

## 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
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Filing of Quarterly Securities Report ( <i>Shihanki hokokusho</i> ) (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

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## 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)
<b>Assets</b>		
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
<b>Total assets</b>	<b>171,273</b>	<b>171,755</b>



(単位：百万円)

	End of FY2017 (As of Mar. 31, 2018)	End of FY2018 2nd quarter (As of Sept. 30, 2018)
<b>Liabilities</b>		
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
<b>Net assets</b>		
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
<b>Total liabilities and net assets</b>	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