

## Summary of Consolidated Financial Statements for the Third Quarter of the Fiscal Year Ending March 31, 2010

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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 Filing of Quarterly Securities Report  
 (*Shihanki hokokusho*) (Scheduled): February 10, 2010  
 Start of Distribution of Dividends  
 (Scheduled): —

### 1. Consolidated results for the third quarter of FY2009 (April 1, 2009 to December 31, 2009)

#### (1) Consolidated operating results (cumulative)

(Amounts less than one million yen are omitted.)

(Percentages represent year-over-year changes.)

	Net sales		Operating income		Ordinary income	
	¥ millions	%	¥ millions	%	¥ millions	%
Nine months ended Dec. 31, 2009	107,099	(10.7)	3,406	(39.9)	3,790	(34.2)
Nine months ended Dec. 31, 2008	119,930	-	5,666	-	5,758	-

	Net income		E.P.S.	Diluted E.P.S.
	¥ millions	%	¥	¥
Nine months ended Dec. 31, 2009	1,398	(48.4)	7.09	7.08
Nine months ended Dec. 31, 2008	2,710	-	13.28	13.27

## (2) Consolidated financial position

	Total assets	Net assets	Net worth ratio	Net assets per share
	¥ millions	¥ millions	%	¥
As of December 31, 2009	177,023	117,809	66.1	593.43
As of March 31, 2009	183,597	119,501	64.7	602.05

Reference: Net worth

Dec. 31, 2009: ¥117,021 million

Mar. 31, 2009: ¥118,735 million

## 2. Dividends

	Dividends per share (¥)				
	1st quarter	2nd quarter	3rd quarter	Year-end	Full year
Year ended March 31, 2009	-	-	-	10.00	10.00
Year ending March 31, 2010	-	-	-		
Year ending March 31, 2010 (projected)			-	7.50	7.50

Note: Revisions to projected dividends during the nine months ended December 31, 2009: No

## 3. Projected results for FY2009 (April 1, 2009 to March 31, 2010)

(Percentages represent changes compared to the previous fiscal year.)

	Net sales		Operating income		Ordinary income	
	¥ millions	%	¥ millions	%	¥ millions	%
Year ending March 31, 2010	139,000	(8.2)	2,400	(43.0)	2,900	(30.9)

	Net income		E.P.S.
	¥ millions	%	¥
Year ending March 31, 2010	1,000	(35.5)	5.07

Note: Revisions to projected results during the nine months ended December 31, 2009: Yes

## 4. Other

- (1) Changes in important subsidiaries during the period (Changes in specified subsidiaries involving changes in the scope of consolidation): No
- (2) Use of simplified accounting methods and accounting practices specific to preparation of quarterly consolidated financial statements: Yes  
(For details refer to 4. "Other Information" (2) in "Qualitative Information, Financial Statements and Other Information" on page 7 and 8.)

(3) Changes in accounting policies, procedures and presentation methods for the preparation of quarterly consolidated financial statements (to be reported as change of important matters for the basis of quarterly consolidated financial statements):

(a) Changes in consolidated accounting methods: No

(b) Changes other than (a) above: Yes

(For details refer to 4. "Other Information" (3) in "Qualitative Information, Financial Statements and Other Information" on page 8.)

(4) Number of shares issued and outstanding (common stock)

(a) Number of shares at the end of period (including treasury stock):

3rd quarter of FY2009: 209,935,165 shares

FY2008: 209,935,165 shares

(b) Treasury stock at the end of period:

3rd quarter of FY2009: 12,741,871 shares

FY2008: 12,716,701 shares

(c) Average number of shares during the period (cumulative quarterly period):

3rd quarter of FY2009: 197,202,375 shares

3rd quarter of FY2008: 204,102,018 shares

#### Note Regarding the Use of Projections of Results and Other Matters

Projections of results and future developments are based on information available to the Company at the current time, as well as certain assumptions judged by the Company to be reasonable. Various factors could cause actual results to differ materially from these projections. For the assumptions that form the basis of the projected results, see 3. "Qualitative Information on Projected Consolidated Results" in "Qualitative Information, Financial Statements and Other Information" on page 6 and 7.

## Qualitative Information, Financial Statements and Other Information

### 1. Qualitative Information on Consolidated Financial Results

Reviewing economic conditions during the nine months ended December 31, 2009, the Japanese economy showed upturn trends for certain industries, supported by governmental economic stimulus initiatives and economic recovery enjoyed by Asian countries, particularly China. By contrast, capital investment in equipment by leading companies declined substantially. Moreover, the worsening employment and income situations accelerated the slowdown in consumer spending. This, combined with an increasingly apparent deflationary trend and a stronger yen, has resulted in prolonged uncertainty about the future economy.

Gunze's apparel business continued to face challenges, as an increasingly defensive consumer attitude toward spending accelerated the shift of purchase patterns toward lower-priced products, and the progressive deflationary trend caused unit sales prices to drop. As for functional solutions, there were some positive signs, such as smooth progress in inventory adjustments and mild recovery in emerging economies including China. However, downward trend risks remain, with the prolonged appreciation of the yen and concerns that the government's economic stimulus measures are running out of gas.

Faced with this situation, the Gunze Group concentrated its efforts on: (1) cultivation of new core products and new businesses, (2) expansion of global sales, and (3) implementation of emergency cost reduction measures, toward the aims of securing growth and reinforcing the corporate structure. As a result, the Gunze Group's consolidated net sales for the nine months ended December 31, 2009 amounted to ¥107,099 million (a year-over-year decrease of 10.7%). Consolidated operating income totaled ¥3,406 million (a year-over-year decline of 39.9%), while consolidated ordinary income was ¥3,790 million (a year-over-year decline of 34.2%). Consolidated net income was ¥1,398 million (a year-over-year decrease of 48.4%).

### Results by Business Segment

#### <Apparel>

In men's innerwear, seasonal products (such as *Hot Magic* using a heat-generating material) and *Body Wild* preformed relatively well, while basic product sales were slow. In women's innerwear as well, seasonal products recorded a strong performance. However, basic innerwear and lingerie/foundation products suffered sluggish sales. In leg wear, trend-setting items including *Tuché Leggings*, *Torenka* (leggings with a hole at the heel) and *Fashion Tights* contributed to increasing sales. But sales of basic plain-type products and patterned stockings were disappointing. Overall, the apparel business recorded net sales of ¥63,466 million (a year-over-year decrease of 9.6%), while operating income was ¥2,756 million (a year-over-year decrease of 21.2%).

#### <Functional Solutions>

In plastic film, shrink film sales for tea bottle labels dipped during the summer in Japan. But beginning in the winter, shrink film for hot beverage bottle labels enjoyed steady performance. In

OPP film, the high-performance anti-fog film line continued to perform impressively. Sagging market conditions dragged down composite nylon film sales. Overseas, plastic film sales in the U.S. and Europe were sluggish due to stagnant economies and increasingly severe market competition, while sales remained robust in China. Engineering plastics for office automation applications (photocopiers, printers, etc.) show signs of bottoming out, but overall demand still remained weak. In electronic components, touch panels for industrial applications, the mainstay product line, continued to experience challenging market conditions. However, demand is gradually picking up, demonstrating an upward trend in sales leads for new technology-based projected capacitive touch panels, which are expected to serve as a driving force for market expansion. In medical materials, although sales of suture thread were slow overseas, bone fixation device sales advanced steadily in Japan and China, posting growth over the same period of the previous fiscal year. Overall, the functional solutions business recorded net sales of ¥34,888 million (a year-over-year decrease of 14.3%) and operating income of ¥2,231 million (a year-over-year decrease of 41.7%).

#### <Lifestyle Creations>

In the real estate business, despite its aggressive efforts concentrated on soliciting new tenants and local community-based sales promotion, the *Gunze Town Center TSUKASHiN* suffered a sales revenue drop from the same period of the previous fiscal year, due to an increasing saving-oriented attitude among consumers with a preference shift toward low-end products, as well as increasingly intense competition. Increased sales of new clubs and reduction of initial costs pushed up profits for the sports club business, although sales revenue decreased due to closure of some clubs. Overall, the lifestyle creation business posted net sales of ¥9,725 million (a year-over-year decrease of 5.6%) and operating income of ¥990 million (a year-over-year decrease of 7.2%).

## 2. Qualitative Information on Consolidated Financial Position

As of December 31, 2009, total assets were ¥177,023 million, a decrease of ¥6,573 million compared to the end of the previous fiscal year. The main components of the decrease included a ¥2,170 million decrease in cash and cash equivalents, a ¥4,004 million decrease in finished products and goods, a ¥1,076 million decrease in work in process, a ¥1,265 million decrease in property, plants and equipment, and a ¥1,920 million decrease in investments in securities. The main contributors to an increase in total assets were the ¥5,263 million increase in trade notes and accounts receivable resulting from a high proportion of apparel sales recorded during the third quarter against total yearly sales.

Total liabilities were ¥59,214 million, a decrease of ¥4,880 million compared to the end of the previous fiscal year. The key components of the decrease were a ¥2,938 million decrease in long- and short-term debt including commercial paper, and a ¥1,223 million decrease in allowance for employees' bonuses.

Total net assets were ¥117,809 million, a decrease of ¥1,692 million compared to the end of the previous fiscal year. The main components of the decrease included dividend payments of

¥1,972 million, and a ¥903 million decrease in unrealized gain on available-for-sale securities. The main contributor to an increase was a net income of ¥1,398 million recorded for the nine months ended December 31, 2009.

(Cash Flows)

As of December 31, 2009, consolidated cash and cash equivalents were ¥5,688 million, ¥2,170 million less than at the end of the previous fiscal year. Below is an overview of cash flows and reasons for changes during the nine months ended December 31, 2009.

Net cash provided by operating activities for the nine months ended December 31, 2009 was ¥8,057 million, an increase of ¥7,770 million compared to the same period of the previous fiscal year. The major incoming cash flows included income before income taxes of ¥2,724 million, depreciation and amortization of ¥5,993 million, and a decrease of ¥5,058 million in inventories. The main outgoing cash flow was a ¥5,226 million increase in notes and accounts receivable.

Net cash used in investing activities was ¥5,227 million, a decrease of ¥622 million compared to the same period of the previous fiscal year. This was primarily attributable to payments for purchase of property, plants and equipment amounting to ¥5,209 million, including capital investment related to the functional solutions business.

Net cash used in financing activities was ¥5,049 million, compared with ¥5,473 million provided during the same period of the previous fiscal year. The main components of cash flows included repayment of short-term debt and commercial paper amounting to ¥6,111 million and ¥1,962 million spent for dividend payments against the ¥3,200 million proceeds from long-term debt.

### **3. Qualitative Information on Projected Consolidated Results**

The increasingly severe competition and defensive consumer attitude toward expenditures are negatively impacting Gunze's apparel business, which suffers prolonged sluggishness. As for the functional solutions business, an improvement in performance is expected for the fourth quarter of the present fiscal year, thanks to progress in investment adjustments and a gradual rebound in emerging economies. However, demand still falls short of a full-scale recovery, so projections still point to continually challenging conditions. In view of these severe conditions, Gunze has revised its full-year consolidated performance forecast for fiscal 2009 (April 1, 2009 to March 31, 2010). However, the projected dividend of ¥7.5 per share will remain unchanged.

Details of revision to the full-year forecast are as follows:

## Revision to Fiscal 2009 Forecast (April 1, 2009 to March 31, 2010)

(Millions of yen)

	Net sales	Operating income	Ordinary income	Net income	Earnings per share (¥)
Previous forecast (A)	142,000	3,000	3,300	1,200	6.09
Revised forecast (B)	139,000	2,400	2,900	1,000	5.07
Difference (B – A)	(3,000)	(600)	(400)	(200)	-
Difference (%)	(2.1)	(20.0)	(12.1)	(16.7)	-
Ref: FY2008 results	151,470	4,207	4,198	1,551	7.66

### 4. Other Information

(1) Changes in Important Subsidiaries during the Period (Changes in Specified Subsidiaries Involving Changes in the Scope of Consolidation): None applicable

(2) Use of Simplified Accounting Methods and Accounting Practices Specific to Preparation of Quarterly Consolidated Financial Statements

(Simplified Accounting Methods)

#### A. Methods for estimating doubtful accounts

Because the actual rate of default on accounts receivable and other factors at the end of the third quarter of the consolidated fiscal year ending March 31, 2010 are deemed to show no major change from those calculated at the end of the previous consolidated fiscal year, the estimate for doubtful accounts is calculated based on the actual default rate at the end of the previous fiscal year.

#### B. Methods for valuation of inventories

To calculate inventories at the end of the third quarter of the fiscal year ending March 31, 2010, physical inventory has been omitted and instead a reasonable calculation method based on the physical inventory taken at the end of the second quarter of the current consolidated fiscal year has been applied.

As for the devaluation of the book value of inventories, Gunze estimates the net sales value and devalues the book value only for those inventory items experiencing obvious deterioration in profitability.

#### C. Methods for calculating depreciation and amortization of fixed assets

As for fixed assets depreciated using the declining-balance method, the pro rata share of depreciation expenses corresponding to the current consolidated fiscal year is posted.

#### D. Judgment of recoverability for deferred tax assets

As for the evaluation of recoverability for deferred tax assets, because it is deemed that no major changes have taken place in the Gunze's operating environment, and the occurrence of major

temporary differences has remained almost unchanged after the previous consolidated fiscal year, the projection for future results and tax planning adopted during the previous fiscal year are used.

#### E. Methods for calculating allowance for retirement benefits

The pro rata share of the yearly retirement benefit costs calculated at the beginning of the current consolidated fiscal year is charged. As for actuarial gains and losses, the pro rata share of the yearly expenses is charged.

#### (Accounting Practices Specific to Preparation of Quarterly Consolidated Financial Statements)

##### Calculation of taxes

Taxes are calculated by multiplying income before income taxes for the nine-month period under review by the reasonably estimated effective tax rate subsequent to the application of tax effect accounting to the income before income taxes for the full year. Therefore, the amount of income tax adjustment is recorded in income taxes.

#### (3) Changes in Accounting Policies, Procedures and Presentation Methods for the Preparation of Quarterly Consolidated Financial Statements

##### (Change in Accounting Policies)

##### Treatment of research and development costs

Formerly, Gunze and some domestic subsidiaries recorded R&D costs incurred by the manufacturing sector as cost of sales. However, R&D activities are being strengthened in the manufacturing sector in order to solidify the Gunze Group's business base by increasing the speed of R&D. In light of this situation, in order to more accurately grasp the cost corresponding to sales, effective from the first quarter of the current consolidated fiscal year, Gunze adopts the method to report R&D costs as selling, general and administrative expenses.

As a result of this change, cost of sales for the nine months ended December 31, 2009 was stated at ¥942 million less compared to the conventional accounting method, while gross profit was stated at ¥942 million more. However, as selling, general and administrative expenses increased by the same amount, this change had no impact on operating income and ordinary income. Of the indirect manufacturing costs included in inventories at the beginning of the consolidated fiscal year under review, ¥240 million yen corresponding to R&D costs was listed under extraordinary loss. This caused a decrease in income before income taxes by the same amount for the nine-month period ended December 31, 2009.

## 5. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

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

	End of FY2009 3rd Quarter (As of Dec. 31, 2009)	(Ref.) End of FY2008 (As of Mar. 31, 2009)
<b>Assets</b>		
Current assets		
Cash and cash equivalents	5,688	7,859
Trade notes & accounts receivable	35,835	30,572
Finished products and goods	19,005	23,009
Work in process	6,028	7,104
Raw materials and supplies	4,841	5,005
Other current assets	4,167	5,633
Allowance for doubtful accounts	(68)	(32)
Total current assets	75,497	79,151
Fixed assets		
Property, plants and equipment		
Buildings and structures (Net)	39,403	40,827
Machinery and equipment (Net)	14,211	15,624
Land	12,059	12,059
Other (Net)	5,247	3,675
Total property, plants and equipment	70,921	72,187
Intangible fixed assets	1,098	1,266
Investments and other assets		
Investments in securities	21,027	22,948
Other assets	8,727	8,438
Allowance for doubtful accounts	(248)	(395)
Total investments and other assets	29,505	30,991
Total fixed assets	101,526	104,445
<b>Total assets</b>	<b>177,023</b>	<b>183,597</b>

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

	<b>End of FY2009 3rd Quarter</b> (As of Dec. 31, 2009)	<b>(Ref.) End of FY2008</b> (As of Mar. 31, 2009)
<b>Liabilities</b>		
Current liabilities		
Notes & accounts payable, trade	9,482	9,981
Short-term debt	4,328	15,460
Commercial paper	16,000	11,000
Current portion of long-term debt	1,380	10
Accrued income taxes	955	610
Allowance for employees' bonuses	441	1,664
Other current liabilities	7,967	8,333
Total current liabilities	40,555	47,061
Long-term liabilities		
Long-term debt	2,661	836
Allowance for retirement benefits	6,270	6,181
Long-term deposits & guarantee deposits	9,060	9,643
Other long-term liabilities	666	371
Total long-term liabilities	18,659	17,033
Total liabilities	59,214	64,095
<b>Net assets</b>		
Shareholders' equity		
Common stock	26,071	26,071
Capital surplus	14,086	14,087
Retained earnings	80,288	80,888
Treasury stock	(6,096)	(6,088)
Total shareholders' equity	114,350	114,959
Valuation, translation adjustments and others		
Unrealized gain on available-for-sale securities	4,635	5,538
Deferred gains on hedge	(352)	(128)
Revaluation difference on land	(400)	(400)
Foreign currency translation adjustments	(1,211)	(1,233)
Total valuation, translation adjustments and others	2,670	3,776
Stock acquisition rights	137	84
Minority interests	650	681
Total net assets	117,809	119,501
<b>Total liabilities and net assets</b>	<b>177,023</b>	<b>183,597</b>

## (2) Consolidated Statements of Income

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

	<b>3rd Quarter of FY2008</b> (Apr. 1, 2008 to Dec. 31, 2008)	<b>3rd Quarter of FY2009</b> (Apr. 1, 2009 to Dec. 31, 2009)
Net sales	119,930	107,099
Cost of sales	87,708	77,870
Gross profit	32,221	29,228
Selling, general & administrative expenses	26,555	25,822
Operating income	5,666	3,406
Non-operating income		
Interest income	40	21
Dividend income	477	345
Rental income	321	298
Exchange gain	-	11
Other	169	273
Total non-operating income	1,008	950
Non-operating expenses		
Interest expenses	224	162
Rental costs	266	265
Exchange loss	142	-
Other	283	138
Total non-operating expenses	916	566
Ordinary income	5,758	3,790
Extraordinary income		
Gain on sale of property, plants & equipment	11	14
Gain on sale of investments in securities	-	0
Amortization of prior service cost on retirement benefits by transition from an employees' pension fund to a cash-balance plan	1,162	-
Gain on establishment of employee retirement benefit trust	-	1,522
Total extraordinary income	1,173	1,537
Extraordinary loss		
Loss on sale or disposal of property, plants & equipment	183	156
Loss on sale of investments in securities	-	7
Loss on valuation of investments in securities	803	188
Amortization of actuarial loss on retirement benefits	869	2,009
Expenses on business structure improvement	132	-
Transfer to allowance for doubtful accounts	195	-
Loss on change of accounting treatment for R&D costs	-	240
Other	44	-
Total extraordinary loss	2,227	2,603
Income before income taxes	4,704	2,724
Income taxes	2,009	1,263
Minority interests	(15)	63
Net income	2,710	1,398

### (3) Consolidated Statements of Cash Flows

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

	<b>3rd Quarter of FY2008</b> (Apr. 1, 2008 to Dec. 31, 2008)	<b>3rd Quarter of FY2009</b> (Apr. 1, 2009 to Dec. 31, 2009)
<b>Cash flows from operating activities</b>		
Income before income taxes & minority interests	4,704	2,724
Depreciation and amortization	6,067	5,993
Increase (decrease) in allowance for doubtful accounts	(6)	(111)
Increase (decrease) in allowance for retirement benefits	847	(63)
Increase (decrease) in allowance for employees' bonuses	(1,290)	(1,224)
Interest and dividend income	(518)	(366)
Interest expenses	224	162
Loss (gain) on sale and disposal of fixed assets	171	142
Loss (gain) on valuation of investments in securities	802	195
Amortization (gain) of prior service cost on retirement benefits by transition from an employees' pension fund to a cash-balance plan	(1,162)	-
Loss (gain) on establishment of employee retirement benefit trust	-	(1,522)
Amortization of actuarial loss (gain) on retirement benefits	869	2,009
Loss on change of accounting treatment for R&D costs	-	240
Other losses (gains)	20	(8)
Decrease (increase) in notes and accounts receivable	(3,675)	(5,226)
Decrease (increase) in inventories	54	5,058
Decrease (increase) in other current assets	8	372
Increase (decrease) in notes and accounts payable	(2,823)	(203)
Increase (decrease) in deposits and guarantee deposits	(312)	(62)
Increase (decrease) in other current liabilities	(646)	(598)
Increase (decrease) in other long-term liabilities	(401)	(1)
Subtotal	<u>2,935</u>	<u>7,510</u>
Interest and dividends received	519	367
Interest paid	(328)	(195)
Income tax refund (paid)	(2,837)	375
Net cash provided by (used in) operating activities	<u>287</u>	<u>8,057</u>
<b>Cash flows from investing activities</b>		
Payments for purchase of property, plants & equipment	(5,272)	(5,209)
Proceeds from sale of property, plants & equipment	37	192
Payments for disposition of property, plants & equipment	(89)	(75)
Payments for acquisition of investments in securities	(735)	(110)
Proceeds from sale of investments in securities	-	19
Net decrease (increase) in advances	211	(84)
Other	(2)	40
Net cash provided by (used in) investing activities	<u>(5,850)</u>	<u>(5,227)</u>
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term debt and commercial paper	12,083	(6,111)
Proceeds from issuance of long-term debt	54	3,200
Repayment of long-term debt	-	(5)
Cash dividends paid	(2,084)	(1,962)
Acquisition of treasury stock	(4,610)	(11)
Other	30	(159)
Net cash provided by (used in) financing activities	<u>5,473</u>	<u>(5,049)</u>
Effect of exchange rate changes on cash & cash equivalents	(163)	(2)
Net increase (decrease) in cash and cash equivalents	<u>(253)</u>	<u>(2,222)</u>
Cash and cash equivalents at beginning of period	5,597	7,859
Increase (decrease) in cash and cash equivalents due to change in scope of consolidation	432	51
Cash and cash equivalents at end of period	<u>5,777</u>	<u>5,688</u>