

## **Notice Regarding the Amount and Outline of Option-based Stock Compensation for Directors**

On May 9, 2007 at its Board of Directors Meeting, Gunze Limited (“The Company”) resolved to propose and seek approval of the 111th annual General Shareholders Meeting to be held on June 27, 2007 concerning the amount of compensation for directors in the form of stock options (granting warrants for the purchase of the Company’s shares) as well as an outline of the said stock options. Details follow:

### **1. Reasons for Proposal**

Gunze will discontinue the directors’ retirement bonus system and, instead, replace a part of the said remuneration for directors (excluding outside directors) with a stock option plan by issuing and granting warrants with a corresponding economic value, while the amount to be paid in upon exercise of each warrant will be 1 yen per share. This change will more closely link compensation for directors with the Company’s stock price and performance, but share the effects of stock price fluctuations with shareholders. The ultimate goal is to raise the motivation and morale of directors to increase the Company’s stock price and improve business performance.

### **2. Outline of Proposal**

#### **(1) Amount of compensation for directors**

As part of the compensation for directors, which is separate from the current money remuneration, the Company seeks shareholders’ approval for the allotment of warrants to directors of the Company (excluding outside directors) as stock options, amounting to no more than 100 million yen per year. Should a proposal for director changes be approved at the General Shareholders Meeting, the number of directors on the Board (excluding outside directors) will be eight.

#### **(2) Warrants to be issued as compensation-type stock options**

The composition of warrants to be issued to directors (excluding outside directors) as compensation-type stock options are as follows:

##### **(a) Total number of warrants and type and number of shares to be issued upon exercise of warrants**

Up to 260 units of warrants will be issued within a year after the day of the annual

General Shareholders Meeting of the Company for each business year. Upon the exercise of the warrants, no more than 260,000 shares of the Company's common stock may be granted.

The number of shares per unit of warrants shall be 1,000. In cases where it is deemed appropriate for the Company to adjust the number of shares to be granted due to mergers, corporate division, split of common stock (including gratis distribution of the Company's common shares) or reversal stock splits, the Company shall make adjustments deemed necessary.

**(b) Warrant allotment schedule and method**

The schedule and method for the allotment of warrants will be in accordance with a resolution reached at a meeting of the Company's Board of Directors.

**(c) Value of assets to be contributed upon the exercise of warrants**

The value of assets to be contributed upon the exercise of each warrant will be determined by multiplying the amount to be paid per share that may be granted upon the exercise of the warrants, which is 1 yen, by the number of shares granted.

**(d) Exercise period of warrants**

The exercise period will be within 30 years from the day following the day when the warrants are allotted.

**(e) Restrictions for transfer of warrants**

The transfer of warrants is subject to approval at a meeting of the Company's Board of Directors.

**(f) Conditions for the exercise of warrants**

- i) In principle, warrant holders may exercise warrants from the day following the day when they are released from their position as directors up to the day when a full five years have passed, as long as the period is within the exercise period discussed in section (d) above.
- ii) Other conditions for the exercise of warrants shall be decided at the meeting of the Company's Board of Directors that determines matters regarding grants of warrants.