

Summary of Consolidated Financial Statements for the Third 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.

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 Stock Market Listings: Tokyo
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 Filing of Quarterly Securities Report (*Shihanki hokokusho*) (Scheduled): February 13, 2019
 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 third quarter of FY2018 (April 1, 2018 to December 31, 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	%
Nine months ended Dec. 2018	106,522	0.6	6,070	2.2	6,513	(3.8)
Nine months ended Dec. 2017	105,881	3.4	5,938	18.3	6,769	3.9

	Net income attributable to owners of the parent		EPS	Diluted EPS
	¥ millions	%	¥	¥
Nine months ended Dec. 2018	4,577	9.4	252.45	250.93
Nine months ended Dec. 2017	4,183	(6.4)	226.57	225.09

Note: Comprehensive income

Nine months ended December 2018: ¥1,984 million [(75.0%)]

Nine months ended December 2017: ¥7,938 million [77.6%]

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	¥ millions	¥ millions	%	(¥)
As of December 31, 2018	172,291	111,361	63.7	6,085.18
As of March 31, 2018	171,273	112,129	64.9	6,084.46

Reference: Total equity

December 31, 2018: ¥109,803 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	220.83

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):
 - 3rd quarter of FY2018: 19,293,516 shares
 - FY2017: 20,993,516 shares
 - (b) Treasury stock at the end of period:
 - 3rd quarter of FY2018: 1,249,129 shares
 - FY2017: 2,727,023 shares
 - (c) Average number of shares during the period (cumulative quarterly period):
 - 3rd quarter of FY2018: 18,134,014 shares
 - 3rd quarter of FY2017: 18,464,786 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 third 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 nine months of the current fiscal year (April 1 – December 31, 2018), the Japanese economy generally showed signs of mild recovery, with ongoing improvement in corporate performance and the employment situation. However, the business environment remained unpredictable due to several factors. These include U.S.-China trade frictions and resulting issues, as well as uncertainty in emerging economies and other 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. While the apparel business was adversely impacted by increasing budget-mindedness among consumers and unfavorable weather conditions, stronger efforts were made to expand sales of differentiated innerwear products and promote high-growth sales channels. But legwear sales suffered sluggish performance.

Consequently, the GUNZE Group's consolidated net sales for the first nine months of the current fiscal year amounted to ¥106,522 million (a year-over-year increase of 0.6%). Consolidated operating income amounted to ¥6,070 million (a year-over-year increase of 2.2%). Consolidated ordinary income amounted to ¥6,513 million (a year-over-year decrease of 3.8%). Although a loss on the sale of an overseas affiliate was posted, a gain on the sale of fixed assets was recorded. As a result, GUNZE posted consolidated net income attributable to owners of the parent amounting to ¥4,577 million (a year-over-year increase of 9.4%).

Results by Business Segment

<Functional Solutions>

In plastic film, mainstay shrink films enjoyed robust sales both in Japan and abroad, and nylon film sales also remained firm. Engineering plastics sales remained strong for semiconductor and industrial equipment applications. In electronic components, touch screens for business use posted solid sales, but a decline in productivity at the US factory negatively impacted the overall electronic components 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 ¥39,797 million (a year-over-year increase of 5.7%) and operating income of ¥4,903 million (a year-over-year increase of 15.7%).

<Apparel>

In innerwear, in addition to the increase in stores handling *BODYWILD AIRZ*, sales expanded for sports category products, as well as for mainstay products such as completely seamless and CUTOFF items. These offset a declining sales trend in basic innerwear, but the innerwear business experienced the negative impact of increased selling costs incurred from the expansion of new sales channels. Legwear sales remained sluggish mainly for high-value added products, with slow store sales due to changes in trends of fashion bottoms and unfavorable weather conditions. The threads and accessories business was adversely impacted by the decline in productivity caused by changes in the overseas business environment.

Consequently, the apparel business posted net sales of ¥55,837 million (a year-over-year decrease of 2.7%) and operating income of ¥2,620 million (a year-over-year decrease of 18.0%).

<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 the decline in membership at existing clubs caused by increasingly intense competition.

Consequently, the lifestyle creation business recorded net sales of ¥11,209 million (a year-over-year increase of 0.5%) and operating income of ¥893 million (a year-over-year increase of 2.8%).

(2) Description of Financial Position

As of December 31, 2018, total assets were ¥172,291 million, an increase of ¥1,018 million compared to the end of the previous fiscal year. The main components of the increase were a ¥2,149 million increase in notes and accounts receivable, a ¥1,356 million increase in buildings and structures, and a ¥1,301 million increase in investments and other assets, etc. The main components of a decrease were a ¥4,889 million decrease in investments in securities and a ¥1,521 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 ¥167 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 ¥60,929 million, an increase of ¥1,785 million compared to the end of the previous fiscal year. The main components of the increase included a ¥2,238 million increase in long- and short-term debt including commercial paper and a ¥1,388 million increase in accrued income taxes. The main components of a decrease included a ¥935 million decrease in other current liabilities (including forward exchange contracts, etc.)

Net assets were ¥111,361 million, a decrease of ¥767 million compared to the end of the previous fiscal year. The main components of an increase included a net income attributable to owners of the parent amounting to ¥4,577 million recorded for the period under review. The main components of the decrease were a ¥2,831 million decrease in unrealized gains on available-for-sale securities, dividend payments of ¥1,654 million, and ¥1,454 million spent for the purchase 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 nine 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 3rd quarter (As of Dec. 31, 2018)
Assets		
Current assets		
Cash and cash equivalents	9,477	7,956
Notes and accounts receivable, trade	30,277	32,427
Finished products and goods	19,468	19,790
Work in process	5,906	6,601
Raw materials and supplies	4,387	4,770
Other current assets	3,260	3,532
Allowance for doubtful accounts	(9)	(9)
Total current assets	72,769	75,068
Fixed assets		
Property, plants and equipment		
Buildings and structures (Net)	39,106	40,462
Machinery, equipment and vehicles (Net)	10,436	9,795
Land	12,516	13,138
Other (Net)	2,795	3,458
Total property, plants and equipment	64,853	66,855
Intangible fixed assets	1,817	2,125
Investments and other assets		
Investments in securities	23,775	18,885
Other assets	8,142	9,443
Allowance for doubtful accounts	(84)	(87)
Total investments and other assets	31,832	28,242
Total fixed assets	98,503	97,223
Total assets	171,273	172,291

(Millions of yen)

	End of FY2017 (As of Mar. 31, 2018)	End of FY2018 3rd quarter (As of Dec. 31, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable, trade	9,640	9,679
Short-term debt	6,501	7,041
Commercial paper	6,000	9,800
Current portion of long-term debt	5,077	3,109
Accrued income taxes	337	1,726
Allowance for employees' bonuses	1,229	318
Other current liabilities	9,973	9,037
Total current liabilities	38,760	40,713
Long-term liabilities		
Long-term debt	9,912	9,778
Liabilities related to retirement benefits	5,263	5,165
Long-term deposits and guarantee deposits	4,293	4,404
Other long-term liabilities	913	867
Total long-term liabilities	20,383	20,215
Total liabilities	59,143	60,929
Net assets		
Shareholders' equity		
Common stock	26,071	26,071
Capital surplus	13,942	6,780
Retained earnings	79,718	82,540
Treasury stock	(11,152)	(5,460)
Total shareholders' equity	108,579	109,931
Accumulated other comprehensive income		
Deferred gains (losses) on hedge	(81)	15
Unrealized gains on available-for-sale securities	2,711	(119)
Revaluation difference on land	(54)	(54)
Foreign currency translation adjustments	1,248	941
Accumulated adjustments related to retirement benefits	(1,261)	(911)
Total accumulated other comprehensive income	2,561	(128)
Stock acquisition rights	281	276
Non-controlling interests	706	1,281
Total net assets	112,129	111,361
Total liabilities and net assets	171,273	172,291

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

Consolidated Statements of Income
(for the nine months from April 1 to December 31)

(Millions of yen)

	3rd quarter of FY2017 (Apr. 1, 2017 to Dec. 31, 2017)	3rd quarter of FY2018 (Apr. 1, 2018 to Dec. 31, 2018)
Net sales	105,881	106,522
Cost of sales	75,191	75,174
Gross profit	30,690	31,348
Selling, general and administrative expenses	24,751	25,277
Operating income	5,938	6,070
Non-operating income		
Interest income	48	47
Dividend income	394	435
Rental income	203	255
Exchange gain	64	84
Gain on valuation of derivatives	350	111
Other	283	123
Total non-operating income	1,345	1,058
Non-operating expenses		
Interest expenses	139	170
Rental expenses	179	241
Other	194	204
Total non-operating expenses	514	616
Ordinary income	6,769	6,513
Extraordinary income		
Gain on sale of fixed assets	330	647
Gain on sale of investment securities	6	181
Gain on sale of shares of affiliated companies	214	-
Other	-	3
Total extraordinary income	552	832
Extraordinary loss		
Loss on sale or disposal of fixed assets	242	127
Loss on sale of shares of affiliated companies	84	450
Loss on liquidation of affiliated companies	50	-
Loss on valuation of investments in and loans to affiliated companies	37	76
Impairment loss	395	-
Business structure improvement expenses	213	-
Other	48	0
Total extraordinary loss	1,071	653
Income before income taxes	6,250	6,691
Income taxes	1,977	1,994
Net Income	4,273	4,696
Net income attributable to non-controlling interests	89	118
Net income attributable to owners of the parent	4,183	4,577

Consolidated Statements of Income
 (for the nine months from April 1 to December 31)

(Millions of yen)

	3rd quarter of FY2017 (Apr. 1, 2017 to Dec. 31, 2017)	3rd quarter of FY2018 (Apr. 1, 2018 to Dec. 31, 2018)
Net income	4,273	4,696
Other comprehensive income		
Unrealized gains (losses) on available-for-sale securities	3,466	(2,831)
Deferred gains on hedge	-	97
Foreign currency translation adjustments	98	(328)
Adjustments related to retirement benefits	100	350
Total other comprehensive income (loss)	3,665	(2,711)
Comprehensive income	7,938	1,984
(Breakdown)		
Comprehensive income attributable to owners of the parent	7,836	1,877
Comprehensive income attributable to non-controlling interests	102	107

(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]

According to a resolution reached at the Board of Directors meeting held on May 14, 2018, GUNZE acquired 260,000 shares of treasury stock. As a result, treasury stock increased by ¥1,677 million during the first nine months of the current consolidated fiscal year ending March 31, 2019.

GUNZE resolved at the Board of Directors meeting held on November 5, 2018 to cancel treasury stock, and 1,700,000 shares of treasury stock were canceled as of November 26, 2018. Consequently, capital surplus and treasury stock decreased by ¥7,146 million, respectively, during the first nine months of the current consolidated fiscal year.

[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 nine 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.]

Third quarter of FY2017 (Nine months ended December 31, 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	37,609	57,189	11,082	105,881	—	105,881
Intersegment sales and transfers	51	195	76	322	(322)	—
Total	37,660	57,384	11,158	106,203	(322)	105,881
Segment profit	4,239	3,195	869	8,305	(2,366)	5,938

Note:

1. The - (minus) ¥2,366 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.
2. Segment profit total was adjusted to be consistent with the operating income recorded on the Consolidated Statements of Income.

Third quarter of FY2018 (Nine months ended December 31, 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	39,740	55,669	11,113	106,522	—	106,522
Intersegment sales and transfers	57	168	96	321	(321)	—
Total	39,797	55,837	11,209	106,844	(321)	106,522
Segment profit	4,903	2,620	893	8,417	(2,346)	6,070

Note:

1. The - (minus) ¥2,346 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.
2. Segment profit total was adjusted to be consistent with the operating income recorded on the Consolidated Statements of Income.