

Summary of Consolidated Financial Statements for the Second Quarter of the Fiscal Year Ending March 31, 2019 (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 (*Shihanki hokokusho*) (Scheduled): November 13, 2018
 Start of Distribution of Dividends (Scheduled): —
 Preparation of Supplementary Materials for the Quarterly Financial Results: Yes
 Holding of Presentation of Quarterly Financial Results: Yes
 (for institutional investors/analysts)

1. Consolidated results for the second quarter of FY2018 (April 1, 2018 to September 30, 2018)

(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 | % |
| Six months ended Sept. 2018 | 68,566 | 1.1 | 3,256 | (3.4) | 3,660 | (8.6) |
| Six months ended Sept. 2017 | 67,792 | 2.7 | 3,370 | 33.9 | 4,006 | — |

| | Net income attributable to owners of the parent | | EPS | Diluted EPS |
|-----------------------------|---|-----|--------|-------------|
| | ¥ millions | % | ¥ | ¥ |
| Six months ended Sept. 2018 | 2,546 | 0.4 | 140.11 | 139.26 |
| Six months ended Sept. 2017 | 2,537 | — | 137.13 | 136.25 |

Note: Comprehensive income

Six months ended September 2018: ¥3,376 million [(33.5%)]

Six months ended September 2017: ¥5,075 million [- %]

Note: 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, earnings per share (EPS) and diluted EPS, shown above, were calculated assuming that the said share consolidation was carried out at the beginning of the previous fiscal year.

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|--------------------------|--------------|------------|--------------|----------------------|
| | ¥ millions | ¥ millions | % | (¥) |
| As of September 30, 2018 | 171,755 | 112,715 | 64.7 | 6,164.63 |
| As of March 31, 2018 | 171,273 | 112,129 | 64.9 | 6,084.46 |

Reference: Total equity

September 30, 2018: ¥111,199 million

March 31, 2018: ¥111,141 million

2. Dividends

| | Annual dividends per share (¥) | | | | |
|--------------------|--------------------------------|-------------|-------------|----------|-----------|
| | 1st quarter | 2nd quarter | 3rd quarter | Year-end | Full year |
| FY2017 | — | — | — | 90.00 | 90.00 |
| FY2018 | — | — | — | — | — |
| FY2018 (projected) | — | — | — | 100.00 | 100.00 |

Note: Revisions to dividend projections most recently announced: No

3. Projected results for FY2018 (April 1, 2018 to March 31, 2019)

(Percentages represent year-over-year changes.)

| | Net sales | | Operating income | | Ordinary income | |
|------------------|------------|-----|------------------|------|-----------------|-----|
| | ¥ millions | % | ¥ millions | % | ¥ millions | % |
| FY2018 full year | 145,000 | 3.2 | 7,000 | 12.2 | 7,000 | 8.6 |

| | Net income attributable to owners of the parent | | EPS |
|------------------|---|------|--------|
| | ¥ millions | % | ¥ |
| FY2018 full year | 4,000 | 14.7 | 220.86 |

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

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):
2nd quarter of FY2018: 20,993,516 shares
FY2017: 20,993,516 shares
 - (b) Treasury stock at the end of period:
2nd quarter of FY2018: 2,955,207 shares
FY2017: 2,727,023 shares
 - (c) Average number of shares during the period (cumulative quarterly period):
2nd quarter of FY2018: 18,173,338 shares
2nd quarter of FY2017: 18,506,422 shares

Note: The number of shares of treasury stock includes those held by the GUNZE Group Employee Shareholding Association Exclusive Trust.

Note: 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, the average number of shares during the second quarter of fiscal 2017, shown above, was calculated assuming that the said share consolidation was carried out at the beginning of the previous fiscal year.

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

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" of "1. Qualitative Information on Quarterly Financial Results" on page 4 of attached materials.

Attached Materials

Table of Contents

| | |
|---|----|
| 1. Qualitative Information on Quarterly Financial Results | 2 |
| (1) Description of Results of Operations | 2 |
| (2) Description of Financial Position | 3 |
| (3) Description of Consolidated Financial Forecast | 4 |
| 2. Quarterly Consolidated Financial Statements and Main Notes | 5 |
| (1) Quarterly Consolidated Balance Sheets | 5 |
| (2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income | 7 |
| (3) Quarterly Consolidated Statements of Cash Flows | 9 |
| (4) Notes to Quarterly Consolidated Financial Statements | 11 |
| [Notes Regarding Assumptions of Continuing Operations] | 11 |
| [Notes in the Event of Significant Changes in Shareholders' Equity] | 11 |
| [Application of Specific Accounting Practices for Preparing Quarterly Consolidated Financial Statements] | 11 |
| [Changes in Accounting Policies, Changes in Accounting Estimates, and Restatement after Error Corrections] | 11 |
| [Segment Information, etc.] | 12 |
| 3. Supplementary Materials for Quarterly Financial Results | 13 |

1. Qualitative Information on Quarterly Financial Results

(1) Description of Results of Operations

Reviewing the economic conditions during the first six months of the current fiscal year (April 1 – September 30, 2018), the Japanese economy generally showed signs of mild recovery, with ongoing improvements in corporate performance and the employment situation. However, overall business prospects remained increasingly uncertain due to several factors. These include natural disasters such as earthquakes, and abnormal weather including large typhoons and intense heat in the summer. Other factors include rising resource prices and uncertainty regarding overseas 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. In the apparel business, while store sales were adversely affected by the earthquakes and large typhoons, stronger efforts were made for expanding sales of differentiated innerwear products and promoting high-growth sales channels. But legwear sales suffered sluggish performance.

Consequently, the GUNZE Group's consolidated net sales for the first six months of the current fiscal year amounted to ¥68,566 million (a year-over-year increase of 1.1%). Consolidated operating income amounted to ¥3,256 million (a year-over-year decrease of 3.4%). Consolidated ordinary income amounted to ¥3,660 million (a year-over-year decrease of 8.6%). Although a loss on the sale of an overseas affiliate was posted, a gain on sale of fixed assets was recorded. As a result, GUNZE posted consolidated net income attributable to owners of the parent amounting to ¥2,546 million (a year-over-year increase of 0.4%).

Results by Business Segment

<Functional Solutions>

In plastic film, mainstay shrink films enjoyed robust sales mainly for beverage label applications thanks to the extremely hot summer, while nylon film sales also remained firm. Engineering plastics sales remained strong for semiconductor and industrial equipment applications. In electronic components, both touch screens and films recorded robust sales. However, the Chinese factory experienced a decline in productivity, which negatively impacted the overall electronic component business. 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 ¥26,020 million (a year-over-year increase of 7.1%) and operating income of ¥3,161 million (a year-over-year increase of 16.9%).

<Apparel>

In innerwear, the new *BODYWILD AIRZ* line was launched for men's innerwear, while sales expanded for sports category products, as well as completely seamless and CUTOFF items. However, these were not enough to offset a declining sales trend of basic innerwear. The innerwear business also experienced the negative impact of increased selling costs and labor costs incurred for expanding new sales channels. Legwear sales remained sluggish mainly for high-value added products, with slow store sales due to a change in trends of fashion bottoms and the scorching heat of the summer. The threads and accessories business was adversely impacted by the decline in productivity caused by a change in the overseas business environment.

Consequently, the apparel business posted net sales of ¥35,409 million (a year-over-year decrease of 2.4%) and operating income of ¥1,142 million (a year-over-year decrease of 34.4%).

<Lifestyle Creations>

In the real estate category, the shopping center business continued to perform well through local community-based operations. Revenues from new properties contributed to the strong performance of the rental property business. The sports club business remained slow due to increasingly intense competition and the effect of natural disasters, but declined sales were offset by the efforts of strengthening the company structure.

Consequently, the lifestyle creation business recorded net sales of ¥7,327 million (a year-over-year decrease of 1.1%), while operating income was ¥539 million (a year-over-year increase of 13.7%).

(2) Description of Financial Position

As of September 30, 2018, total assets were ¥171,755 million, an increase of ¥482 million compared to the end of the previous fiscal year. The main components of the increase were a ¥1,187 million increase in finished products and goods, a ¥725 million increase in work in process, and a ¥609 million increase in land mainly because of Elumi Kounosu Co., Ltd. related to the lifestyle business, which became a consolidated subsidiary at the beginning of the first quarter of the present fiscal year. The main components of a decrease included a ¥2,475 million decrease in cash and cash equivalents. On July 11, 2018, a fire occurred at Fukushima Plastics Co., Ltd., a consolidated subsidiary. As the receipt of insurance money is expected, a total carrying amount of ¥117 million for inventories and fixed assets, both of which were destroyed by this fire, was recorded as a fire loss suspense account in other current assets.

Total liabilities were ¥59,040 million, a decrease of ¥103 million compared to the end of the previous fiscal year. The main components of an increase included a ¥1,027 million increase in accrued income taxes and a ¥1,257 million increase in long- and short-term debt including commercial paper. The main components of the decrease included a ¥2,274 million decrease in other current liabilities (including forward exchange contracts, etc.)

Net assets were ¥112,715 million, an increase of ¥585 million compared to the end of the previous fiscal year. The main components of the increase included a net income attributable to owners of the parent amounting to ¥2,546 million recorded for the period under review. The main components of a decrease were dividend payments of ¥1,654 million, and ¥1,495 million spent for the purchase of treasury stock.

(Cash Flows)

As of September 30, 2018, cash and cash equivalents were ¥7,001 million, a decrease of ¥2,475 million compared to the end of the previous fiscal year. Below is an overview of cash flows and reasons for changes during the first six months of the current fiscal year.

Net cash provided by operating activities during the period under review was ¥3,614 million, compared with ¥169 million used in operating activities during the same period of the previous fiscal year. The main components of cash inflows were income before income taxes amounting to ¥3,959 million, and depreciation and amortization of ¥3,243 million. The main components of cash outflows included a ¥2,030 million increase in inventories and a ¥1,123 million decrease in other current liabilities.

Net cash used in investing activities totaled ¥3,664 million, a decrease of ¥934 million compared to the same period of the previous fiscal year. The main components of cash outflows included payments for purchase of fixed assets amounting to ¥2,717 million, and payments for purchase of investments in subsidiaries amounting to ¥1,336 million.

Net cash provided by financing activities decreased by ¥7,982 million compared to the same period of the previous fiscal year. As a result, net cash used in financing activities totaled ¥2,483 million. The main components of cash outflows were ¥1,645 million spent for dividend payments and ¥1,510 million spent for the acquisition of treasury stock.

(3) Description of Consolidated Financial Forecast

GUNZE has not revised its consolidated full-year forecast for the present fiscal year ending March 31, 2019 from the previous forecast announced on May 14, 2018, as the GUNZE Group's results recorded during the first six months of the present fiscal year remained within the assumed range.

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

| | End of FY2017 (As of Mar. 31, 2018) | End of FY2018 2nd quarter (As of Sept. 30, 2018) |
|---|--|---|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 9,477 | 7,001 |
| Notes and accounts receivable, trade | 30,277 | 29,795 |
| Finished products and goods | 19,468 | 20,655 |
| Work in process | 5,906 | 6,632 |
| Raw materials and supplies | 4,387 | 4,678 |
| Other current assets | 3,260 | 3,382 |
| Allowance for doubtful accounts | (9) | (10) |
| Total current assets | 72,769 | 72,136 |
| Fixed assets | | |
| Property, plants and equipment | | |
| Buildings and structures (Net) | 39,106 | 39,585 |
| Machinery, equipment and vehicles (Net) | 10,436 | 9,905 |
| Land | 12,516 | 13,125 |
| Other (Net) | 2,795 | 3,264 |
| Total property, plants and equipment | 64,853 | 65,881 |
| Intangible fixed assets | 1,817 | 2,206 |
| Investments and other assets | | |
| Investments in securities | 23,775 | 23,856 |
| Other assets | 8,142 | 7,760 |
| Allowance for doubtful accounts | (84) | (86) |
| Total investments and other assets | 31,832 | 31,531 |
| Total fixed assets | 98,503 | 99,618 |
| Total assets | 171,273 | 171,755 |

(単位：百万円)

| | End of FY2017 (As of Mar. 31, 2018) | End of FY2018 2nd quarter (As of Sept. 30, 2018) |
|--|--|---|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable, trade | 9,640 | 9,454 |
| Short-term debt | 6,501 | 6,666 |
| Commercial paper | 6,000 | 7,000 |
| Current portion of long-term debt | 5,077 | 5,099 |
| Accrued income taxes | 337 | 1,365 |
| Allowance for employees' bonuses | 1,229 | 1,244 |
| Other current liabilities | 9,973 | 7,699 |
| Total current liabilities | 38,760 | 38,529 |
| Long-term liabilities | | |
| Long-term debt | 9,912 | 9,983 |
| Liabilities related to retirement benefits | 5,263 | 5,280 |
| Long-term deposits and guarantee deposits | 4,293 | 4,387 |
| Other long-term liabilities | 913 | 859 |
| Total long-term liabilities | 20,383 | 20,510 |
| Total liabilities | 59,143 | 59,040 |
| Net assets | | |
| Shareholders' equity | | |
| Common stock | 26,071 | 26,071 |
| Capital surplus | 13,942 | 13,926 |
| Retained earnings | 79,718 | 80,509 |
| Treasury stock | (11,152) | (12,648) |
| Total shareholders' equity | 108,579 | 107,859 |
| Accumulated other comprehensive income | | |
| Unrealized gains on available-for-sale securities | 2,711 | 3,384 |
| Deferred gains (losses) on hedge | (81) | 62 |
| Revaluation difference on land | (54) | (54) |
| Foreign currency translation adjustments | 1,248 | 976 |
| Accumulated adjustments related to retirement benefits | (1,261) | (1,028) |
| Total accumulated other comprehensive income | 2,561 | 3,340 |
| Stock acquisition rights | 281 | 276 |
| Non-controlling interests | 706 | 1,238 |
| Total net assets | 112,129 | 112,715 |
| Total liabilities and net assets | 171,273 | 171,755 |

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

Consolidated Statements of Income
(for the six months from April 1 to September 30)

(Millions of yen)

| | 2nd quarter of FY2017 (Apr. 1, 2017 to Sept. 30, 2017) | 2nd quarter of FY2018 (Apr. 1, 2018 to Sept. 30, 2018) |
|---|---|---|
| Net sales | 67,792 | 68,566 |
| Cost of sales | 48,138 | 48,537 |
| Gross profit | 19,653 | 20,029 |
| Selling, general and administrative expenses | 16,282 | 16,772 |
| Operating income | 3,370 | 3,256 |
| Non-operating income | | |
| Interest income | 25 | 32 |
| Dividend income | 248 | 273 |
| Rental income | 140 | 184 |
| Exchange gain | 51 | 154 |
| Gain on valuation of derivatives | 255 | 111 |
| Other | 233 | 67 |
| Total non-operating income | 955 | 824 |
| Non-operating expenses | | |
| Interest expenses | 87 | 105 |
| Rental expenses | 120 | 169 |
| Other | 111 | 144 |
| Total non-operating expenses | 319 | 419 |
| Ordinary income | 4,006 | 3,660 |
| Extraordinary income | | |
| Gain on sale of fixed assets | 2 | 646 |
| Gain on sale of investment securities | 6 | 181 |
| Other | - | 3 |
| Total extraordinary income | 8 | 831 |
| Extraordinary loss | | |
| Loss on sale or disposal of fixed assets | 31 | 82 |
| Loss on sale of shares of affiliated companies | 84 | 450 |
| Loss on valuation of investments in and loans to affiliated companies | 86 | - |
| Other | 46 | 0 |
| Total extraordinary loss | 249 | 532 |
| Income before income taxes | 3,766 | 3,959 |
| Income taxes | 1,173 | 1,327 |
| Net Income | 2,592 | 2,632 |
| Net income attributable to non-controlling interests | 55 | 86 |
| Net income attributable to owners of the parent | 2,537 | 2,546 |

Consolidated Statements of Income
(for the six months from April 1 to September 30)

(Millions of yen)

| | 2nd quarter of FY2017 (Apr. 1, 2017 to Sept. 30, 2017) | 2nd quarter of FY2018 (Apr. 1, 2018 to Sept. 30, 2018) |
|--|---|---|
| Net income | 2,592 | 2,632 |
| Other comprehensive income | | |
| Unrealized gains on available-for-sale securities | 2,562 | 672 |
| Deferred gains on hedge | - | 144 |
| Foreign currency translation adjustments | (147) | (306) |
| Adjustments related to retirement benefits | 67 | 233 |
| Total other comprehensive income | 2,482 | 743 |
| Comprehensive income | 5,075 | 3,376 |
| (Breakdown) | | |
| Comprehensive income attributable to owners of the parent | 5,023 | 3,315 |
| Comprehensive income attributable to non-controlling interests | 52 | 61 |

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

| | 2nd quarter of FY2017 (Apr. 1, 2017 to Sept. 30, 2017) | 2nd quarter of FY2018 (Apr. 1, 2018 to Sept. 30, 2018) |
|---|---|---|
| Cash flows from operating activities | | |
| Income before income taxes | 3,766 | 3,959 |
| Depreciation and amortization | 3,196 | 3,243 |
| Loss on valuation of investments in and loans to affiliated companies | 86 | - |
| Amortization of goodwill | 36 | 52 |
| Increase (decrease) in allowance for doubtful accounts | 1 | 0 |
| Increase (decrease) in liabilities related to retirement benefits | 252 | 349 |
| Increase (decrease) in allowance for employees' bonuses | (11) | 7 |
| Interest and dividend income | (273) | (306) |
| Interest expenses | 87 | 105 |
| Exchange loss (gain) | (47) | (112) |
| Loss (gain) on valuation of derivatives | (255) | (111) |
| Loss (gain) on sale or disposal of fixed assets | 29 | (564) |
| Loss (gain) on sale or valuation of investments in securities | (6) | (181) |
| Loss (gain) on sale of shares of affiliated companies | 84 | 450 |
| Gain on negative goodwill | - | (0) |
| Other extraordinary losses (gains) | - | (3) |
| Other losses (gains) | 11 | (9) |
| Decrease (increase) in notes and accounts receivable | (2,750) | 344 |
| Decrease (increase) in inventories | (1,632) | (2,030) |
| Decrease (increase) in other current assets | (27) | 160 |
| Increase (decrease) in notes and accounts payable | (408) | (487) |
| Increase (decrease) in deposits and guarantee deposits | (23) | (166) |
| Increase (decrease) in other current liabilities | (1,019) | (1,123) |
| Increase (decrease) in other long-term liabilities | (248) | (5) |
| Subtotal | 847 | 3,571 |
| Interest and dividends received | 283 | 306 |
| Interest paid | (79) | (102) |
| Income tax refund (paid) | (1,221) | (161) |
| Net cash provided by (used in) operating activities | (169) | 3,614 |
| Cash flows from investing activities | | |
| Payments for purchase of fixed assets | (3,134) | (2,717) |
| Proceeds from sale of fixed assets | 54 | 685 |
| Payments for disposition of fixed assets | (23) | (35) |
| Payments for acquisition of investment securities | (1,017) | (583) |
| Proceeds from sale of investment securities | 301 | 676 |
| Payments for purchase of investments in subsidiaries | - | (1,336) |
| Payments for acquisition of business | - | (469) |
| Net decrease (increase) in loans | (678) | 50 |
| Payments for sale of subsidiaries' stock accompanied by changes in scope of consolidation | - | (108) |
| Other | (102) | 174 |
| Net cash provided by (used in) investing activities | (4,598) | (3,664) |

(Millions of yen)

| | 2nd quarter of FY2017 (Apr. 1, 2017 to Sept. 30, 2017) | 2nd quarter of FY2018 (Apr. 1, 2018 to Sept. 30, 2018) |
|--|---|---|
| Cash flows from financing activities | | |
| Net increase in short-term debt and commercial paper | 3,096 | 1,113 |
| Proceeds from issuance of long-term debt | 5,700 | - |
| Repayments of long-term debt | (463) | (350) |
| Acquisition of treasury stock | (1,358) | (1,510) |
| Cash dividends paid | (1,397) | (1,645) |
| Cash dividends paid to holders of non-controlling interests | - | (4) |
| Other | (77) | (84) |
| Net cash provided by (used in) financing activities | 5,499 | (2,483) |
| Effect of exchange rate changes on cash & cash equivalents | (608) | (514) |
| Net increase (decrease) in cash and cash equivalents | 123 | (3,047) |
| Cash and cash equivalents at beginning of 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 end of period | 9,696 | 7,001 |

(4) 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.

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

(Calculation of taxes)

For the current consolidated fiscal year ending March 31, 2019, after the application of tax effect accounting for the earnings before taxes, taxes are calculated by multiplying earnings before taxes posted in the first six months of the current consolidated fiscal year by the reasonably estimated effective tax rate.

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

None applicable.

[Segment Information, etc.]

Second quarter of FY2017 (Six months ended September 30, 2017)

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

(Millions of yen)

| | Reportable segments | | | | Adjustment (note 1) | Consolidated (note 2) |
|----------------------------------|-------------------------|---------|------------------------|--------|------------------------|--------------------------|
| | Functional solutions | Apparel | Lifestyle creations | Total | | |
| Net sales | | | | | | |
| Sales to customers | 24,255 | 36,176 | 7,360 | 67,792 | — | 67,792 |
| Intersegment sales and transfers | 34 | 115 | 47 | 197 | (197) | — |
| Total | 24,289 | 36,291 | 7,408 | 67,989 | (197) | 67,792 |
| Segment profit | 2,704 | 1,741 | 474 | 4,920 | (1,549) | 3,370 |

Note:

- The - (minus) ¥1,549 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.
- Segment profit total was adjusted to be consistent with the operating income recorded on the Consolidated Statements of Income.

Second quarter of FY2018 (Six months ended September 30, 2018)

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

(Millions of yen)

| | Reportable segments | | | | Adjustment (note 1) | Consolidated (note 2) |
|----------------------------------|-------------------------|---------|------------------------|--------|------------------------|--------------------------|
| | Functional solutions | Apparel | Lifestyle creations | Total | | |
| Net sales | | | | | | |
| Sales to customers | 25,980 | 35,311 | 7,274 | 68,566 | — | 68,566 |
| Intersegment sales and transfers | 40 | 97 | 52 | 190 | (190) | — |
| Total | 26,020 | 35,409 | 7,327 | 68,756 | (190) | 68,566 |
| Segment profit | 3,161 | 1,142 | 539 | 4,843 | (1,586) | 3,256 |

Note:

- The - (minus) ¥1,586 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.
- Segment profit total was adjusted to be consistent with the operating income recorded on the Consolidated Statements of Income.

3. Supplementary Materials for Quarterly Financial Results

(1) FY2018 2nd Quarter Operating Results (Apr. 1, 2018 to Sept. 30, 2018)

(Millions of yen)

| | FY2018 2nd Quarter (Six months ended Sept. 30, 2018) | FY2017 2nd Quarter (Six months ended Sept. 30, 2017) | Change <Upper figures in brackets %> |
|--|---|---|---|
| Net Sales | 68,566 | 67,792 | <1.1> 774 |
| Operating Income | 3,256 | 3,370 | <(3.4)> (114) |
| Ordinary Income | 3,660 | 4,006 | <(8.6)> (346) |
| Net Income Attributable to Owners of the Parent | 2,546 | 2,537 | <0.4> 8 |
| Total Assets | 171,755 | 175,753 | <(2.3)> (3,998) |
| Inventories | 31,966 | 31,634 | <1.0> 331 |
| Fixed Assets | 99,618 | 100,927 | <(1.3)> (1,308) |
| Net Assets | 112,715 | 111,344 | <1.2> 1,370 |
| Financing Income/Expenses | 200 | 186 | 13 |
| Interest/Dividends Received | 306 | 273 | 32 |
| Interest Expenses | (105) | (87) | (18) |
| Capital Expenditures | 2,034 | 2,500 | (466) |
| Depreciation and Amortization | 3,294 | 3,232 | 62 |

<Overview of Results>

- The functional solutions business posted increases in sales and profits, with strong performance enjoyed mainly by plastic films and engineering plastics.
- The apparel business recorded decreases in sales and profits. Although store sales were adversely affected by recent earthquakes and large typhoons, stronger efforts were made for expanding sales of differentiated innerwear products and promoting high-growth channels. However, legwear sales remained sluggish.
- The lifestyle creation business posted an increase in profits despite a decrease in sales. The shopping center and rental property businesses in the real estate category showed robust performance. The sports club business was adversely affected by increasingly intense competition and natural disasters, but the effect of declined sales was offset by strengthening of the company structure.

<Special Treatments>

- Gain on sale of fixed assets: ¥600 million
- Gain on sale of investment securities: ¥200 million
- Loss on sale of shares of affiliated companies: (¥500 million)

<FY2018 Forecast>

- As operating income during the first half of current fiscal year remained roughly within the assumed range, GUNZE has not revised its previously announced consolidated full-year profit forecasts for fiscal 2018.
- Scheduled dividend payment for fiscal 2018 is ¥100 per share (¥90 per share in fiscal 2017).

[Acquisition of treasury stock, etc.]

| | Thousands of shares | Amount |
|--|---------------------|-----------------|
| Treasury stock acquired | 261 | ¥1,684 million |
| Treasury stock disposed | 32 | ¥189 million |
| Treasury stock held at the end of the previous fiscal year | 2,727 | ¥11,152 million |
| Treasury stock held at the end of the period | 2,955 | ¥12,648 million |

* Treasury stock acquired includes 260,000 shares purchased according to the resolution reached at the Board of Directors meeting held on May 14 (¥1,677 million).

* Treasury stock includes shares of the Company held by the GUNZE Group Employee Shareholding Association Exclusive Trust.

(2) Results by Business Segment

(Millions of yen)

| | | FY2018 2nd Quarter | | FY2017 2nd Quarter | | Change | |
|------------------|----------------------|--------------------|--------|--------------------|--------|--------|------------|
| | | Amount | Weight | Amount | Weight | Amount | Change (%) |
| Net Sales | Functional Solutions | 26,020 | 37.8 | 24,289 | 35.7 | 1,730 | 7.1 |
| | Apparel | 35,409 | 51.5 | 36,291 | 53.4 | (882) | (2.4) |
| | Lifestyle Creations | 7,327 | 10.7 | 7,408 | 10.9 | (81) | (1.1) |
| | Subtotal | 68,756 | 100.0 | 67,989 | 100.0 | 767 | 1.1 |
| | Eliminations | (190) | | (197) | | 6 | - |
| | Consolidated | 68,566 | | 67,792 | | 774 | 1.1 |
| Operating Income | Functional Solutions | 3,161 | 65.3 | 2,704 | 55.0 | 456 | 16.9 |
| | Apparel | 1,142 | 23.6 | 1,741 | 35.4 | (598) | (34.4) |
| | Lifestyle Creations | 539 | 11.1 | 474 | 9.6 | 65 | 13.7 |
| | Subtotal | 4,843 | 100.0 | 4,920 | 100.0 | (76) | (1.6) |
| | Eliminations | (1,586) | | (1,549) | | (37) | - |
| | Consolidated | 3,256 | | 3,370 | | (114) | (3.4) |

(3) Significant Financial Indicators

| Item | | FY2018 2nd Quarter | FY2017 2nd Quarter | Change |
|--|---|--------------------|--------------------|--------|
| Operating Income to Total Assets Ratio | % | 1.9 | 2.0 | (0.1) |
| Ordinary Income to Total Assets Ratio | % | 2.1 | 2.3 | (0.2) |
| Operating Income to Net Sales Ratio | % | 4.7 | 5.0 | (0.3) |
| Ordinary Income to Net Sales Ratio | % | 5.3 | 5.9 | (0.6) |
| Equity Ratio | % | 64.7 | 62.8 | 1.9 |
| ROE | % | 2.3 | 2.3 | - |
| Earnings per Share | ¥ | 140.11 | 137.13 | 2.98 |
| Diluted Earnings per Share | ¥ | 139.26 | 136.25 | 3.01 |
| Net Assets per Share | ¥ | 6,164.63 | 6,010.90 | 153.73 |

(4) Cash Flows

(Millions of yen)

| Cash Flow Activity | FY2018 2nd Quarter | FY2017 2nd Quarter | Change | Breakdown of Major Components |
|---|-----------------------|-----------------------|---------|---|
| Operating Activities | 3,614 | (169) | 3,783 | Income before income taxes: 3,959; Depreciation and amortization: 3,243; Increase in inventories: (2,030); Decrease in other current liabilities: (1,123) |
| Investing Activities | (3,664) | (4,598) | 934 | Purchase of fixed assets: (2,717); Investment in a Vietnamese subsidiary: (1,336) |
| Financing Activities | (2,483) | 5,499 | (7,982) | Dividends paid: (1,645); Acquisition of treasury stock: (1,510) |
| Foreign Currency Translation Adjustments | (514) | (608) | 94 | |
| Increase (Decrease) in Cash and Cash Equivalents | (3,047) | 123 | (3,171) | |
| Increase (Decrease) due to Change in Scope of Consolidation | 571 | (98) | 669 | |
| Cash and Cash Equivalents - End of Period | 7,001 | 9,696 | (2,694) | |

(5) Capital Expenditures and Depreciation and Amortization by Segment

(Millions of yen)

| Item | | FY2018 Plan | | | FY2017 | | Y-over-Y Change |
|---|----------------------|-------------|--------|-----------------------------|--------|--------|--------------------|
| | | Amount | Weight | 2nd Quarter (cumulative) | Amount | Weight | |
| Capital Expenditures * Incl. intangible fixed assets | [International] | [300] | | [165] | [263] | | |
| | Functional Solutions | 3,000 | 31.3 | 1,151 | 1,991 | 36.0 | 1,009 |
| | [International] | [400] | | [232] | [253] | | |
| | Apparel | 1,900 | 19.8 | 586 | 1,176 | 21.2 | 724 |
| | Lifestyle Creations | 2,900 | 30.2 | 192 | 1,040 | 18.8 | 1,860 |
| | Corporate | 1,800 | 18.7 | 104 | 1,327 | 24.0 | 473 |
| | [International] | [700] | | [398] | [516] | | |
| | Total | 9,600 | 100.0 | 2,034 | 5,536 | 100.0 | 4,064 |
| Depreciation and Amortization * Incl. amortization of goodwill | Functional Solutions | 2,700 | 40.3 | 1,297 | 2,667 | 40.9 | 33 |
| | Apparel | 1,400 | 20.9 | 651 | 1,413 | 21.6 | (13) |
| | Lifestyle Creations | 1,800 | 26.9 | 957 | 1,880 | 28.8 | (80) |
| | Corporate | 800 | 11.9 | 387 | 566 | 8.7 | 234 |
| | Total | 6,700 | 100.0 | 3,294 | 6,528 | 100.0 | 172 |

[Main Investment Plans for FY2018]

- Improvement of commercial facilities and construction of new rental housing: ¥1,800 million
- Plastic film production equipment: ¥1,000 million
- New sports club opening and improvement of existing facilities: ¥1,000 million
- Innerwear production equipment and systems development: ¥900 million

(6) FY2018 Forecast

(Millions of yen)

| | FY2018 forecast | FY 2017 results | Change | |
|---|-----------------|--------------------|--------|------------|
| | | | Amount | Change (%) |
| Net Sales | 145,000 | 140,521 | 4,479 | 3.2 |
| Operating Income | 7,000 | 6,239 | 761 | 12.2 |
| Ordinary Income | 7,000 | 6,446 | 554 | 8.6 |
| Net income attributable to owners of the parent | 4,000 | 3,486 | 514 | 14.7 |

(7) FY2018 Forecast by Segment

(Millions of yen)

| | | FY2018 forecast | FY 2017 results | Change |
|------------------|----------------------|--------------------|--------------------|--------|
| Net Sales | Functional Solutions | 53,000 | 50,828 | 2,172 |
| | Apparel | 76,000 | 74,012 | 1,988 |
| | Lifestyle Creations | 16,500 | 16,122 | 378 |
| | Subtotal | 145,500 | 140,964 | 4,536 |
| | Eliminations | (500) | (442) | (58) |
| | Consolidated | 145,000 | 140,521 | 4,479 |
| Operating Income | Functional Solutions | 6,300 | 5,381 | 919 |
| | Apparel | 2,800 | 2,628 | 172 |
| | Lifestyle Creations | 1,500 | 1,386 | 114 |
| | Subtotal | 10,600 | 9,396 | 1,204 |
| | Eliminations | (3,600) | (3,157) | (443) |
| | Consolidated | 7,000 | 6,239 | 761 |

Note:

GUNZE has not revised its consolidated full-year forecast for fiscal 2018 from the previous forecast announced on May 14, 2018.