwear and basic product groups.

In lingerie and foundation garments, the core brand *Tuché* continued to perform strongly, as did the new brand *Pur Pure*. However, *Ineno Tsuikyū* and *Yansoffi* posted disappointing sales.

In the stockings category, the fashion comeback of the skirt gave a boost to the *Tuché* line of fashionable separate-type stockings, including patterned stockings and newly introduced thigh-high (above knee-high) stockings. Sales for *STYLISH PANTS* also advanced steadily thanks to the implementation of a new "Bibara" promotion project for a slimmer-looking midsection. These positive factors pushed up overall sales in this category. Overall, the Ladies' and Leg Wear Company recorded a decrease in both revenues and profits.

Other Textiles

In the home casual (pajamas) category, a successful gift campaign stimulated sales of basic sleepwear products, contributing to increased revenues and profits in this category. Textile materials also recorded increases in revenues and profits thanks to aggressive marketing strategies for China and Southeast Asia, along with an expansion of sales for new applications such as automotive materials and sports wear-related materials and accessories.

[Functional Solutions]

Net sales increased 10.4% year over year to ¥43,574 million and operating income rose 15.7% to ¥5,097 million.

Plastic Film Company

In shrink film, the highly differentiated new product, hybrid styrene films, enjoyed sales growth especially for beverage bottle labels, while sales of other types also advanced steadily. To cope with repeated price increases in raw materials, Gunze actively promoted cost reductions while working to revise product prices to reflect cost increases. However, the time lag before the revised prices became effective impacted the profitability of the Plastic Film Company. Overseas operations in the United States, Europe and China focused on strengthening manufacturing technology, which helped boost business conditions. Consequently, the Plastic Film Company posted increased revenues, although profits remained nearly on a par with the year-before total.

Engineering Plastics

Along with the accelerated shift to color-capable higher-speed models in the office automation equipment market worldwide, mainstay CA belts (high-performance polyimide resin belts for color photocopiers and printers) and fluorocarbon resin thin-walled tubing for fixation rollers enjoyed healthy sales. Robust orders also continued for engineering plastics for general industrial applications, especially for semiconductor-related fields, helping drive up overall revenues and profits for the engineering plastics category.

Electronic Components

Sales for touch panels with Gunze proprietary polarizing plate technology as well as mid-/large-sized touch panels remained strong. While working to develop new applications, Gunze also implemented proactive measures to enhance productivity. These contributed to year-over-year increases in revenues and profits for the electronic components category.

Others

The winning of large orders for printing press-related machinery both at home and abroad, combined with enhanced profitability for industrial machines, drove up machinery revenues and profits. Medical materials also posted overall increases in revenues and profits, with successful expansion of sales for polyglycolic acid (PGA) suture thread, reinforcement felt and bone fixation materials.

[Lifestyle Creations]

Net sales increased 22.4% year over year to ¥10,107 million and operating income soared 264.7% to ¥981 million.

Since its opening in April 2006, the *Gunze Town Center TSUKASHiN* has regularly promoted events and campaigns to attract more customers and increase sales, along with promotions aimed at expanding the trade area. Thanks to these efforts, overall real estate revenues and profits were higher compared with the same period of the previous year. The landscaping and gardening sector also recorded increased revenues and profits due to proactive efforts to solicit new orders for trees and flowering plants. In sports facility management, Gunze opened two directly managed sports clubs, with the addition of a club whose management was commissioned by the municipal government. However, the sluggish performance of existing clubs combined with the burden of increased costs for new club development impacted profitability. As a result, sports facility management posted nearly the same profits as the same period of the previous year, although revenues recorded an increase.

Outlook for FY2006

For fiscal 2006 (April 1, 2006 to March 31, 2007), the Gunze Group is forecasting net sales of ¥170,100 million, with ordinary income of ¥10,400 million and net income of ¥8,400 million on a consolidated basis.

Forecast by business segment are as follows:

(Millions of yen)

Item \ Segment	Apparel	Functional solutions	Lifestyle creations	Eliminations/ Corporate	Total
Net sales	98,820	58,790	13,840	(1,350)	170,100
FY2006/FY2005	96.8%	110.1%	117.4%	-	102.7%

(1) Consolidated Balance Sheets

(Millions of yen: amounts less than one million yen are omitted)

	End of FY2006 3rd quarter (As of Dec. 31, 2006)		End of FY2005 3rd quarter (As of Dec. 31, 2005)		Increase (Decrease)		(Ref.) FY2005 (As of Mar. 31, 2006)	
	Amount	Proportion	Amount	Proportion	Amount	Proportion	Amount	Proportion
(Assets)		%		%				%
Current assets								
1 Cash and cash equivalents	5,756		5,716		40	0.7	5,114	
2 Trade notes & accounts receivable	47,664		47,567		96	0.2	38,036	
3 Inventories	35,212		37,428		(2,216)	(5.9)	38,781	
4 Real estate inventories	281		636		(355)	(55.8)	440	
5 Short-term advances	435		253		182	71.9	243	
6 Deferred tax assets	1,542		1,573		(31)	(2.0)	1,520	
7 Other current assets	2,433		2,185		247	11.4	2,271	
Allowance for doubtful accounts	(49)		(172)		123	-	(41)	
Total	93,276	42.3	95,188	43.6	(1,912)	(2.0)	86,366	40.6
Fixed assets								
1 Property, plants and equipment								
(1) Buildings and structures	42,614		33,721		8,892	26.4	33,798	
(2) Machinery and equipment	18,580		16,991		1,588	9.4	17,575	
(3) Tools, furniture and fixtures	1,376		1,086		289	26.7	1,072	
(4) Land	12,202		12,293		(91)	(0.7)	12,268	
(5) Construction in progress	633		2,465		(1,831)	(74.3)	3,039	
Total	75,408	34.1	66,559	30.6	8,848	13.3	67,755	31.9
2 Intangible fixed assets								
(1) Other intangible fixed assets	1,049		963		85	8.9	1,075	
Total	1,049	0.5	963	0.4	85	8.9	1,075	0.5
3 Investments and other assets								
(1) Investments in securities	42,167		47,436		(5,268)	(11.1)	48,819	
(2) Long-term advances	890		960		(69)	(7.3)	971	
(3) Deferred tax assets	2,842		1,957		885	45.2	2,514	
(4) Other assets	5,350		5,314		35	0.7	5,245	
Allowance for doubtful accounts	(256)		(294)		38	-	(263)	
Total	50,995	23.1	55,374	25.4	(4,379)	(7.9)	57,288	27.0
Total	127,452	57.7	122,897	56.4	4,555	3.7	126,119	59.4
Total assets	220,729	100.0	218,086	100.0	2,642	1.2	212,486	100.0

	End of FY2006 3rd quarter (As of Dec. 31, 2006)		End of FY2005 3rd quarter (As of Dec. 31, 2005)		Increase (Decrease)		(Ref.) FY2005 (As of Mar. 31, 2006)	
	Amount	Proportion	Amount	Proportion	Amount	Proportion	Amount	Proportion
		%		%				%
(Liabilities)								
Current liabilities								
1 Notes & accounts payable, trade	13,985		12,492		1,492	12.0	12,563	
2 Short-term debt	9,324		5,049		4,275	84.7	5,201	
3 Commercial paper	30,000		16,500		13,500	81.8	10,000	
4 Current portion of long-term debt	1,307		400		907	226.8	1,307	
5 Accrued income taxes	1,811		3,038		(1,226)	(40.4)	6,620	
6 Allowance for employees' bonuses	512		506		5	1.2	1,791	
7 Notes payable on acquisition of property, plant and equipment	60		-		60	-	-	
8 Other current liabilities	8,260		12,865		(4,604)	(35.8)	9,050	
Total	65,262	29.6	50,853	23.3	14,409	28.3	46,533	21.9
Long-term liabilities								
1 Long-term debt	-		1,313		(1,313)	-	407	
2 Deferred tax liabilities	9		4,623		(4,614)	(99.8)	2,788	
3 Allowance for retirement benefits	8,528		14,307		(5,778)	(40.4)	14,366	
4 Allowance for directors' and statutory auditors' retirement benefits	514		487		27	5.5	512	
5 Long-term deposits & guarantee deposits	10,680		9,927		753	7.6	10,067	
6 Other	35		38		(3)	(7.9)	37	
Total	19,768	8.9	30,697	14.1	(10,929)	(35.6)	28,179	13.2
Total liabilities	85,031	38.5	81,551	37.4	3,479	4.3	74,713	35.1
(Minority interests)								
Minority interests	-	-	1,400	0.6	-	-	1,454	0.7
(Shareholders' equity)								
Common stock	-	-	26,071	12.0	-	-	26,071	12.3
Additional paid-in capital	-	-	22,718	10.4	-	-	22,718	10.7
Retained earnings	-	-	71,061	32.6	-	-	71,402	33.6
Revaluation difference on land	-	-	(825)	(0.4)	-	-	(825)	(0.4)
Net unrealized gains on other securities	-	-	21,395	9.8	-	-	22,049	10.4
Foreign currency translation adjustments	-	-	(51)	0.0	-	-	260	0.1
Treasury stock	-	-	(5,235)	(2.4)	-	-	(5,358)	(2.5)
Total shareholders' equity	-	-	135,134	62.0	-	-	136,318	64.2
Total liabilities, minority interests & shareholders' equity	-	-	218,086	100.0	-	-	212,486	100.0
(Net assets)								
Shareholders' equity								
1 Common stock	26,071		-		-		-	
2 Additional paid-in capital	22,718		-		-		-	
3 Retained earnings	75,727		-		-		-	
4 Treasury stock	(7,419)		-		-		-	
Total	117,098	53.1	-	-	-	-	-	-
Valuation, translation adjustments and others								
1 Net unrealized gains on other securities	17,257		-		-		-	
2 Deferred gains on hedge	28		-		-		-	
3 Revaluation difference on land	(400)		-		-		-	
4 Foreign currency translation adjustments	433		-		-		-	
Total	17,318	7.8	-	-	-	-	-	-
Minority interests	1,280	0.6	-	-	-	-	-	-
Total net assets	135,698	61.5	-	-	-	-	-	-
Total liabilities and total net assets	220,729	100.0	-	-	-	-	-	-

(2) Consolidated Statements of Income

(Millions of yen: amounts less than one million yen are omitted)

	FY2006 3rd quarter		FY2005 3rd quarter		Increase (Decrease)		(Ref.) FY2005	
	(Apr. 1, 2006 to Dec. 31, 2006)		(Apr. 1, 2005 to Dec. 31, 2005)				(Apr. 1, 2005 to Mar. 31, 2006)	
	Amount	Ratio	Amount	Ratio	Amount	Pct.	Amount	Ratio
		%		%		%		%
Net Sales	129,271	100.0	126,666	100.0	2,605	2.1	165,697	100.0
Cost of sales	92,440	71.5	89,987	71.1	2,452	2.7	119,202	71.9
Gross profit	36,831	28.5	36,678	28.9	152	0.4	46,495	28.1
Selling, general & administrative expenses	27,979	21.7	28,145	22.2	(165)	(0.6)	37,481	22.7
Operating income	8,851	6.8	8,532	6.7	318	3.7	9,014	5.4
Non-operating income	1,105	0.9	1,114	0.9	(8)	(0.8)	1,443	0.9
1 Interest income	47		64				101	
2 Dividend income	480		366				384	
3 Rental income	317		249				372	
4 Exchange gain	16		93				83	
5 Other	243		340				501	
Non-operating expenses	985	0.8	1,183	0.9	(198)	(16.7)	1,511	0.9
1 Interest expenses	289		262				362	
2 Rental costs	307		184				313	
3 Loss on valuation of inventories	-		224				209	
4 Loss on disposal of inventories	34		157				293	
5 Other	354		353				332	
Ordinary income	8,971	6.9	8,463	6.7	508	6.0	8,945	5.4
Extraordinary income	6,597	5.1	2,476	1.9	4,120	166.4	3,730	2.2
1 Gain on sale of property, plants & equipment	33		300				597	
2 Gain on sale of investments in securities	-		975				1,393	
3 Gain on reversal of allowance for doubtful accounts	1		-				136	
4 Amortization of actuarial gain on retirement benefits	5,360		-				-	
5 Amortization gain of prior service cost on retirement benefits by transition from an employees' pension fund to a cash-balance plan	1,201		1,201				1,602	
Extraordinary losses	3,906	3.0	1,046	0.8	2,859	273.4	1,552	0.9
1 Loss on sale or disposal property, plants & equipment	529		186				251	
2 Loss on valuation of investments in securities	25		16				29	
3 Loss on business structure improvement	171		-				-	
4 Amortization of actuarial loss on retirement benefits	-		410				547	
5 Loss on compensation for removal of tenants	20		433				490	
6 Loss on disposal of inventories	3,158		-				-	
7 Other	-		-				234	
Income before income taxes and minority interests	11,662	9.0	9,893	7.8	1,769	17.9	11,123	6.7
Income taxes - current	4,674	3.6	3,910	3.1	763	19.5	7,589	4.5
Income taxes - deferred	-	-	-	-	-	-	(2,795)	(1.7)
Minority interests	35	0.0	106	0.1	(70)	(67.0)	108	0.1
Net income	6,952	5.4	5,876	4.6	1,076	18.3	6,220	3.8

Segment Data

(1) Segment Information by Business

Third quarter of FY2006 (April 1, 2006 to December 31, 2006)

(Millions of yen: amounts less than one million yen are omitted)

	Apparel	Functional solutions	Lifestyle creations	Total	Eliminations/Corporate	Consolidated
Net sales						
(1) Sales to customers	76,486	43,502	9,282	129,271	-	129,271
(2) Intersegment sales and transactions	108	71	824	1,004	(1,004)	-
Total	76,594	43,574	10,107	130,276	(1,004)	129,271
Operating expenses	71,327	38,476	9,125	118,929	1,490	120,419
Operating income (loss)	5,267	5,097	981	11,346	(2,495)	8,851

Third quarter of FY2005 (April 1, 2005 to December 31, 2005)

(Millions of yen: amounts less than one million yen are omitted)

	Apparel	Functional solutions	Lifestyle creations	Total	Eliminations/Corporate	Consolidated
Net sales						
(1) Sales to customers	79,980	39,364	7,321	126,666	-	126,666
(2) Intersegment sales and transactions	69	106	932	1,108	(1,108)	-
Total	80,050	39,470	8,254	127,775	(1,108)	126,666
Operating expenses	73,964	35,062	7,984	117,012	1,121	118,133
Operating income (loss)	6,085	4,407	269	10,762	(2,229)	8,532

FY2005 (April 1, 2005 to March 31, 2006)

(Millions of yen: amounts less than one million yen are omitted)

	Apparel	Functional solutions	Lifestyle creations	Total	Eliminations/Corporate	Consolidated
Net sales						
(1) Sales to customers	102,033	53,264	10,400	165,697	-	165,697
(2) Intersegment sales and transactions	93	133	1,389	1,616	(1,616)	-
Total	102,126	53,397	11,790	167,314	(1,616)	165,697
Operating expenses	96,205	47,820	11,236	155,263	1,420	156,683
Operating income (loss)	5,920	5,576	553	12,050	(3,036)	9,014

Notes:

- (1) Business segments are classified according to the types and nature of products, and similarities in manufacturing and sales methods.
- (2) The main products handled in each business segment are as follows:
 - Apparel business: Innerwear, hosiery, outerwear, textiles, and threads.
 - Functional solutions business: Plastic films, engineering plastics, electronic materials, machinery, and medical materials.
 - Lifestyle creation business: Buying, selling and leasing of real estate, trees and plants, and operation and management of sports facilities.
- (3) No-allocated operating expenses included in "Eliminations/Corporate" as part of operating expenses represent expenses related to the Company's head office, including the management & strategy department and the business audit section, which cannot be directly allocated to specific segment, as well as expenses for campaigns to promote the Company's image.

3rd quarter of FY2006:	2,495 million yen
3rd quarter of FY2005:	2,229 million yen
FY2005 (Full year):	3,036 million yen

(2) Segmental Information by Geographic Area

Geographic segment information is not presented in the periods above because net sales in regions outside Japan accounted for less than 10% of the combined amount of total net sales in all segments.

(3) Overseas Sales

Overseas sales are not presented in the periods above because they accounted for less than 10% of consolidated net sales.

Production, Orders and Sales

(1) Results of Production

(Millions of yen: amounts less than one million yen are omitted)

Business Segment	FY2006 3rd quarter	FY2005 3rd quarter
	(Apr. 1, 2006 to Dec. 31, 2006)	(Apr. 1, 2005 to Dec. 31, 2005)
Apparel	41,836	42,235
Functional solutions	32,356	28,941
Total	74,193	71,176

Notes: 1. Figures are calculated on a manufacturing cost basis, and include outsourced production.

2. In addition to production, the Company also made the following purchases.

(Millions of yen: amounts less than one million yen are omitted)

Business Segment	FY2006 3rd quarter	FY2005 3rd quarter
	Apparel	8,101
Functional solutions	1,284	1,055
Lifestyle creations	1,794	1,700
Total	11,181	11,203

3. Figures exclude consumption tax.

(2) Orders Received

The Company and its consolidated subsidiaries calculate orders received, excluding for machinery (included in the functional solutions segment), on the basis of projected production rather than production orders. Orders received and outstanding orders for machinery are as follows:

(Millions of yen: amounts less than one million yen are omitted)

Business Segment	FY2006 3rd quarter		FY2005 3rd quarter	
	(Apr. 1, 2006 to Dec. 31, 2006)		(Apr. 1, 2005 to Dec. 31, 2005)	
	Orders received	Outstanding orders	Orders received	Outstanding orders
Machinery included in the functional solutions business	4,832	2,076	5,047	2,614

Note: Figures exclude consumption tax.

(3) Sales

(Millions of yen: amounts less than one million yen are omitted)

Business Segment	FY2006 3rd quarter	FY2005 3rd quarter	Increase
	(Apr.1, 2006 to Dec. 31, 2006)	(Apr. 1, 2005 to Dec. 31, 2005)	(Decrease)
Apparel	76,594	80,050	(4.3) [%]
Functional solutions	43,574	39,470	10.4
Lifestyle creations	10,107	8,254	22.4
Subtotal	130,276	127,775	2.0
Excl. intersegment sales	(1,004)	(1,108)	-
Total	129,271	126,666	2.1

Note: Figures exclude consumption tax.