

[Translation]

**GUNZE LIMITED**

[**Disclaimer:** Please note that the following purports to be an excerpt translation from the original Proxy Statement of GUNZE LIMITED prepared for the convenience of shareholders outside Japan with voting rights. However, in case of any discrepancy between the translation and the Japanese original, the latter shall prevail. Please also be advised that certain expressions for domestic procedures that are not applicable to the aforesaid shareholders have been omitted or modified to avoid confusion.]

June 3, 2015

To Our Shareholders:

**NOTICE OF CONVOCATION OF  
THE 119TH ORDINARY GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholders:

You are cordially invited to attend the 119<sup>th</sup> Ordinary General Meeting of Shareholders of GUNZE LIMITED. The meeting will be held as described below.

If you are unable to attend the meeting, you are requested to study the reference materials for the general meeting of shareholders below, and then please either complete and send by mail the enclosed Voting Rights Exercise Form indicating your approval or disapproval for each matter for resolution so that it shall arrive at the Company no later than 5:00 P.M. on Wednesday, June 24, 2015, or make an entry for approval or disapproval for each matter for resolution on the site provided for exercising your voting right in the Internet (<http://www.evotep.jp/>) as designated by the Company no later than the aforementioned date and time.

Yours very truly,

GUNZE LIMITED  
1 Zeze, Aono-cho , Ayabe-shi  
Kyoto, Japan

By: Nodoka Kodama  
Representative Director and President

[Translation]

## **PARTICULARS**

- 1. Date and Time of the Meeting:** 1:00 P.M., Thursday, June 25, 2015
- 2. Place of the Meeting:** Auditorium, Head Office of the Company  
1 Zeze, Aono-cho, Ayabe-shi, Kyoto, Japan
- 3. Agenda of the Meeting:**

### **Matters for Reporting:**

1. Report on the Results of Operations, the Consolidated Accounting Documents and Non-Consolidated Accounting Documents for the 119<sup>th</sup> Business Term (from April 1, 2014 to March 31, 2015).
2. Report on the Results of Audits for the Consolidated Accounting Documents by Accounting Auditors and the Board of Corporate Auditors for the 119<sup>th</sup> Business Term (from April 1, 2014 to March 31, 2015).

### **Matters for Resolution:**

- |                            |   |
|----------------------------|---|
| <b>First Proposition:</b>  | <b>Proposed Disposal of Surplus</b>           |
| <b>Second Proposition:</b> | <b>Election of Ten (10) Directors</b>         |
| <b>Third Proposition:</b>  | <b>Election of Two (2) Corporate Auditors</b> |

- 4. Matters Determined concerning the Convocation**

Please refer to “Guide to Exercising Voting Rights” on pages 25 and 26.

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**(Attachment)**

## **Results of Operations (April 1, 2014 to March 31, 2015)**

### **1. Items Related to the Current Status of the GUNZE Group**

#### **(1) Business Progress and Results**

Reviewing economic conditions during the fiscal year ended March 31, 2015, the Japanese economy was on track to mild recovery, reflecting the positive effects of the so-called “Abenomics” economic policy package in its second year. However, the consumption tax hike resulted in prolonged sluggishness in personal consumption, while the depreciation of the yen caused soaring prices of imported raw materials and a rise in electricity charges. These factors caused continued uncertainty for the GUNZE Group’s management environment.

Faced with this situation, the GUNZE Group launched its new medium-term management plan, called “CAN 20 (fiscal 2014 through fiscal 2020),” in the fiscal year under review. With the key concept of “Focus and Concentration,” the GUNZE Group implemented the key measures: selection and focus for existing businesses based on the Strategic Business Unit (SBU) strategy; cultivation and creation of new high-growth businesses through the Cross-Functional Approach (CFA) initiatives; and reinforcement of the management foundation to support the company’s growth strategy.

The GUNZE Group’s functional solutions business enjoyed stable performance of engineering plastics and medical materials. However, electronic components remained slow due mainly to worsened market conditions and price drops for touch screens. Plastic film sales were also slow due to unseasonable weather and other difficult conditions. As for the apparel business, GUNZE promoted business structure reform while facing a challenging environment that included sluggish personal spending after the consumption tax hike and unseasonable weather.

Consequently, the GUNZE Group’s consolidated net sales for the fiscal year under review amounted to ¥141,172 million (a year-over-year decrease of 0.9%). Consolidated operating income amounted to ¥3,084 million (a year-over-year decrease of 29.5%). Because of the foreign exchange gain related to payables and receivables denominated in foreign currencies, consolidated ordinary income was ¥4,933 million (a year-over-year decrease of 2.5%). Moreover, a gain arising from the revision of the retirement benefit plan was recorded as extraordinary income. As a result, consolidated net income amounted to ¥3,215 million (a year-over-year increase of 28.2%).

#### **Results by Business Segment**

##### **[Functional Solutions]**

In plastic film, films for beverage applications remained slow throughout the year due to unseasonable weather and sluggish personal consumption. Engineering plastics posted steady performance, thanks to the recovery in market conditions for products designed for office equipment, and expanded sales of fluorine resin products for general industrial applications. Electronic components experienced difficulties, with slow sales and declining prices of projected capacitive touch screens for PCs and semi-finished products and films for smartphones. Medical materials destined for North America posted a sales increase, and sales were also firm in Japan and

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China.

Consequently, the functional solutions business posted net sales of ¥59,689 million (a year-over-year increase of 2.5%), while operating income was ¥3,393 million (a year-over-year decrease of 28.5%).

### **[Apparel]**

The apparel business as a whole suffered a sales decline, reflecting sluggish personal spending after the rise in the consumption tax rate and unseasonable weather. Other factors impacting the apparel business were an increase in the cost of imported products resulting from the yen's depreciation and escalating labor costs outside Japan. Despite this situation, GUNZE continued promoting business structure reform for innerwear. This resulted in an improvement of production efficiency and reduction in fixed costs, which were enough to offset the effect of declined sales. As for the fire that took place at the Yanase Factory on March 26, the effect on business results was immaterial. In leg wear, leggings pants, which are trendy products, enjoyed firm sales, although sales of socks were disappointing.

Consequently, the apparel business posted net sales of ¥67,635 million (a year-over-year decrease of 4.0%) and operating income of ¥1,491 million (a year-over-year increase of 6.5%).

### **[Lifestyle Creations]**

In the real estate category, the solar power generation business that was launched in the second half of the previous fiscal year contributed to profits in the overall category. However, business was slow for the *GUNZE Town Center TSUKASHiN* commercial facility due to prolonged sluggishness in personal consumption. In the sports club category, efforts were concentrated on attracting new members, particularly young people, which contributed to stable performance of existing clubs. However, sluggishness of the school business and the initial expenses incurred for the opening of new clubs adversely impacted the category's overall performance.

Consequently, the lifestyle creation business recorded net sales of ¥14,537 million (a year-over-year increase of 0.3%), while operating income was ¥1,257 million (a year-over-year decrease of 8.0%).

## **(2) Medium-to-Long Term Management Strategy and Key Management Issues for the GUNZE Group**

Although the Japanese economy still lacks dynamism, a mild recovery is projected to continue, with a recovery in personal spending resulting from the decreasing effect of the consumption tax hike. Still, there are many risk factors that will cause the future of the business environment surrounding the GUNZE Group to remain unpredictable. These include concerns for a downturn in the Japanese economy due to soaring raw material prices caused by the weaker yen, as well as a slowdown in growth for China and other emerging nations.

Against this backdrop, the new fiscal year 2015 marks the second year of the first phase (fiscal 2014 through fiscal 2016) of GUNZE's medium-term management plan, called "CAN 20 (fiscal 2014 through fiscal 2020)." As such, GUNZE will move into high gear for the implementation of initiatives to promote the revival of growth. To this end, GUNZE will combine the efforts of all members of the Group to deal with strategic issues related to the maturation of mainstay products

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and channels.

As part of its efforts aimed at the revival of growth, GUNZE will promote the “+25 Campaign\*” in this new fiscal year to work on new initiatives, such as the development of new businesses, new products and new channels. GUNZE will also strengthen its information technology strategy in order to enhance the entire Group’s operational efficiency.

Efforts will be concentrated on expanding new businesses in the healthcare and medical fields. These are fields intended to help enhance quality of life (QOL), which GUNZE has been promoting since the previous fiscal year. As a measure for reinforcing the management foundation to support its growth strategy, GUNZE will work to strengthen its intangible assets, including core technological strengths, global responsiveness and corporate brand value.

Through these initiatives, GUNZE will strive to contribute to society as a global corporate group that offers customers a “Feeling of Comfort” in all their dealings with the GUNZE Group. This personalized way of doing business is unique to the GUNZE Group.

As for the functional solutions business, in the category of plastic films GUNZE will work to strengthen its shrink film business in markets outside Japan, such as the U.S., while also enhancing profitability for nylon film. In engineering plastics, efforts will be concentrated on expanding products employing GUNZE’s fiber technology, such as products related to semiconductors. In electronic components, GUNZE will seek to expand sales of film products such as optical film. In medical materials, efforts will be geared toward promoting entry into the U.S. market and establishing a production base in China for bioabsorbable reinforcement felt.

In the apparel business, GUNZE will continue working on cost reduction through the implementation of business structure reform. At the same time, GUNZE will proactively take strategic approaches necessary for responding to consumer needs and market trends, such as focusing on high-growth fields and key channels, as well as renewing core brands.

In the lifestyle creation business, GUNZE will strive to improve the profitability of its real estate business by making effective use of idle assets. GUNZE will also seek to expand sales for its sports club business through aggressive sports club chain expansion inside and outside Japan.

Regarding the fire that took place at GUNZE’s Yanase Factory (in charge of women’s innerwear production in Asago City, Hyogo Prefecture) on March 26, we sincerely apologize for the trouble and concern that this incident caused to those in the neighborhood and many others. Because injury to people was immaterial and property damage was limited, the factory was able to quickly resume operation. We also project that the damages will be covered for the most part by fire insurance. We will exert our all-out efforts to implement more thorough safety management measures and strengthen our disaster prevention system, in order to ensure that such incidents will never occur again, as we strive to restore our stakeholders’ trust.

The continued support and patronage of our shareholders will be greatly appreciated.

\* The “+25 Campaign” is designed to reallocate management resources to new initiatives for securing growth based on the keyword of “25%,” while also generating human power and time necessary for those new initiatives.

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### (3) Financial Conditions

#### A. Consolidated Operating Results and Summary of Assets

(Millions of yen)

	116 <sup>th</sup> term (FY2011)	117 <sup>th</sup> term (FY2012)	118 <sup>th</sup> term (FY2013)	119 <sup>th</sup> term (FY2014)
Net sales	136,621	132,373	142,425	141,172
Operating income	1,023	1,710	4,375	3,084
Ordinary income	975	2,328	5,058	4,933
Net income (loss)	571	(1,161)	2,508	3,215
Net income (loss) per share (¥)	2.96	(6.06)	13.09	16.78
Total assets	168,517	163,328	166,544	175,331
Net assets	110,197	108,745	114,183	117,359

#### B. Net Sales and Operating Income by Segment

(Millions of yen)

	118 <sup>th</sup> term (FY2013)		119 <sup>th</sup> term (FY2014)	
	Net sales	Operating income	Net sales	Operating income
Functional solutions	58,235	4,745	59,689	3,393
Apparel	70,461	1,400	67,635	1,491
Lifestyle creations	14,497	1,367	14,537	1,257
Total	143,194	7,514	141,864	6,142
Eliminations/Corporate	(768)	(3,138)	(691)	(3,057)
Consolidated	142,425	4,375	141,172	3,084

The main products handled in each business segment are as follows:

Functional solutions business: Plastic films, engineering plastics, electronic components, machinery, medical materials, etc.

Apparel business: Innerwear, leg wear, textiles, threads and accessories

Lifestyle creation business: Leasing, buying and selling of real estate, trees and plants, operation and management of sports facilities, etc.

## 2. Systems to Ensure Propriety in Business Operations

### (1) Systems to ensure Directors' compliance with laws and regulations and the Articles of Incorporation

- 1) The Company continually promotes and keeps all its employees informed about the GUNZE Activity Guidelines that stipulate guidelines for conduct, which all Directors and employees of the GUNZE Group must follow, in order to ensure implementation of its corporate philosophy.
- 2) The Company sets up a CSR Promotion Section and appoints a Chief CSR Officer

(CCSRO) to strengthen the GUNZE Group's CSR practices. A Chief Compliance Officer (CCO) is also appointed to ensure strict legal and regulatory compliance and establish high standards of corporate ethics.

Moreover, in accordance with its Rules concerning CSR, Rules concerning Compliance and other related rules, the Corporate-wide CSR Committee, a cross-divisional team chaired by CCSRO, strives to strengthen the corporate structure intended to ensure strict compliance with laws and regulations.

- 3) In accordance with its Rules concerning the Board of Directors, the Company's Board of Directors (BOD), as a basic rule, meets once a month. The BOD is responsible for deliberating and resolving important corporate and business matters, while overseeing the Directors' performance of management duties.
- 4) To further strengthen the BOD's management oversight functions, the Company selects highly independent outside Directors to join the Board.
- 5) The Company makes diligent efforts to prevent illegal or unethical acts by Directors, Corporate Officers and Corporate Auditors by holding CSR seminars targeting them on a regular basis.
- 6) In accordance with its Auditing Rules for Corporate Auditors, Standing Executive Auditors attend BOD meetings and other important corporate meetings, and conduct audits to monitor the performance of Directors in carrying out their duties.
- 7) The Company implements quick and organized measures to deal with demands from antisocial forces or groups that threaten public order and security, and stands firm in rejecting such demands through cooperation with external specialized agencies.
- 8) In accordance with its Information Disclosure Rules, the Company appoints the Chief Financial Officer (CFO) to ensure appropriate management and control of the GUNZE Group's corporate information, and discloses appropriate information quickly and fairly as an open-door corporate group.

## **(2) Systems of retention and management of information concerning Directors' execution of their duties**

The Company manages and retains documents, records and information materials, including minutes of the General Meetings of Shareholders, minutes of Board of Directors meetings, circulars for managerial approval, and contracts, in accordance with its Documentation Rules and other regulations.

## **(3) Rules and other systems concerning risk management**

- 1) In accordance with its Risk Management Rules, the Company builds a solid cross-divisional risk management system that covers the entire Group in order to avoid any kind of risks and to appropriately prepare for unexpected contingencies.  
For information-related risks in particular, the Company strives to protect the GUNZE Group's information assets based on its IT (Information Technology) Security Policy and Standard Countermeasures against IT (Information Technology) Security Issues.
- 2) In accordance with its Basic Rules concerning Management of Trade Secrets and Trade Secret Management Standards, the Company sets up a cross-divisional supervisory team, Trade Secrets Management Committee (chaired by CCO), in order to appropriately manage

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trade secret assets available across the Group and prevent leakage of important trade secrets.

**(4) Systems to ensure that Directors efficiently perform their duties**

- 1) To enhance the Board of Directors' functions and improve management efficiency, the Company, in accordance with its Rules concerning Executive Officer Meetings, holds an Executive Officer meeting attended by Chief Officers and others roughly once a week to deliberate important matters related to the Group's business operations.
- 2) The Company adopts a Corporate Officers System to clearly separate decision-making regarding business practices and management oversight functions from business operations, and augment the Board of Directors' monitoring functions. It is also intended to vitalize the BOD and facilitate quicker decision-making.
- 3) To swiftly and flexibly respond to radical changes taking place in the Company's management environment and clearly define management responsibility, the term of office of Directors at the Company is designated as one (1) year.
- 4) The Company sets forth its internal Rules concerning Division of Duties, Rules concerning the Authority and Responsibility of Internal Company Presidents, and Rules concerning the Authority and Responsibility of Business Group General Managers, to ensure propriety of the GUNZE Group's internal controls, clarify procedures for business practices, and enhance efficiency of management and administration.
- 5) To conduct efficient business operations for the GUNZE Group, the Company promotes business reforms utilizing information technology through its corporate-wide project activities.
- 6) Corporate Auditors monitor and assess the establishment and operation of the internal control system of the GUNZE Group, which Directors conduct while exercising the due care of a responsible manager.

**(5) Systems to ensure that employees' performance of their duties conforms to laws and regulations and the Articles of Incorporation**

- 1) To ensure strict legal and regulatory compliance, the Company regularly provides all employees of the GUNZE Group with the necessary education and training. The Company responds quickly to the enactment of a new law or amendment to existing law by offering relevant education and training. The Company also offers relevant education and training quickly in the event that material misconduct or an accident arises within the Group or at other companies.
- 2) The Company posts all rules and regulations applicable to the GUNZE Group on intranets so that Group employees can access and view them whenever necessary.
- 3) The Company has a whistleblower system in place, by which employees can directly report compliance-related information or ask compliance-related questions via the Advice Hotline for Employees, in order to prevent misconduct and accidents. Should material violation of laws or regulations, or other compliance-related problems be discovered, employees should also report directly to the Chief Operating Officer (COO) or the Chief Compliance Officer (CCO).



**(6) Systems to ensure the propriety of business operations of the GUNZE Group**

- 1) Under the supervision of the Corporate-wide CSR Committee, a Compliance Officer is in place at each business department or Group company to ensure strict legal and regulatory compliance. For information security in particular, a Division Information Officer (DIO) responsible for maintaining IT security is in place at each business division or Group company to ensure strict management of information.
- 2) As for the management of individual companies comprising the GUNZE Group, the Company gives guidance or advice to them based on their periodical business reports, prior discussions regarding important matters or other arrangements, while respecting their individual initiative, in order to ensure propriety of business operations for the Group as a whole.
- 3) The Business Audit Section conducts internal audits to inspect the operating effectiveness of the GUNZE Group's internal controls for overall business practices, in order to maintain the propriety and efficiency of business operations for the Group as a whole.
- 4) When deemed necessary from reported results of audits, as discussed in item 3) above, Corporate Auditors conduct audits of the Group companies to monitor the operating effectiveness of their internal controls, as well as the propriety and efficiency of business operations as a corporate group. Should Corporate Auditors consider it necessary, Corporate Auditors will directly perform audits of the Group companies.

**(7) Systems to ensure reliability of financial reporting**

To appropriately assess the validity of the GUNZE Group's internal controls over financial reporting, as stipulated by the Financial Instruments and Exchange Law, the Company assigns the Chief Financial Officer (CFO) and various other responsible personnel based on the Internal Control Standards. By so doing, the Company maintains, implements and assesses internal controls of the Company and its consolidated subsidiaries, which comprise the Group's consolidated financial statements, and announces the results of assessment through internal control reports.

**(8) Assignment of employees to assist Corporate Auditors when so requested by Corporate Auditors**

In accordance with the Auditing Rules for Corporate Auditors, Corporate Auditors may, as necessary, assign staff of the Business Audit Section and other sections to assist Corporate Auditors in performing their duties.

**(9) Matters concerning independence of supporting employees from Directors**

Supporting employees who have received the necessary commands for auditing practices from a Corporate Auditor(s) will not be subject to any orders or control from higher-ranked employees such as Directors and the Manager of the Business Audit Section regarding the aforementioned command issued by the Corporate Auditor(s).

**(10) System for reporting by Directors and employees to Corporate Auditors and other systems concerning reporting to Corporate Auditors**

- 1) Directors report to Corporate Auditors without delay while taking appropriate measures in the event that they discover any fact that could have a negative impact, in a material degree,

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on the GUNZE Group, such as impairment of its credibility or adverse affects on its business operations and financial performance.

- 2) Directors and employees make reports necessary for auditing to Corporate Auditors without delay when so requested by Corporate Auditors.
- 3) The Manager of the Business Audit Section reports to Corporate Auditors without delay issues discovered through auditing by the Business Audit Section.
- 4) Directors and employees report to Corporate Auditors without delay important matters among information as described in item 3) of section (5) above.

#### **(11) Systems to ensure that audits by Corporate Auditors are conducted effectively**

- 1) Corporate Auditors formulate an auditing policy and assign work in accordance with the Board of Auditors Regulations and Auditing Rules for Corporate Auditors, and periodically exchange views and information with Representative Directors, independent accounting auditors and the staff of the Business Audit Section.
- 2) Corporate Auditors submit issues discovered through their audits to Directors and employees, and give recommendations for improvement or advice to the concerned department as necessary in order to ensure that internal controls function effectively.
- 3) Outside auditors account for half or more of all Corporate Auditors to ensure transparency of audits.

Note: The above describes the GUNZE Group's policy as of the end of the fiscal year under review. Pursuant to the "Act for Partial Revision of the Companies Act" (Act No. 90 of 2014), which came into force on May 1, 2015, the Company resolved to partially revise the "Basic Policy for the Establishment of an Internal Control System" at a meeting of its Board of Directors held on April 28, 2015.

### **3. Basic Policy for Corporate Control**

#### **(1) Basic policy**

In conformance with its "quality first" policy and its commitment to "technology-oriented management," the GUNZE Group promotes customer-focused business operations. In doing so, the Group lives up to its founding philosophy that underscores a people-oriented approach, a commitment to quality, and harmonious coexistence. Based on this philosophy, the Group strives to fulfill its corporate social responsibility (CSR). With a strong determination to provide customers with a "Feeling of Comfort" through the products and services offered by each business line, the GUNZE Group aims to become "a corporate group that fulfills the needs of society" and "a corporate group that grows sustainably alongside society."

With the aim of raising its corporate value, and in accordance with its basic stance of promoting shareholder-focused management attitudes, the Company endeavors to increase profitability and enhance capital efficiency. Moreover, returning earnings to shareholders is one of the Group's most important management policies. Accordingly, the Company works to distribute earnings to shareholders in a continual and stable manner, based on the medium- and long-term business perspective, through the payment of dividends and the repurchase of treasury stock.

The Company also believes that decisions regarding which parties are entitled to be

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shareholders of the Company should be reached through free trading of the Company's shares. The Company therefore considers that, in the event of a takeover offer that accompanies transfer of controlling stakes, the decision to accept or reject the proposal should ultimately be the responsibility of the shareholders.

However, to realize sustained enhancement of the Group's corporate value and common interests of its shareholders through the efforts described above, it is essential that the Company maintain and develop appropriate relations not only with shareholders but also other parties comprising the Company's stakeholders, including customers, business associates, employees and local communities. Consequently, the Company considers that persons who control the decisions on the financial and operational policies of the Company must fully understand the financial position and business operations of the Company, as well as the sources of its corporate value, and implement management practices in consideration of stakeholders' interests.

Accordingly, the Company concludes that persons attempting to conduct a large-scale acquisition of the Company's shares or other assets in a way that could possibly impair the GUNZE Group's corporate value, the Company's interests, and the common interests of its shareholders consequently, will be unsuited to executing the decision on the financial and operational policies of the Company, and thus a mechanism of preventing said acquisition or like action will be necessary.

## **(2) Efforts to contribute to the implementation of the basic policy**

To contribute to the implementation of the basic policy, the Company promotes the following strategies as it pursues the enhancement of the GUNZE Group's corporate value and common interests of its shareholders.

### **1) Promotion of medium-term management plan**

The GUNZE Group is currently carrying out its medium-term management plan ("CAN 20 Plan" for the period covering the 119<sup>th</sup> business term to the 125<sup>th</sup> business term (FY2020)). With the key concept of "Focus and Concentration," the Group will strive to enhance the GUNZE Group's corporate value by implementing the three basic strategies. These are: selection and focus for existing businesses based on strategic business units (SBUs); cultivation and creation of new high-growth businesses through the Cross-Functional Approach (CFA) initiatives; and reinforcement of the management foundation to support the company's growth strategy.

### **2) Strengthening of corporate governance**

To facilitate more agile decision-making and strengthen management oversight functions, the Company launched a Corporate Officers System and reduced the maximum number of members of the Board of Directors in the 110<sup>th</sup> business term (fiscal year ended March 31, 2006). In the 111<sup>th</sup> business term (fiscal year ended March 31, 2007), the term of office of Directors was reduced from two (2) years to one (1) year to clarify the management responsibility of Directors and establish a management system capable of quickly responding to changes in the business environment. The Company is committed to strengthening corporate governance through these measures, while at the same time inviting outside Directors to join the Board with the aim of maintaining transparency in all management practices.

## **(3) Efforts to prevent inappropriate control of the Company**

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For the purpose of retaining and improving the GUNZE Group's corporate value, and to secure enough time and opportunity for the Company's shareholders to gain sufficient information for making appropriate judgments themselves, the Company, at its Board of Directors meeting held on May 12, 2006, resolved the "Policy for Measures against Large-scale Acquisition of Shares of the Company (Takeover Defense Policy)." The Proposition proposing the introduction of the Policy was then submitted to the 110<sup>th</sup> ordinary General Meeting of Shareholders, held on June 29, 2006, where the Proposition was approved by shareholders.

In light of various trends and subsequent circumstances relevant to the Takeover Defense Policy, the Policy was partially revised and updated after having been approved by shareholders at the 112<sup>th</sup> ordinary General Meeting of Shareholders held on June 26, 2008 and the 115<sup>th</sup> ordinary General Meeting of Shareholders held on June 24, 2011. Moreover, the Policy was resolved to be updated as the "Continuation of the Policy for Measures against Large-scale Acquisition of Shares of the Company (Takeover Defense Policy)" (hereinafter referred to as the "Continued Policy") at the 118<sup>th</sup> ordinary General Meeting of Shareholders held on June 25, 2014 and is now being continued with the effective period specified to be until the close of the ordinary General Meeting of Shareholders scheduled for June 2017. The full text of the press release regarding the Continued Policy is available on the Gunze corporate website (<http://www.gunze.co.jp>).

**(4) Judgment of the Board of Directors of the Company regarding the above efforts and rationale thereof**

It is the belief of the Company's Board of Directors that these efforts conform to the Company's Basic Policy for Corporate Control and are not detrimental to its corporate value and the common interests of its shareholders.

The Continued Policy stipulates that the Company's Board of Directors shall request that the Special Committee be organized in the event of an attempted large-scale acquisition of shares of the Company to carry out evaluation and recommendations regarding the content of takeover and defense measures. As a basic rule, the Company shall follow the evaluation and recommendations made by the Special Committee only after making its own evaluation of the Special Committee's evaluation and recommendations in a responsible manner. Moreover, the defense measures shall be triggered only after the previously specified reasonable objective conditions are met. Thus, the Continued Policy is intended to avoid arbitrary judgment of the Company's Board of Directors and to ensure transparency and fairness of judgment regarding compliance to rules for large-scale acquisition and determination of whether the takeover defense measures should be triggered. It is not intended to protect the position of any of the Directors in the Company.

# Consolidated Financial Statements

## Consolidated Balance Sheets

(Millions of yen)

	End of FY2013 (Mar. 31, 2014)	End of FY2014 (Mar. 31, 2015)
Assets		
Current assets		
Cash and cash equivalents	6,757	9,159
Notes & accounts receivable, trade	30,252	31,075
Finished products and goods	19,439	18,313
Work in process	6,746	6,541
Raw materials and supplies	6,370	6,696
Short-term loans	411	383
Deferred income taxes	1,069	2,201
Other current assets	2,489	3,270
Allowance for doubtful accounts	(33)	(20)
Total current assets	73,503	77,621
Fixed assets		
Property, plants and equipment		
Buildings and structures	106,260	108,617
Accumulated depreciation	(68,167)	(70,720)
Buildings and structures (Net)	38,093	37,896
Machinery, equipment and vehicles	100,287	102,828
Accumulated depreciation	(84,202)	(85,826)
Machinery, equipment and vehicles (Net)	16,084	17,001
Tools, furniture and fixtures	7,047	7,456
Accumulated depreciation	(5,868)	(6,221)
Tools, furniture and fixtures (Net)	1,178	1,234
Land	11,894	11,950
Leasehold assets	144	381
Accumulated depreciation	(38)	(86)
Leasehold assets (Net)	105	295
Construction in progress	1,406	1,839
Total property, plants and equipment	68,763	70,218
Intangible fixed assets		
Software	1,173	795
Other intangible fixed assets	295	414
Total intangible fixed assets	1,468	1,210
Investments and other assets		
Investments in securities	12,684	18,463
Long-term loans	690	658
Assets related to retirement benefits	1,454	2,183
Deferred income taxes	3,616	793
Other assets	4,514	4,277
Allowance for doubtful accounts	(151)	(95)
Total investments and other assets	22,808	26,280
Total fixed assets	93,040	97,709
Total assets	166,544	175,331

	<b>End of FY2013</b> <b>(Mar. 31, 2014)</b>	<b>End of FY2014</b> <b>(Mar. 31, 2015)</b>
<b>Liabilities</b>		
Current liabilities		
Notes & accounts payable, trade	9,491	9,339
Short-term debt	4,781	9,718
Commercial paper	4,500	2,700
Current portion of long-term debt	1,451	3,340
Accrued income taxes	622	448
Allowance for employees' bonuses	1,109	1,148
Notes payable on acquisition of property, plants and equipment	2,563	315
Other current liabilities	7,981	8,427
<b>Total current liabilities</b>	<b>32,502</b>	<b>35,440</b>
Long-term liabilities		
Long-term debt	13,333	12,889
Liabilities related to retirement benefits	1,672	3,461
Long-term deposits & guarantee deposits	4,401	4,272
Other long-term liabilities	450	1,907
<b>Total long-term liabilities</b>	<b>19,858</b>	<b>22,531</b>
<b>Total liabilities</b>	<b>52,360</b>	<b>57,971</b>
<b>Net assets</b>		
Shareholders' equity		
Common stock	26,071	26,071
Capital surplus	14,061	14,056
Retained earnings	77,771	79,313
Treasury stock	(7,614)	(7,648)
<b>Total shareholders' equity</b>	<b>110,289</b>	<b>111,792</b>
Accumulated other comprehensive income		
Unrealized gains (losses) on available-for- sale securities	365	1,787
Deferred gains (losses) on hedge	0	1
Revaluation differences on land	(400)	(400)
Foreign currency translation adjustments	850	2,298
Accumulated adjustments related to retirement benefits	1,251	164
<b>Total accumulated other comprehensive income</b>	<b>2,067</b>	<b>3,850</b>
Stock acquisition rights	312	342
Minority interests	1,514	1,374
<b>Total net assets</b>	<b>114,183</b>	<b>117,359</b>
<b>Total liabilities and net assets</b>	<b>166,544</b>	<b>175,331</b>

## Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

### Consolidated Statements of Income

(Millions of yen)

	<b>FY2013</b>	<b>FY2014</b>
	(Apr. 1, 2013 to Mar. 31, 2014)	(Apr. 1, 2014 to Mar. 31, 2015)
Net sales	142,425	141,172
Cost of sales	107,007	107,638
Gross profit	35,418	33,533
Selling, general & administrative expenses	31,043	30,448
Operating income	4,375	3,084
Non-operating income		
Interest income	30	27
Dividend income	265	312
Rental income	496	425
Exchange gain	647	1,724
Other	214	120
Total non-operating income	1,654	2,610
Non-operating expenses		
Interest expenses	167	153
Rental expenses	470	399
Other	333	208
Total non-operating expenses	971	761
Ordinary income	5,058	4,933
Extraordinary income		
Gain on sale of fixed assets	1,416	120
Gain on revision of employee retirement benefit plan	-	1,229
Other	93	74
Total extraordinary income	1,510	1,425
Extraordinary loss		
Loss on sale or disposal of fixed assets	221	431
Loss on valuation of shares of affiliated companies	6	102
Amortization of goodwill	-	120
Amortization of actuarial differences in retirement benefits	886	-
Expenses on business structure improvement	697	99
Other	103	0
Total extraordinary loss	1,915	754
Income before income taxes and minority interests	4,653	5,605
Income, residential and enterprise taxes	977	815
Adjustment for income and other taxes	957	1,726
Total income and other taxes	1,935	2,541
Income before minority interests	2,718	3,063
Minority interests in income (loss)	209	(151)
Net income	2,508	3,215

## Consolidated Statements of Comprehensive Income

(Millions of yen)

	<b>FY2013</b>	<b>FY2014</b>
	(Apr. 1, 2013 to Mar. 31, 2014)	(Apr. 1, 2014 to Mar. 31, 2015)
Income before minority interests	2,718	3,063
Other comprehensive income		
Unrealized gains on available-for-sale securities	392	1,422
Deferred gains (losses) on hedge	(56)	0
Foreign currency translation adjustments	2,271	1,486
Adjustments related to retirement benefits	-	(1,087)
Total other comprehensive income	2,607	1,821
Comprehensive income (loss) attributable to:	5,326	4,884
Shareholders of the parent company	4,956	4,920
Minority interests	369	(36)



[Translation]

## **REFERENCE MATERIALS CONCERNING GENERAL MEETING OF SHAREHOLDERS**

### **Propositions and Reference Matters:**

#### **First Proposition:                      Proposed Disposal of Surplus**

It is proposed that surplus be disposed as follows:

1. Matters related to the term-end dividend:

Returning earnings to shareholders is one of the most important management policies of the Company. Accordingly, the Company works to continue providing a stable dividend based on the medium-term business outlook, with a target payout ratio of approximately 50% on a consolidated basis. In line with this basic policy, it is proposed that the 119<sup>th</sup> term-end dividend shall be as follows:

- (1) Kind of asset distributed:  
Cash.
- (2) Matter related to distribution of asset to shareholders and total amount:  
¥7.5 per share of common stock of the Company.  
Total amount: ¥1,436,274,698
- (3) Effective date for distribution of surplus:  
June 26, 2015.

[Translation]

**Second Proposition: Election of Ten (10) Directors**

The terms of office of all ten (10) Directors will expire at the close of this general meeting of shareholders. It is therefore proposed that ten (10) Directors will be selected.

The candidates are as follows:

No.	Name (Date of Birth)	Brief Personal Record, Current Posts, Responsibilities and Additional Important Posts		Number of Shares of the Company Owned
1	Nodoka Kodama (Nov. 23, 1948)	Apr. 1972	Joined "GUNZE"	61,000
		Jun. 2006	Director, Corporate Officer, General Manager of Management & Strategy Corporate Department and Human Resources Development Department, CFO, CMAO and Deputy CHO, GUNZE	
		Jul. 2007	Director, Corporate Officer, General Manager of Management & Strategy Corporate Department, CFO and CMAO, GUNZE	
		Jun. 2008	Representative Director, Managing Director, Managing Corporate Officer, General Manager of Management & Strategy Corporate Department, CFO, CMAO and CHO, GUNZE	
		Apr. 2009	Representative Director, Managing Director, Managing Corporate Officer, General Manager of Management & Strategy Corporate Department, CFO, CMAO, CHO and General Manager of Corporate Communication Department, GUNZE	
		Apr. 2010	Representative Director, Managing Director, Managing Corporate Officer, General Manager of Corporate Communication Department, CFO and CHO, GUNZE	
		Apr. 2012	Representative Director, Managing Director, Managing Corporate Officer, General Manager of Corporate Communication Department and CFO, GUNZE	
		Jun. 2012	President, Representative Director, President Corporate Officer and COO, GUNZE	
		Jun. 2014	President, Representative Director, President Corporate Officer, COO and CEO, GUNZE (to present)	
2	Kazunori Hattori (Oct. 20, 1956)	Apr. 1980	Joined "GUNZE"	8,000
		Jun. 2008	Director, Corporate Officer and Company President of Plastic Film Company, GUNZE	
		Apr. 2011	Director, Corporate Officer, Company President of Plastic Film Company and CCO, GUNZE	
		Apr. 2012	Director, Corporate Officer, General Manager of Management & Strategy Department and CMAO, GUNZE	
		Jun. 2012	Director, Corporate Officer, General Manager of Management & Strategy Department, CMAO and CFO, GUNZE	
		Jun. 2013	Managing Director, Managing Corporate Officer, General Manager of Management & Strategy Department, CHO, CCSRO and CRO, GUNZE	
		Jun. 2014	Representative Director, Managing Director, Managing Corporate Officer, General Manager of Management & Strategy Department, CHO and CCSRO, GUNZE (to present)	

[Translation]

No.	Name (Date of Birth)	Brief Personal Record, Current Posts, Responsibilities and Additional Important Posts		Number of Shares of the Company Owned
3	Atsushi Hirochi (Jan. 11, 1960)	Mar. 1983 Apr. 2010 Apr. 2012 Jun. 2012 Jan. 2013 Apr. 2014 Jun. 2014	Joined "GUNZE" Corporate Officer and General Manager of Leg Wear Divisions Group, Apparel Company, GUNZE Corporate Officer, General Manager of Leg Wear Divisions Group, Apparel Company and CCO, GUNZE Director, Corporate Officer, General Manager of Leg Wear Divisions Group, Apparel Company and CCO, GUNZE Director, Corporate Officer, General Manager of Innerwear Divisions Group, Apparel Company and CCO, GUNZE Director, Corporate Officer, Company President of Apparel Company, General Manager of Innerwear Divisions Group, Apparel Company and CCO, GUNZE Managing Director, Managing Corporate Officer, Company President of Apparel Company, General Manager of Innerwear Divisions Group, Apparel Company, CMO and CLO, GUNZE (to present)	28,000
4	Katsusuke Amano (Feb. 27, 1952)	Oct. 1975 Apr. 1978 Apr. 1983 Jan. 1985 Feb. 2003 Jun. 2010 Jun. 2012	Passed Japanese Bar Exam. Registered as an attorney (at Osaka Bar Association), Associate with "Tamura Tokuo Law Office" Moved to "Kitahama Law Office" (presently, Kitahama Law Offices) Partner, Kitahama Partners (to present) Outside Corporate Auditor, AOYAMA CAPITAL CO., LTD. (to present) Director, GUNZE (to present) Outside Corporate Auditor, ROHTO Pharmaceutical Co., Ltd. (to present)	21,000
5	Aya Shirai (May 23, 1960)	Jun. 1993 Dec. 2002 Jun. 2011	Elected as Amagasaki city council member Elected as the Mayor of Amagasaki city (to Dec. 2010) Director, GUNZE (to present)	12,000
6	Masakazu Suzuki (Oct. 29, 1954)	Apr. 1985 Jun. 2006 Jun. 2008 Apr. 2010 Apr. 2014	Joined "GUNZE" Corporate Officer and General Manager of Research & Development Center, GUNZE Director, Corporate Officer and General Manager of Research & Development Center, GUNZE Director, Corporate Officer and General Manager of Research & Development Department, GUNZE Director, Corporate Officer and General Manager of QOL Research Laboratory, GUNZE (to present)	21,000

[Translation]

No.	Name (Date of Birth)	Brief Personal Record, Current Posts, Responsibilities and Additional Important Posts		Number of Shares of the Company Owned
7	Tomomi Furukawa (Dec. 30, 1953)	Mar. 1978 Apr. 2012  Jun. 2013  Jul. 2014	Joined "GUNZE" Corporate Officer, Deputy General Manager of Management & Strategy Department, Manager of Finance & Accounting Section and CIO, GUNZE Director, Corporate Officer, Deputy General Manager of Management & Strategy Department, Manager of Finance & Accounting Section, CFO, CMAO and CIO, GUNZE Director, Corporate Officer, Manager of Finance & Accounting Section, CFO, CMAO and CIO, GUNZE (to present)	11,000
8	Yasuhiro Akase (Jul. 6, 1958)	Apr. 1982 Apr. 2010  Jun. 2013  Jun. 2014	Joined "GUNZE" Corporate Officer, General Manager of Personnel & General Affairs Department and Deputy CHO, GUNZE Director, Corporate Officer, General Manager of Personnel & General Affairs Department and Deputy CHO, GUNZE Director, Corporate Officer, General Manager of Personnel & General Affairs Department, CCO and Deputy CHO, GUNZE (to present)	6,000
9	Nobuya Oka (Aug. 28, 1959)	Apr. 1985 Apr. 2010 Apr. 2012  Jun. 2014	Joined "GUNZE" General Manager of Threads & Accessories Division, GUNZE Corporate Officer and General Manager of Threads & Accessories Division, GUNZE Director, Corporate Officer and General Manager of Threads & Accessories Division, GUNZE (to present)	6,000
10	Toshiyasu Saguchi (Nov. 14, 1961)	Mar. 1984 Jul. 2007  Apr. 2012  Jun. 2014	Joined "GUNZE" General Manager of Sales Administrative Division, Plastic Film Company, GUNZE Corporate Officer and Company President of Plastic Film Company, GUNZE Director, Corporate Officer and Company President of Plastic Film Company, GUNZE (to present)	7,000

Note 1: There is no special interest between the Company and each of the candidates.

Note 2: Mr. Katsusuke Amano and Ms. Aya Shirai are candidates for outside Directors. Once they are elected, as proposed, GUNZE will inform the Tokyo Stock Exchange of their continuous appointments as independent officers.

Note 3: Reasons for supporting the candidates and agreements to limit liability for outside Directors

(1) Reasons for supporting the candidates for outside Directors

a. The Company would like Mr. Katsusuke Amano to continue to serve the Company, given his approximately five years of experience as an outside Director of the Company. During his time of service, he provided appropriate guidance and advice from an objective viewpoint regarding decisions made by the Company's Board of Directors, covering the entire corporate environment including laws and ordinances. He did this based on his ample professional knowledge and experience in the field of corporate legal affairs. For these reasons, the Company proposes that he be elected as an outside Director.

[Translation]

- b. The Company would like Ms. Aya Shirai to continue to serve the Company, given her approximately four years of experience as an outside Director of the Company. During her time of service, she provided appropriate guidance and advice from the position of a citizen and consumer regarding decisions made by the Company's Board of Directors. She did this based on her broad knowledge and experience gained through long years of involvement in municipal administration. For these reasons, the Company proposes that she be elected as an outside Director.
- (2) Term of office of outside Directors
    - a. The term of office of Mr. Katsusuke Amano has been five years at the close of this general meeting of shareholders.
    - b. The term of office of Ms. Aya Shirai has been four years at the close of this general meeting of shareholders.
- (3) Agreement to limit liability of the candidates for outside Directors

The Company has entered into limited liability agreements with Mr. Katsusuke Amano and Ms. Aya Shirai, under which each outside Director's liability to compensate the Company under Article 423, Paragraph 1 of the Companies Act shall be limited to ¥6,000,000 or the minimum amount stipulated by laws and ordinances, whichever is higher, under the condition that the outside Director discharges his duties in good faith and without gross negligence. Should re-election of each of these two candidates be approved, GUNZE will continue the said agreements.

There are no matters other than the above that need to be stated in the proposition relating to the election of Directors pursuant to Article 74 of the Ordinances for Enforcement of the Companies Act.

**Third Proposition: Election of Two (2) Corporate Auditors**

The term of office of Corporate Auditors Mr. Tadamasa Kitoku and Mr. Keigo Inoue will expire at the close of this general meeting of shareholders. It is therefore proposed that two (2) Corporate Auditors be elected.

We have obtained consent from the Board of Corporate Auditors with respect to this Proposition.

The candidates are as follows:

[Translation]

Name (Date of Birth)	Brief Personal Record, Current Posts and Additional Important Posts		Number of Shares of the Company Owned
Keigo Inoue (Apr. 23, 1955)	Apr. 1984  Nov. 2013	Registered as an attorney (at Osaka Bar Association) Joined "Amimoto Law Office" (presently, AIMANN AND ASSOCIATES) (to present) Corporate Auditor, GUNZE (to present)	4,000
Yoshio Suzuka* (Oct. 28, 1952)	Apr. 1975 Jul. 1997  Jul. 2003 Jul. 2011 Jul. 2012  Sep. 2013 Jun. 2014	Joined National Tax Agency Chief of Finance Office, Finance Department, West Japan Railway Company District Director, Maizuru Tax Office District Director, Amagasaki Tax Office Manager of Second Taxation Department, Osaka Regional Taxation Bureau Established Suzuka Tax Accountant Office (to present) Outside Corporate Auditor, Hurxley Corporation (to present)	0

Note 1: The candidate marked with an asterisk (\*) is a new candidate for Corporate Auditor.

Note 2: There is no special interest between the Company and each of the said candidates.

Note 3: Mr. Keigo Inoue and Mr. Yoshio Suzuka are candidates for outside Corporate Auditors. Once they are elected as proposed, GUNZE will inform the Tokyo Stock Exchange of their appointments as independent officers.

Note 4: Reasons for supporting the candidates and agreements to limit liability for outside Corporate Auditors

(1) Reasons for supporting the candidates for outside Corporate Auditors

- a. The Company would like Mr. Keigo Inoue to continue to serve the Company, given his approximately one year and seven months of experience as an outside Corporate Auditor of the Company. During his time of service, he provided suggestions based on his ample professional knowledge and broad practical experience as an attorney. For these reasons, the Company proposes that he be elected as an outside Corporate Auditor.
- b. The Company would like Mr. Yoshio Suzuka to serve the Company and apply his ample experience as an executive of a regional taxation bureau and a tax accountant, and his professional knowledge in the field of finance and accounting, to provide advice and suggestions so as to further strengthen the audit function of the Company. Therefore, the Company proposes that he be elected as an outside Corporate Auditor. Although he has had no involvement in corporate management to date except serving as an outside Corporate Auditor, for the above-mentioned reasons the Company judged that he would be able to appropriately perform his duties as an outside Corporate Auditor of the Company.

(2) Agreement to limit liability of the candidates for outside Corporate Auditors

The Company has entered into a limited liability agreement with Mr. Keigo Inoue, under which an outside Corporate Auditor's liability to compensate the Company

[Translation]

under Article 423, Paragraph 1 of the Companies Act shall be limited to ¥6,000,000 or the minimum amount stipulated by laws and ordinances, whichever is higher, under the condition that the outside Corporate Auditor discharges his duties in good faith and without gross negligence. Should re-election of this candidate be approved, GUNZE will continue the said agreement. For Mr. Yoshio Suzuka as well, should election of this candidate be approved, the Company is also scheduled to enter into the said limit liability agreement with him.

There are no matters other than the above that need to be stated in the proposition relating to the election of Corporate Auditors pursuant to Article 76 of the Ordinances for Enforcement of the Companies Act.

## **Guide to Exercising Voting Rights**

### **1. If voting rights are exercised both by regular mail and via the Internet**

If you vote both by regular mail and the Internet, only your Internet vote will be considered valid.

### **2. If voting rights are exercised more than once via the Internet**

If you vote more than once via the Internet, only your last vote will be considered valid. Also if you vote both from your computer, smartphone and mobile phone, only your last vote will be considered valid.

### **3. Voting via the Internet**

When you exercise your voting rights via the Internet, please check the following guidelines and follow the procedures outlined below.

If you attend the general meeting of shareholders, any procedures you may have carried out to exercise voting rights via regular mail (by filling out and returning the voting form) or the Internet on or before the day immediately preceding the date of the general meeting of shareholders will be deemed invalid.

#### **A. Site for Exercising Voting Rights**

- a. Voting via the Internet is possible only by accessing the Site for Exercising Voting Rights (the “Voting Site”; <http://www.evote.jp/>) designated by the Company from a computer, smartphone or mobile phone (i-mode, EZweb or Yahoo! Keitai compatible models)\*. (Please note that this site will be closed every day between the hours of 2:00 a.m. and 5:00 a.m.)

\*i-mode, EZweb and Yahoo! are trademarks or registered trademarks of NTT DoCoMo, Inc., KDDI Corporation, and Yahoo! Inc., respectively.

- b. Please note that voting from a computer or smartphone may not be possible depending on your Internet environment, due to factors such as firewalls for Internet security, antivirus software, or the use of a proxy server.
- c. To vote from a mobile phone, please use the i-mode, EZweb or Yahoo! Keitai service. For security reasons, mobile phone models that are incompatible with encryption (SSL) protocols or are incapable of terminal ID information transmission may not be used for voting via the Internet.
- d. Votes via the Internet, etc. (electromagnetic methods) will be accepted until 5:00 p.m. on Wednesday, June 24, 2015. However, we ask that you vote sooner if possible. If you have any questions concerning the procedures for voting via the



[Translation]

Internet, please contact the Help Desk.

**B. Procedures for Voting via the Internet**

- a. After accessing the Voting Site (<http://www.evotep.jp/>), log in using the login ID and temporary password shown on the voting form. Then select “approve” or “disapprove” for each proposition by following the guidelines on the screen.
- b. Please note that after you log in, you will be asked to change your temporary password to avoid any illegal access by non-shareholders (masquerading) or unauthorized alteration or tampering of votes.
- c. You will be informed of a new login ID and temporary password each time you are invited to attend a general meeting of shareholders of GUNZE LIMITED.

**C. Expenses Incurred in Accessing the Voting Site**

Please note you will have to bear expenses incurred in accessing the Voting Site (Internet connection, telecommunications fees, etc.). If you use a mobile phone for voting, packet communication service and related fees will be incurred, which are also the responsibility of the shareholder.

**4. Electronic Voting Platform for Institutional Investors**

If you are a nominee shareholder such as a trust bank (including a standing proxy) and apply in advance to use the Electronic Voting Platform operated by ICJ, Inc., a joint venture established by Tokyo Stock Exchange (TSE) and others, you are entitled to use the platform for electromagnetically exercising your voting rights as a method other than the aforementioned voting via the Internet described in 3.

- End -