

Summary of Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2018 (Japanese Standards)

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.

| | |
|--|---|
| Company Name: | GUNZE LIMITED |
| Company Code: | 3002 |
| Stock Market Listings: | Tokyo |
| URL | http://www.gunze.co.jp |
| Representative Director: | Atsushi Hirochi, President and Representative Director |
| Contact: | Makoto Ogura, General Manager, Corporate Communications |
| Tel: | +81 (6) 6348-1314 |
| Filing of Quarterly Securities Report (<i>Shihanki hokokusho</i>) (Scheduled): | August 9, 2017 |
| Start of Distribution of Dividends (Scheduled): | — |
| Preparation of Supplementary Materials for the Quarterly Financial Results: | No |
| Holding of Presentation of Quarterly Financial Results: | No |

1. Consolidated results for the first quarter of FY2017 (April 1, 2017 to June 30, 2017)

(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 | % |
| Three months ended June 2017 | 33,005 | 3.3 | 2,035 | 29.6 | 2,580 | — |
| Three months ended June 2016 | 31,952 | (4.3) | 1,570 | 34.3 | (3,332) | — |

| | Net income attributable to owners of the parent | | E.P.S. | Diluted E.P.S. |
|------------------------------|---|---|---------|----------------|
| | ¥ millions | % | ¥ | ¥ |
| Three months ended June 2017 | 1,714 | — | 9.21 | 9.15 |
| Three months ended June 2016 | (5,709) | — | (30.54) | — |

Note: Comprehensive income

Three months ended June 2017: ¥3,140 million [- %]

Three months ended June 2016: (¥4,821 million) [- %]

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|----------------------|--------------|------------|--------------|----------------------|
| | ¥ millions | ¥ millions | % | (¥) |
| As of June 30, 2017 | 172,048 | 109,885 | 63.4 | 589.42 |
| As of March 31, 2017 | 169,460 | 108,353 | 63.8 | 578.48 |

Reference: Total equity

June 30, 2017: ¥109,000 million

March 31, 2017: ¥108,153 million

2. Dividends

| | Annual dividends per share (¥) | | | | |
|--------------------|--------------------------------|-------------|-------------|----------|-----------|
| | 1st quarter | 2nd quarter | 3rd quarter | Year-end | Full year |
| FY2016 | — | — | — | 7.50 | 7.50 |
| FY2017 | — | — | — | — | — |
| FY2017 (projected) | — | — | — | 75.00 | 75.00 |

Note: Revisions to dividend projections most recently announced: Yes

The Company plans to carry out consolidation of its shares in which every ten shares of the Company's common stock will be consolidated into one share effective October 1, 2017. The projected year-end dividend per share for fiscal 2017 shown above reflects the effect of the said share consolidation. If this is not taken into account, the projected year-end dividend per share for fiscal 2017 will be ¥7.5. For details, refer to "Notes regarding the use of projections of results and other matters."

3. Projected results for FY2017 (April 1, 2017 to March 31, 2018)

(Percentages represent year-over-year changes.)

| | Net sales | | Operating income | | Ordinary income | |
|------------------|------------|-----|------------------|-----|-----------------|-----|
| | ¥ millions | % | ¥ millions | % | ¥ millions | % |
| FY2017 full year | 138,000 | 1.0 | 4,300 | 2.2 | 4,800 | 2.8 |

| | Net income attributable to owners of the parent | | E.P.S. |
|------------------|---|--------|--------|
| | ¥ millions | % | ¥ |
| FY2017 full year | 2,500 | (19.4) | 134.93 |

Note: Revisions to projections of consolidated financial results most recently announced: No

The fiscal 2017 full-year forecast for the earnings per share (EPS) shown above reflects the effect of the share consolidation. If this is not taken into account, the fiscal 2017 full-year forecast for EPS will be ¥13.49. For details, refer to "Notes regarding the use of projections of results and other matters."

Notes

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries during the period accompanied by changes in the scope of consolidation): No
- (2) Application of specific accounting practices for preparing quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates, and restatement after error

corrections

- (a) Changes in accounting policies due to revisions to accounting standards and other regulations: No
- (b) Changes in accounting policies due to other reasons: No
- (c) Changes in accounting estimates: No
- (d) Restatement after error corrections: No

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

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

1st quarter of FY2017: 209,935,165 shares

FY2016: 209,935,165 shares

(b) Treasury stock at the end of period:

1st quarter of FY2017: 25,006,143 shares

FY2016: 22,974,330 shares

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

1st quarter of FY2017: 186,090,850 shares

1st quarter of FY2016: 186,968,159 shares

Note: This summary of consolidated results is exempt from the quarterly review procedures.

Notes regarding the use of projections of the results and other matters

(Notes regarding description of projections for the future)

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 and notes regarding the use of projections, see (3) "Description of Consolidated Financial Forecast" on page 4-5 of attached materials.

(About post-share consolidation dividend and consolidated financial forecasts)

Based on the approval given at the 121st Ordinary General Meeting of Shareholders held on June 23, 2017, GUNZE plans to carry out consolidation of its shares in which every ten shares of the Company's common stock will be consolidated into one share effective October 1, 2017. Along with this, the number of shares per share unit will be changed from the current 1,000 shares to 100 shares, as of the same date. If share consolidation is not taken into account, the fiscal 2017 full-year forecasts for dividend and consolidated financial results are as follows:

(1) Projection of year-end dividend per share: ¥7.5

(2) Projections of consolidated financial results for fiscal 2017

Full-year EPS projection: ¥13.49

Attached Materials

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1. Qualitative Information on Quarterly Financial Results

(1) Description of Results of Operations

Reviewing the economic conditions during the first three months of the current fiscal year (April 1 – June 30, 2017), the Japanese economy showed signs of mild recovery, supported by the economic policy packages and easy monetary policy set forth by the government and the Bank of Japan. However, overall business prospects remained increasingly uncertain due to unpredictable policy implementation in the U.S. and European countries, and heightening geopolitical risks. There was also the risk of exchange fluctuations, slowdown of emerging economies, and depressed consumer confidence resulting in sluggish personal consumption.

Faced with this situation, the GUNZE Group's medium-term management plan, called "CAN 20" has entered the initial 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 of plastic films, but electronic component sales dropped from the same term of the previous fiscal year due partly to the business downsizing. The apparel business remained firm thanks to the sales expansion of its core brands and stronger efforts made toward high-growth sales channels.

Consequently, the GUNZE Group's consolidated net sales for the first three months of the current fiscal year amounted to ¥33,005 million (a year-over-year increase of 3.3%). Consolidated operating income amounted to ¥2,035 million (a year-over-year increase of 29.6%). Consolidated ordinary income amounted to ¥2,580 million, compared to a consolidated ordinary loss of ¥3,332 million posted during the same period of the previous fiscal year. As a result, GUNZE posted consolidated net income attributable to owners of the parent amounting to ¥1,714 million compared to a consolidated net loss attributable to owners of the parent of ¥5,709 million recorded in the same period of the previous fiscal year.

Results by Business Segment

<Functional Solutions>

In plastic film, mainstay shrink films enjoyed robust sales in Japan as well as strong exports to Asia. In engineering plastics, functional products for the office automation market suffered from sluggish sales, but sales for the semiconductor market were strong, which contributed to firm overall sales of the category. As for electronic components, GUNZE has been working on structural reforms by restructuring and streamlining the Group's production facilities. In medical materials, products destined for China and the new product *DURAWAVE* performed strongly. However, sales of suture threads were slow, resulting in overall category sales remaining on a par with the same period of the previous fiscal year.

Consequently, the functional solutions business posted net sales of ¥11,536 million (a year-over-year decrease of 2.1%), while operating income was ¥1,353 million (a year-over-year increase of 39.9%).

<Apparel>

Innerwear sales performed well due to expanded sales for differentiated products mainly in the women's innerwear category, and expansion of high-growth channels. In legwear, socks such as foot cover, in-sneaker socks, and room shoes showed impressive performance, but pantyhose sales were sluggish.

Consequently, the apparel business posted net sales of ¥17,737 million (a year-over-year increase of 8.3%) and operating income of ¥1,237 million (a year-over-year increase of 17.9%).

<Lifestyle Creations>

In the real estate category, the shopping mall business continued to perform well through local community-based operations. New properties contributed to the strong performance of the housing lease business. In the sports club business, existing clubs performed firmly, while initial expenses incurred for the two new clubs opened this April adversely affected the category's performance. A decrease in orders for large-scale projects had a negative impact on the performance of the landscaping and greening business.

Consequently, the lifestyle creation business recorded net sales of ¥3,816 million (a year-over-year decrease of 1.5%) and operating income of ¥206 million (a year-over-year decrease of 30.9%).

(2) Description of Financial Position

As of June 30, 2017, total assets were ¥172,048 million, an increase of ¥2,588 million compared to the end of the previous fiscal year. The main components of the increase were a ¥1,305 million increase in cash and cash equivalents, and a ¥2,519 million increase in investments in securities. The main components of a decrease included an ¥899 million decrease in notes and accounts receivable, and an ¥857 million decrease in machinery, equipment and vehicles (net).

Total liabilities were ¥62,162 million, an increase of ¥1,055 million compared to the end of the previous fiscal year. The main components of the increase were a ¥4,907 million increase in long- and short-term debt including commercial paper. The main components of a decrease were a ¥1,620 million decrease in other current liabilities (forward exchange contracts, etc.), a ¥938 million decrease in notes and accounts payable, and a ¥734 million decrease in allowance for employees' bonuses.

Net assets were ¥109,885 million, an increase of ¥1,532 million compared to the end of the previous fiscal year. The main components of the increase were a net income attributable to owners of the parent amounting to ¥1,714 million recorded for the period under review, and a ¥1,575 million increase in unrealized gains on available-for-sale securities. The main components of a decrease included dividend payments of ¥1,402 million.

(3) Description of Consolidated Financial Forecast

GUNZE has not revised its consolidated full-year forecast for the present fiscal year ending March 31, 2018 from the previous forecast announced on May 12, 2017, as the operating income during the first three months of the current fiscal year remained within the assumed range.

GUNZE plans to carry out consolidation of its shares in which every ten shares of the Company's common stock will be consolidated into one share effective October 1, 2017. Along with this, the number of shares per share unit will be changed from the current 1,000 shares to 100 shares, as of the same date. Accordingly, GUNZE

has revised its forecast of the year-end dividend per share for the fiscal year ending March 31, 2018 from the previous ¥7.5 to ¥75 in accordance with the consolidation ratio. The revision of the projected dividend reflects the consolidation of shares, thus if the effect of the share consolidation is not taken into account, the forecast for dividend announced on May 12, 2017 remains unchanged.

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

| | End of FY2016 (As of Mar. 31, 2017) | End of FY2017 1st quarter (As of June 30, 2017) |
|---|--|--|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 9,670 | 10,975 |
| Notes and accounts receivable, trade | 27,805 | 26,905 |
| Finished products and goods | 19,974 | 20,771 |
| Work in process | 5,751 | 5,942 |
| Raw materials and supplies | 4,546 | 4,192 |
| Other current assets | 3,842 | 4,184 |
| Allowance for doubtful accounts | (8) | (9) |
| Total current assets | 71,582 | 72,964 |
| Fixed assets | | |
| Property, plants and equipment | | |
| Buildings and structures (Net) | 40,075 | 40,009 |
| Machinery, equipment and vehicles (Net) | 11,503 | 10,645 |
| Land | 12,935 | 12,890 |
| Other (Net) | 2,758 | 3,105 |
| Total property, plants and equipment | 67,272 | 66,651 |
| Intangible fixed assets | 1,916 | 1,922 |
| Investments and other assets | | |
| Investments in securities | 20,376 | 22,895 |
| Other assets | 8,761 | 8,063 |
| Allowance for doubtful accounts | (449) | (449) |
| Total investments and other assets | 28,688 | 30,510 |
| Total fixed assets | 97,877 | 99,083 |
| Total assets | 169,460 | 172,048 |

(Millions of yen)

| | End of FY2016 (As of Mar. 31, 2017) | End of FY2017 1st quarter (As of June 30, 2017) |
|--|---|---|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable, trade | 9,594 | 8,655 |
| Short-term debt | 8,204 | 7,045 |
| Commercial paper | 4,000 | 9,600 |
| Current portion of long-term debt | 6,945 | 6,931 |
| Accrued income taxes | 1,311 | 750 |
| Allowance for employees' bonuses | 1,166 | 432 |
| Other current liabilities | 11,100 | 9,480 |
| Total current liabilities | 42,323 | 42,896 |
| Long-term liabilities | | |
| Long-term debt | 8,562 | 9,042 |
| Liabilities related to retirement benefits | 4,818 | 4,918 |
| Long-term deposits and guarantee deposits | 4,371 | 4,411 |
| Other long-term liabilities | 1,031 | 892 |
| Total long-term liabilities | 18,783 | 19,265 |
| Total liabilities | 61,106 | 62,162 |
| Net assets | | |
| Shareholders' equity | | |
| Common stock | 26,071 | 26,071 |
| Capital surplus | 13,998 | 13,966 |
| Retained earnings | 77,504 | 77,960 |
| Treasury stock | (9,111) | (9,918) |
| Total shareholders' equity | 108,462 | 108,079 |
| Accumulated other comprehensive income | | |
| Unrealized gains (losses) on available-for-sale securities | (62) | 1,513 |
| Revaluation difference on land | (67) | (67) |
| Foreign currency translation adjustments | 1,154 | 776 |
| Accumulated adjustments related to retirement benefits | (1,333) | (1,300) |
| Total accumulated other comprehensive income | (309) | 921 |
| Stock acquisition rights | 287 | 263 |
| Non-controlling interests | (88) | 622 |
| Total net assets | 108,353 | 109,885 |
| Total liabilities and net assets | 169,460 | 172,048 |

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

Consolidated Statements of Income
(for the three months from April 1 to June 30)

(Millions of yen)

| | 1st quarter of FY2016 (Apr. 1, 2016 to June 30, 2016) | 1st quarter of FY2017 (Apr. 1, 2017 to June 30, 2017) |
|---|--|--|
| Net sales | 31,952 | 33,005 |
| Cost of sales | 23,057 | 23,071 |
| Gross profit | 8,895 | 9,934 |
| Selling, general and administrative expenses | 7,324 | 7,898 |
| Operating income | 1,570 | 2,035 |
| Non-operating income | | |
| Interest income | 11 | 10 |
| Dividend income | 235 | 225 |
| Rental income | 70 | 76 |
| Exchange gain | - | 22 |
| Gain on valuation of derivatives | - | 175 |
| Other | 63 | 214 |
| Total non-operating income | 381 | 725 |
| Non-operating expenses | | |
| Interest expenses | 44 | 42 |
| Rental expenses | 59 | 64 |
| Exchange loss | 478 | - |
| Loss on valuation of derivatives | 4,660 | - |
| Other | 41 | 73 |
| Total non-operating expenses | 5,283 | 180 |
| Ordinary income (loss) | (3,332) | 2,580 |
| Extraordinary income | | |
| Gain on sale of fixed assets | 43 | 2 |
| Gain on sale of investment securities | - | 6 |
| Gain on transfer of business | 242 | - |
| Total extraordinary income | 285 | 8 |
| Extraordinary loss | | |
| Loss on sale or disposal of fixed assets | 163 | 7 |
| Loss on valuation of investments in securities | 3,894 | - |
| Total extraordinary loss | 4,058 | 7 |
| Income (loss) before income taxes | (7,105) | 2,581 |
| Income taxes | (1,367) | 807 |
| Net Income (loss) | (5,737) | 1,774 |
| Net income (loss) attributable to non-controlling interests | (28) | 59 |
| Net income (loss) attributable to owners of the parent | (5,709) | 1,714 |

Consolidated Statements of Comprehensive Income
(for the three months from April 1 to June 30)

(Millions of yen)

| | 1st quarter of FY2016 (Apr. 1, 2016 to June 30, 2016) | 1st quarter of FY2017 (Apr. 1, 2017 to June 30, 2017) |
|---|--|--|
| Net income (loss) | (5,737) | 1,774 |
| Other comprehensive income (loss) | | |
| Unrealized gains on available-for-sale securities | 1,501 | 1,575 |
| Foreign currency translation adjustments | (658) | (243) |
| Adjustments related to retirement benefits | 73 | 33 |
| Total other comprehensive income | 916 | 1,365 |
| Comprehensive income (loss) | (4,821) | 3,140 |
| (Breakdown) | | |
| Comprehensive income (loss) attributable to owners of the parent | (4,731) | 3,089 |
| Comprehensive income (loss) attributable to non-controlling interests | (90) | 51 |

(3) Notes to Quarterly Consolidated Financial Statements

[Notes Regarding Assumptions of Continuing Operations]

None applicable

[Notes in the Event of Significant Changes in Shareholders' Equity]

None applicable

[Changes in Significant Subsidiaries during the Period]

None applicable

[Application of Specific Accounting Practices for Preparing Quarterly Consolidated Financial Statements]

(Calculation of taxes)

Taxes are calculated by multiplying income before income taxes posted in the first three months of the current consolidated fiscal year by the reasonably estimated effective tax rate subsequent to the application of tax effect accounting to the income before income taxes for the current consolidated fiscal year ending March 31, 2018.

[Changes in Accounting Policies, Changes in Accounting Estimates, and Restatement after Error Corrections]

None applicable.

[Segment Information, etc.]

I. First quarter of FY2016 (Three months ended June 30, 2016)

1. Information on Net Sales and Profit (Loss) of Each Reportable Segment

(Millions of yen)

| | Reportable segments | | | | Adjustment (note) | Consolidated |
|----------------------------------|----------------------|---------|---------------------|--------|----------------------|--------------|
| | Functional solutions | Apparel | Lifestyle creations | Total | | |
| Net sales | | | | | | |
| Sales to customers | 11,776 | 16,325 | 3,849 | 31,952 | - | 31,952 |
| Intersegment sales and transfers | 12 | 50 | 24 | 87 | (87) | - |
| Total | 11,789 | 16,376 | 3,874 | 32,040 | (87) | 31,952 |
| Segment profit | 967 | 1,049 | 298 | 2,315 | (745) | 1,570 |

Note:

The - (minus) ¥745 million segment profit adjustment consists of overall costs not allocated to reportable segments. Overall costs refer to SG&A expenses not allocated to reportable segments.

II. First quarter of FY2017 (Three months ended June 30, 2017)

1. Information on Net Sales and Profit (Loss) of Each Reportable Segment

(Millions of yen)

| | Reportable segments | | | | Adjustment (note) | Consolidated |
|----------------------------------|----------------------|---------|---------------------|--------|----------------------|--------------|
| | Functional solutions | Apparel | Lifestyle creations | Total | | |
| Net sales | | | | | | |
| Sales to customers | 11,525 | 17,687 | 3,793 | 33,005 | - | 33,005 |
| Intersegment sales and transfers | 11 | 50 | 22 | 85 | (85) | - |
| Total | 11,536 | 17,737 | 3,816 | 33,090 | (85) | 33,005 |
| Segment profit | 1,353 | 1,237 | 206 | 2,797 | (761) | 2,035 |

Note:

The - (minus) ¥761 million segment profit adjustment consists of overall costs not allocated to reportable segments. Overall costs refer to SG&A expenses not allocated to reportable segments.