

[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 1, 2017

To Our Shareholders:

**NOTICE OF CONVOCATION OF  
THE 121ST ORDINARY GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholders:

You are cordially invited to attend the 121<sup>st</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 Thursday, June 22, 2017, 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.evotage.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: Atsushi Hirochi  
Representative Director and President

[Translation]

## **PARTICULARS**

- 1. Date and Time of the Meeting:** 1:00 P.M., Friday, June 23, 2017
- 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 121<sup>st</sup> Business Term (from April 1, 2016 to March 31, 2017).
2. Report on the Results of Audits for the Consolidated Accounting Documents by Accounting Auditors and the Board of Corporate Auditors for the 121<sup>st</sup> Business Term (from April 1, 2016 to March 31, 2017).

### **Matters for Resolution:**

- |                            |   |
|----------------------------|---|
| <b>First Proposition:</b>  | <b>Proposed Disposal of Surplus</b>           |
| <b>Second Proposition:</b> | <b>Consolidation of Shares</b>                |
| <b>Third Proposition:</b>  | <b>Election of Eleven (11) Directors</b>      |
| <b>Fourth 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 31 and 32.

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(Attachment)

## Results of Operations (April 1, 2016 to March 31, 2017)

### 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, 2017, the Japanese economy as a whole showed signs of mild recovery, supported by the government's economic policy package and an easy monetary policy. However, the GUNZE Group's management environment continued to face uncertainty due to several factors. These included substantial fluctuations in the stock and foreign exchange markets caused by the UK's withdrawal from the EU and the US presidential election. Other factors that caused uncertainty included the economic slowdown in China and other emerging nations, which caused increasing uncertainty in overseas economies, as well as depressed consumer confidence resulting in sluggish personal consumption.

Faced with this situation, the GUNZE Group's medium-term management plan, called "CAN 20 (fiscal 2014 through fiscal 2020)," has entered its third and final year of its first phase. With the key concept of "Focus and Concentration," the GUNZE Group promoted 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 performed well in medical materials although sales in other business categories were generally sluggish. The apparel business remained firm while clothing products generally experienced slow storefront sales. The firm performance resulted from stronger efforts made toward expanding high-growth sales channels.

Consequently, the GUNZE Group's consolidated net sales for the fiscal year under review amounted to ¥136,579 million (a year-over-year decrease of 1.3%). Consolidated operating income amounted to ¥4,206 million (a year-over-year increase of 14.9%). Consolidated ordinary income was ¥4,671 million (a year-over-year increase of 490.5%). As a result, GUNZE posted a consolidated net income attributable to owners of the parent amounting to ¥3,102 million compared to a consolidated net loss attributable to owners of the parent of ¥1,201 million recorded in the previous fiscal year.

#### Results by Business Segment

##### [Functional Solutions]

In plastic film, mainstay shrink films enjoyed robust sales in Japan and Southeast Asia. The efforts to develop new markets in China by leveraging differentiating functions, and the increase in demand for industrial-use plastic film for Chinese smartphones, also contributed to firm overall sales of plastic films. In engineering plastics, tubes for industrial applications and semiconductor-related products both performed strongly, but this was not enough to offset the drop in sales caused by the sluggish office equipment market. In electronic components, GUNZE has been continuously working on structural reforms by restructuring and streamlining the GUNZE Group's production facilities. This includes the shuttering of its Taiwanese manufacturing joint-venture company. Even so, increasingly intense competition in the touch screen and film

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markets resulted in poor performance of the electronic components business overall. Medical materials destined for North America continued to perform strongly, while sales were also solid in Japan and China.

Consequently, the functional solutions business posted net sales of ¥50,195 million (a year-over-year decrease of 10.6%), while operating income was ¥3,468 million (a year-over-year increase of 0.8%).

### **[Apparel]**

Innerwear sales were robust due to expanded sales for differentiated products mainly in the women's innerwear category, and expansion of high-growth channels. In leg wear, sales of the mainstay *SABRINA* brand performed impressively, driving overall category sales.

Consequently, the apparel business posted net sales of ¥71,629 million (a year-over-year increase of 5.1%). This included sales contributed by the apparel retailers, which became subsidiaries of GUNZE in April 2016. The apparel business's operating income was ¥2,505 million (a year-over-year increase of 12.2%).

### **[Lifestyle Creations]**

In the real estate category, the *GUNZE Town Center TSUKASHiN* experienced the negative impact of increasingly intense competition in the neighboring trade area. However, the master lease business and leasing of housing made a positive contribution to the category's overall sales. The sports club business enjoyed an increase in sales mainly due to the opening of new clubs, but initial expenses incurred for the new clubs resulted in a mere marginal increase in profits.

Consequently, the lifestyle creation business recorded net sales of ¥15,168 million (a year-over-year increase of 3.6%), and operating income was ¥1,322 million (a year-over-year increase of 8.3%).

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

The Japanese economy is experiencing increasing labor shortages in some industries and a stronger positive mindset among businesses, with expanding capital investment in equipment. Still, there are several risk factors that will cause the business environment surrounding the GUNZE Group to remain unpredictable. These include the potential for a downturn in the economy due to soaring raw material prices, unstable international situations, and a slowdown in growth rates in emerging economies. There is also anxiety about the future caused by the increasing burden of social insurance premiums, which caused consumers to remain strongly budget-minded.

Against this backdrop, fiscal 2017 marks the initial year of the second phase (fiscal 2017 through fiscal 2020) of GUNZE's medium-term management plan, called "CAN 20 (fiscal 2014 through fiscal 2020)." As such, GUNZE will move into high gear with initiatives to revive 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 and channels.

In CAN 20, GUNZE's portfolio strategy has been centered on "Focus and Concentration," by classifying the current business segments into strategic business units (SBU) and evaluating them. As the heart of its growth strategy, GUNZE has set up a cross-divisional Cross Functional

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Approach (CFA) project. This is designed to combine the GUNZE Group's management resources to efficiently create and cultivate new businesses. As part of this effort, GUNZE has been working on expanding business in the health and medical care field, seeking to improve quality of life (QOL). As a measure for reinforcing the management foundation to support its growth strategy, GUNZE has been striving to enhance its core technological strengths and global responsiveness, while strengthening its intangible assets, including corporate brand value.

Focusing on shareholders, GUNZE seeks to raise return on equity (ROE), which it views as the Group's key performance indicator. As part of this effort, the Group implements various measures aimed at increasing profitability, using capital more productively, and repurchasing treasury stock. Toward this end, the GUNZE Group has also set a return on assets (ROA) target for each business division or affiliated company as a measure to gauge the efficiency of business investments. This is part of the drive to improve both profit margin on sales and total asset turnover.

In the first phase of CAN 20, the electronic components business suffered sluggish performance, due to worsening market conditions and reductions in product prices, both of which worsened to a degree that was greater than expected. The highly profitable engineering plastics business also faced a challenging situation due to sluggishness in the office automation market. By contrast, the medical business, which is a high-growth field, has produced results that surpassed the initial target. The apparel business, for which GUNZE has promoted structural reform, was able to turn the corner on sales decreases, resulting in firm performance. Even so, GUNZE as a whole failed to meet its initial targets.

In the second phase, GUNZE will seek to revive growth in the functional solutions business, by leveraging its high-potential technologies. This will allow the functional solutions business to join the apparel business, which is currently gaining upward momentum, to serve as two wheels that keep the GUNZE Group's business management on track. At the same time, GUNZE will promote its QOL-related business as a growth engine essential for attaining its strategic goals.

Additionally, GUNZE will accelerate the implementation of its three pivotal strategies: (1) restructuring of existing business; (2) creation of new business; and (3) reinforcement of the management foundation. For the creation of new business in particular, GUNZE will establish a structure to facilitate new buds of business to sprout, and eventually bloom and yield fruit.

Through these initiatives, GUNZE will strive to contribute to society as a global corporate group that offers customers a "Feeling of Comfort" by taking advantage of the GUNZE Group's unique characteristics.

Presently, many of GUNZE's business fields are facing a turn of the tide as they navigate through a transition period. With the medical business enjoying high growth, as well as the apparel business gaining upward momentum, GUNZE will aim to correctly anticipate this tidal change and promote business with a focus on growth potential.

As for the functional solutions business, in the category of plastic films GUNZE will promote the development of new markets and products as it faces radical changes in its business environment. In engineering plastics, efforts will be concentrated on taking measures against maturation of mainstay products for office equipment applications, while also expanding products employing GUNZE's fiber technology, such as products related to semiconductors. In electronic components, GUNZE will take decisive action to downsize business, while pursuing synergy with

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other film-related business fields. In medical materials, GUNZE will proactively invest management resources on construction of new factories and other projects aimed at further growth. At the same time, GUNZE will seek to improve production and sales systems so as to effectively respond to business expansion.

In the apparel business, GUNZE will aim to further expand sales of its mainstay brands in the innerwear category by leveraging its proprietary technologies. Moreover, GUNZE will strengthen the high-growth direct sales route and sales outside Japan. In leg wear, GUNZE will strive to develop new markets and products by anticipating and meeting potential consumer needs and market trends. In doing so, the Company aims to conduct business operations in a way to minimize effects of exchange rate fluctuations.

In the lifestyle creation business, GUNZE will seek to improve the profitability of its real estate business by revising its commercial facility operation system. In the sports club category, GUNZE will also strive to expand sales through aggressive multi-club chain expansion inside and outside Japan.

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

### (3) Financial Conditions

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

(Millions of yen)

	118 <sup>th</sup> term (FY2013)	119 <sup>th</sup> term (FY2014)	120 <sup>th</sup> term (FY2015)	121 <sup>st</sup> term (FY2016)
Net sales	142,425	141,172	138,324	136,579
Operating income	4,375	3,084	3,662	4,206
Ordinary income	5,058	4,933	791	4,671
Net income (loss) attributable to owners of the parent	2,508	3,215	(1,201)	3,102
Net income (loss) per share (¥)	13.09	16.78	(6.39)	16.59
Total assets	166,544	175,331	169,749	169,460
Net assets	114,183	117,359	106,639	108,353

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

(Millions of yen)

	120 <sup>th</sup> term (FY2015)		121 <sup>st</sup> term (FY2016)	
	Net sales	Operating income	Net sales	Operating income
Functional solutions	56,171	3,440	50,195	3,468
Apparel	68,164	2,232	71,629	2,505
Lifestyle creations	14,635	1,221	15,168	1,322
Total	138,971	6,894	136,994	7,296
Eliminations/Corporate	(647)	(3,231)	(415)	(3,090)
Consolidated	138,324	3,662	136,579	4,206

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.

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**(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 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.



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- 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 and ensuring effectiveness of Directors' instructions to supporting employees**

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, employees, and officers and employees of the Company's subsidiaries to Corporate Auditors and other systems concerning reporting to Corporate Auditors**

- 1) Officers and employees of the GUNZE Group 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, on the GUNZE Group, such as impairment of its credibility or adverse effects on its business operations and financial performance.
- 2) Officers and employees of the GUNZE Group make reports necessary for auditing to Corporate Auditors of the Company without delay when so requested by Corporate Auditors.
- 3) The Group Board of Corporate Auditors meeting is held regularly, at which Corporate Auditors of the Company's subsidiaries report compliance risks concerning the subsidiaries.
- 4) The Manager of the Business Audit Section reports to Corporate Auditors without delay issues discovered through auditing of the GUNZE Group by the Business Audit Section.
- 5) Officers and employees of the GUNZE Group report to Corporate Auditors without delay important matters among information as described in item 3) of section (5) above.
- 6) In accordance with the Whistleblower Protection Rules, GUNZE prohibits making any detrimental treatment to officers or employees of the GUNZE Group who made reports such as described in item 5) above for the reason of having made such reports.

**(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.
- 4) In the event that Corporate Auditors make requests to the Company to pay or reimburse expenses, etc. in accordance with Article 388 of the Companies Act, the Company shall promptly respond to such requests, except in cases where it proves that the expenses relating to such requests are not necessary for the execution of their duties. The Company also provides an annual budget with a fixed amount for expenses, etc. arising from the execution of their duties.

Note: The above describes the GUNZE's organizational system as of the end of the fiscal year under review. GUNZE abolished the Chief Officer system on April 1, 2017. After this point, the term "Chief Officer" in this document should be understood to mean "Director" or "Corporate Officer," according to their respective tasks. As of the same date, the CSR Promotion Section was dissolved to transfer its tasks to the newly established Corporate Communications Department and other departments.

**3. Outline of Implementation of Systems to Ensure Appropriate Business Operations of the Company**

**(1) Legal and regulatory compliance system**

Every year, the Company distributes a pamphlet entitled "Gunze-no-Ze" (Policy of GUNZE), which introduces its Founding Philosophy and GUNZE Activity Guidelines across the GUNZE Group. The pamphlet is designed to help all Directors and employees of the GUNZE Group understand the GUNZE Activity Guidelines and put them into practice. The Company offers a course with an introduction to compliance to new employees when they are hired and during all new employee training, using "Gunze-no-Ze" and other educational materials. In fiscal 2016, the Company conducted a seminar targeting CSR promotion leaders on the implementation of actions to ensure compliance. As part of the corporate-wide project activities, the Company also conducted a communications seminar to create a more open-minded workplace, and a seminar targeting divisional CSR managers on preventing harassment. These activities are aimed at building a work environment that encourages healthy discussions.

The Company has the Advice and Report Hotline for Employees at the CSR Promotion Section for compliance-related advice and reporting. In fiscal 2016, a total of 43 hotline contacts was made to seek advice or make reports. Hotline contacts are reported to the responsible personnel of the relevant office upon obtaining consent of the whistleblower, aiming at swift resolution of compliance-related problems and prevention of their recurrence. Hotline contact

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information is reported to CCSRO, CCO and Corporate Auditors every month, and to the President once every three months.

**(2) Risk management system**

The Company has a Risk Management Committee in place as a substructure of the Corporate-wide CSR Committee. In fiscal 2016, the Risk Management Committee had meetings almost every other month, deliberating on 10 incidents that occurred. The matters deliberated on were shared with each business division through the Corporate-wide CSR Committee, each business division's CSR Officer meeting and CSR Promotion Leader meeting as the Company aims to prevent a recurrence of the same problems.

In fiscal 2016, the Risk Management Committee deliberated on management of trade secrets as a corporate-wide common issue, which resulted in a review of its rules and regulations regarding trade secrets.

**(3) Information retention system**

The documents, records and information materials pertaining to the execution of duties by Directors are managed and retained by the secretariat of each meeting or the responsible department in accordance with the Documentation Rules. Management and retention of information pertaining to business divisions and subsidiaries of the Company are inspected and confirmed by the Business Audit Section mainly during auditing.

**(4) Systems to ensure efficiency**

The Company adopts a Corporate Officers System in order to facilitate quicker decision-making and reinforce its business execution system, selecting 17 Corporate Officers, ten of whom concurrently assume the position of a Director. To clarify the management responsibilities to be assumed by Directors and Corporate Officers and build a management system capable of swiftly responding to changes in the Company's management environment, the term of office of Directors and Corporate Officers is designated as one (1) year. As a basic rule, the Board of Directors meeting is held once a month (held 13 times in the fiscal year ended March 31, 2017) to decide important matters regarding execution of business and matters stipulated in laws or the Articles of Incorporation, while also overseeing the Directors' execution of their duties. Along with this, an Executive Officer meeting is held roughly once a week (held 28 times in the fiscal year ended March 31, 2017). Seven (7) Chief Officers attend the Executive Officer meeting to deliberate on important matters regarding business execution, while seeking to facilitate quicker decision-making.

**(5) Internal controls for the corporate group**

For the purpose of auditing the appropriateness of the business process and management efficiency of the GUNZE Group including the Company's affiliated companies, the Company has a Business Audit Section in place as a department under the direct control of the President to conduct internal audits. At present, five (5) staff members of the Business Audit Section conduct internal audits with the aim of enhancing the internal control functions of the Group as a whole.

Business operations of the Company's subsidiaries are managed on a monthly basis. At a management meeting held at the time of drawing up the budget, and the Executive Officer meeting pertaining to annual financial reporting, the Company receives direct reports from representatives

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of overseas subsidiaries.

As for the educational system, the Overseas Subsidiary President meeting is held regularly to provide representatives of subsidiaries with training regarding important compliance risks, etc.

In China, where many of the Company's subsidiaries are gathered, a department tasked with managing business in China has been set up in Shanghai. The department is working to enhance response to risks pertaining to China by eliminating duplication of indirect administrative functions dispersed in multiple local Chinese companies and augmenting functions that are insufficient.

#### **(6) Internal controls for financial reporting**

In conformance with the Internal Control Standards, the establishment and implementation status of internal controls over financial reporting were assessed. The results of the assessment were put on the agenda of a Board of Directors meeting, etc. after having undergone deliberations (twice) by the Internal Control Validity Assessment Committee. Based on the resolution reached at the Board of Directors meeting, the Company disclosed that its internal controls over financial reporting were deemed valid.

#### **(7) Systems to ensure effectiveness of audits conducted by Corporate Auditors**

At the beginning of each fiscal year, Corporate Auditors and the Board of Corporate Auditors draw up the Board's auditing plan and make prior confirmation with the independent accounting auditors and the Business Audit Section (a department for conducting internal audits) regarding the outline of plans for auditing by accounting auditors and internal audit plans, as well as their audit items. Corporate Auditors also attend onsite audits and audit reviews of independent accounting auditors and the Business Audit Section as necessary, while receiving reports on the results of audits from the independent accounting auditors and the Business Audit Section. In fiscal 2016, Corporate Auditors attended 30 audit sessions for GUNZE Group sites inside and outside of Japan, including interviews with representatives of all business divisions, based on the audit plans. Corporate Auditors also held regular meetings with Directors including the Representative Directors, senior executives, independent accounting auditors, and the staff of the Business Audit Section, to exchange views and information. The Group Board of Corporate Auditors meeting was held twice, receiving reports from Corporate Auditors of the Company's subsidiaries regarding audit plans, status of audits, etc.

### **4. 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

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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 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.

Focusing on shareholders, the GUNZE Group will seek to raise return on equity (ROE), which it views as the Group's key performance indicator. As part of this effort, the Group will implement various measures aimed at increasing profitability, using capital more productively, and repurchasing treasury stock. Toward this end, the GUNZE Group will also set a return on assets (ROA) target for each business division or affiliated company as a measure to gauge the efficiency of business investments. This is part of the drive to improve both profit margin on sales and total asset turnover.

[Translation]

## 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.

At its Board of Directors meeting held on December 18, 2015, the Company established the GUNZE Corporate Governance Guidelines as the basic policy regarding the GUNZE Group's corporate governance. The Guidelines are posted on the Gunze corporate website (<http://www.gunze.co.jp/ir/policy/governance/index.html>).

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

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

[Translation]

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.

(Reference)

The above describes the Company's policy as of the end of the fiscal year under review. The effective period of 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") has been specified to be until the close of the 121<sup>st</sup> Ordinary General Meeting of Shareholders scheduled for June 23, 2017 (hereinafter referred to as the "Ordinary Shareholders Meeting"). The Company, at its Board of Directors meeting held on May 12, 2017, resolved not to update the Continued Policy and to discontinue it at the close of the Ordinary Shareholders Meeting.



# Consolidated Financial Statements

## Consolidated Balance Sheets

(Millions of yen)

	End of FY2015 (Mar. 31, 2016)	End of FY2016 (Mar. 31, 2017)
<b>Assets</b>		
Current assets		
Cash and cash equivalents	7,471	9,670
Notes & accounts receivable, trade	28,925	27,805
Finished products and goods	17,754	19,974
Work in process	6,648	5,751
Raw materials and supplies	5,456	4,546
Short-term loans	558	589
Deferred income taxes	2,113	1,198
Other current assets	2,697	2,054
Allowance for doubtful accounts	(19)	(8)
<b>Total current assets</b>	<b>71,605</b>	<b>71,582</b>
Fixed assets		
Property, plants and equipment		
Buildings and structures	112,184	114,474
Accumulated depreciation	(73,316)	(74,399)
Buildings and structures (Net)	38,867	40,075
Machinery, equipment and vehicles	102,957	100,346
Accumulated depreciation	(87,138)	(88,843)
Machinery, equipment and vehicles (Net)	15,819	11,503
Tools, furniture and fixtures	7,461	7,482
Accumulated depreciation	(5,869)	(5,910)
Tools, furniture and fixtures (Net)	1,591	1,571
Land	11,977	12,935
Leasehold assets	566	725
Accumulated depreciation	(159)	(250)
Leasehold assets (Net)	406	474
Construction in progress	1,221	712
<b>Total property, plants and equipment</b>	<b>69,884</b>	<b>67,272</b>
Intangible fixed assets		
Software	944	940
Other intangible fixed assets	377	975
<b>Total intangible fixed assets</b>	<b>1,322</b>	<b>1,916</b>
Investments and other assets		
Investments in securities	18,523	20,376
Allowance for investment loss	-	(299)
Long-term loans	626	592
Deferred income taxes	3,453	3,430
Other assets	4,435	4,738
Allowance for doubtful accounts	(101)	(150)
<b>Total investments and other assets</b>	<b>26,936</b>	<b>28,688</b>
<b>Total fixed assets</b>	<b>98,143</b>	<b>97,877</b>
<b>Total assets</b>	<b>169,749</b>	<b>169,460</b>

	End of FY2015 (Mar. 31, 2016)	End of FY2016 (Mar. 31, 2017)
Liabilities		
Current liabilities		
Notes & accounts payable, trade	9,112	9,594
Short-term debt	8,898	8,204
Commercial paper	5,200	4,000
Current portion of long-term debt	1,954	6,945
Accrued income taxes	331	1,311
Allowance for employees' bonuses	1,117	1,166
Notes payable on acquisition of property, plants and equipment	1,078	721
Other current liabilities	10,740	10,379
<b>Total current liabilities</b>	<b>38,433</b>	<b>42,323</b>
Long-term liabilities		
Long-term debt	14,355	8,562
Liabilities related to retirement benefits	4,887	4,818
Long-term deposits & guarantee deposits	4,122	4,371
Other long-term liabilities	1,310	1,031
<b>Total long-term liabilities</b>	<b>24,676</b>	<b>18,783</b>
<b>Total liabilities</b>	<b>63,110</b>	<b>61,106</b>
Net assets		
Shareholders' equity		
Common stock	26,071	26,071
Capital surplus	13,999	13,998
Retained earnings	76,605	77,504
Treasury stock	(9,108)	(9,111)
<b>Total shareholders' equity</b>	<b>107,567</b>	<b>108,462</b>
Accumulated other comprehensive income		
Unrealized gains (losses) on available-for- sale securities	(1,728)	(62)
Revaluation differences on land	(400)	(67)
Foreign currency translation adjustments	1,838	1,154
Accumulated adjustments related to retirement benefits	(2,117)	(1,333)
<b>Total accumulated other comprehensive income</b>	<b>(2,408)</b>	<b>(309)</b>
Stock acquisition rights	246	287
Non-controlling interests	1,233	(88)
<b>Total net assets</b>	<b>106,639</b>	<b>108,353</b>
<b>Total liabilities and net assets</b>	<b>169,749</b>	<b>169,460</b>

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

### Consolidated Statements of Income

(Millions of yen)

	<b>FY2015</b>	<b>FY2016</b>
	(Apr. 1, 2015 to Mar. 31, 2016)	(Apr. 1, 2016 to Mar. 31, 2017)
Net sales	138,324	136,579
Cost of sales	103,859	99,077
Gross profit	34,465	37,502
Selling, general & administrative expenses	30,802	33,295
Operating income	3,662	4,206
Non-operating income		
Interest income	43	62
Dividend income	922	424
Rental income	282	261
Gain on valuation of derivatives	-	517
Other	139	182
Total non-operating income	1,388	1,447
Non-operating expenses		
Interest expenses	190	192
Rental expenses	270	230
Exchange loss	690	286
Loss on valuation of derivatives	2,869	-
Other	239	274
Total non-operating expenses	4,260	982
Ordinary income	791	4,671
Extraordinary income		
Gain on sale of fixed assets	66	2,274
Gain on sale of investment securities	0	314
Gain on transfer of business	-	233
Gain on insurance adjustment	403	0
Other	-	8
Total extraordinary income	470	2,830
Extraordinary loss		
Loss on sale or disposal of fixed assets	88	833
Loss on valuation of investments in and loans to affiliated companies	152	588
Impairment loss	1,326	2,303
Business structure improvement expenses	495	446
Other	6	13
Total extraordinary loss	2,069	4,186
Income (loss) before income and other taxes	(807)	3,315
Income, residential and enterprise taxes	523	1,660
Adjustment for income and other taxes	(40)	91
Total income and other taxes	483	1,752
Net income (loss)	(1,290)	1,563
Net income (loss) attributable to non-controlling interests	(88)	(1,539)
Net income (loss) attributable to owners of the parent	(1,201)	3,102

## Consolidated Statements of Comprehensive Income

(Millions of yen)

	<b>FY2015</b>	<b>FY2016</b>
	(Apr. 1, 2015 to Mar. 31, 2016)	(Apr. 1, 2016 to Mar. 31, 2017)
Net income (loss)	(1,290)	1,563
Other comprehensive income (loss)		
Unrealized gains (losses) on available-for-sale securities	(3,516)	1,661
Deferred gains (losses) on hedge	(1)	-
Foreign currency translation adjustments	(506)	(819)
Adjustments related to retirement benefits	(2,281)	783
Total other comprehensive income (loss)	(6,306)	1,626
Comprehensive income (loss)	(7,597)	3,189
<Breakdown>		
Comprehensive income (loss) attributable to owners of the parent	(7,461)	4,783
Comprehensive income (loss) attributable to non-controlling interests	(136)	(1,593)

[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 121<sup>st</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: ¥1,402,206,263
- (3) Effective date for distribution of surplus:  
June 26, 2017

#### **Second Proposition:                      Consolidation of Shares**

1. Reasons for consolidation of shares

Japan's Stock Exchanges announced their "Action Plan for Consolidating Trading Units," through which they seek to consolidate the trading units for common stocks issued by all listed companies in Japan into 100 shares by October 1, 2018. As a corporation listed on the Tokyo Stock Exchange, the Company respects the objective of this plan and resolved at a meeting of its Board of Directors held on May 12, 2017 to change the number of shares per its share unit, which is the trading unit for the Company's shares, from the current 1,000 shares to 100 shares in accordance with Article 195, Paragraph 1 of the Companies Act.

Accompanying this resolve, the Company decided to carry out consolidation of its shares in order to achieve an investment unit deemed desirable by Japan's Stock Exchanges (50,000 yen or more and less than 500,000 yen) even after the change in the number of shares per share unit and prevent any change occurring in the number of voting rights of shareholders.

Additionally, the Company will reduce the total number of shares the Company is authorized to issue from the current 500,000,000 shares to 50,000,000 shares at the

[Translation]

same ratio as that of the share consolidation.

Subject to approval of this General Meeting of Shareholders as originally proposed, the above change in the number of shares per share unit will come into effect on October 1, 2017.

2. Consolidation ratio

Every ten (10) shares of the Company's common stock will be consolidated into one (1) share. If a fraction of less than one (1) share is created as a result of the share consolidation, all such fractional shares will be sold together in accordance with Article 235 of the Companies Act, and the proceeds from the sale will be distributed to shareholders who held the fractional shares in proportion to the number of fractional shares they held.

3. Effective date of the consolidation of shares ("Effective Date")  
October 1, 2017

4. Total number of shares the Company is authorized to issue on the Effective Date  
50,000,000 shares

Pursuant to Article 182, Paragraph 2 of the Companies Act, it will be deemed that the Articles of Incorporation have been amended with respect to the change of total number of shares the Company is authorized to issue on the Effective Date.

5. Other

As for other matters that are procedurally necessary with respect to the consolidation of shares, the Company asks that these be left to the discretion of its Board of Directors.

Note: The consolidation of shares will reduce the number of outstanding shares to one tenth of the current number. However, as the Company's net assets and other value will remain unchanged, the value of net assets per share will increase tenfold. Therefore, the asset value of the Company's shares will not change, unless such value is affected by changes in stock market conditions or other factors.

[Translation]

**【Reference】**

Once this proposition is approved as originally proposed, the Company's Articles of Incorporation will be partially amended as follows on October 1, 2017.

(Amendments are underlined)

Current Articles of Incorporation	After Amendments
<p style="text-align: center;"><b>Chapter II: Shares</b></p> <p>Article 6. (Total Number of Shares the Company is Authorized to Issue) The total number of shares the Company is authorized to issue shall be <u>500,000,000</u> shares.</p> <p>Article 8. (Number of Shares per Share Unit) The number of shares per share unit of the Company shall be <u>1,000</u> shares.</p>	<p style="text-align: center;"><b>Chapter II: Shares</b></p> <p>Article 6. (Total Number of Shares the Company is Authorized to Issue) The total number of shares the Company is authorized to issue shall be <u>50,000,000</u> shares.</p> <p>Article 8. (Number of Shares per Share Unit) The number of shares per share unit of the Company shall be <u>100</u> shares.</p>

**Third Proposition: Election of Eleven (11) Directors**

The terms of office of all twelve (12) Directors will expire at the close of this General Meeting of Shareholders. It is therefore proposed that eleven (11) Directors will be elected. The Company has established a policy regarding qualifications for Directors and nomination procedures in its Corporate Governance Guidelines. (Refer to the Company's website: <http://www.gunze.co.jp/ir/policy/governance/>.) All candidates for Directors in this proposition are selected in accordance with the said policy.

The candidates are as follows:

[Translation]

No.	Name (Date of Birth)	Brief Personal Record, Current Posts, Responsibilities and Additional Important Posts		Number of Shares of the Company Owned
1	Atsushi Hirochi (Jan. 11, 1960)	Mar. 1983 Jun. 2012 Jan. 2013 Apr. 2014 Jun. 2014 Apr. 2016 Jun. 2016 Apr. 2017	Joined “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 and COO, GUNZE Managing Director, Managing Corporate Officer, Company President of Apparel Company, General Manager of Innerwear Divisions Group, Apparel Company, CMO and CLO, GUNZE Managing Director, Managing Corporate Officer, General Manager of Management & Strategy Department, CHO, CCSRO and CMO, GUNZE Senior Managing Director, Representative Director, Senior Managing Officer, General Manager of Management & Strategy Department, CHO, CCSRO and CMO, GUNZE President, Representative Director and President Corporate Officer, GUNZE (to present)	38,000
<p><b>Reasons for supporting the candidate for Director</b>            The Company would like Mr. Atsushi Hirochi to continue to serve the Company as a Director, given his ample experience and broad knowledge, mainly in the apparel business sector. Since April 2016, Mr. Hirochi had worked on drawing up company-wide strategies, and actively promoted M&amp;A as General Manager of the Management &amp; Strategy Department. This April, he was appointed President and Representative Director of the Company. In expectation that he will continue to appropriately perform his duties as a Director, the Company proposes that he be elected as a Director.</p>				
2	Toshiyasu Saguchi (Nov. 14, 1961)	Mar. 1984 Apr. 2012 Jun. 2014 Apr. 2017	Joined “GUNZE” Corporate Officer and Company President of Plastic Film Company, GUNZE Director, Corporate Officer and Company President of Plastic Film Company, GUNZE Managing Director, Managing Corporate Officer and General Manager of Management & Strategy Department, GUNZE (to present)	11,000
<p><b>Reasons for supporting the candidate for Director</b>            The Company would like Mr. Toshiyasu Saguchi to continue to serve the Company as a Director, given his ample experience and broad knowledge, mainly in the field of plastic film. As the general manager in charge of the plastic film business, he has been working to enhance the stability of the Company’s business in Japan and strengthen international business development. Since April, he has been responsible for company-wide strategies as General Manager of the Management &amp; Strategy Department. In expectation that he will continue to appropriately perform his duties as a Director, the Company proposes that he be elected as a Director.</p>				



[Translation]

No.	Name (Date of Birth)	Brief Personal Record, Current Posts, Responsibilities and Additional Important Posts		Number of Shares of the Company Owned
3	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)	28,000
<p><b>Reasons for supporting the candidate for outside Director</b> The Company would like Mr. Katsusuke Amano to continue to serve the Company, given his approximately seven 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.</p>				
4	Aya Shirai (May 23, 1960)	Jun. 1993 Dec. 2002 Jun. 2011 Jun. 2015 Jun. 2015	Elected as Amagasaki city council member Elected as the Mayor of Amagasaki city (to Dec. 2010) Director, GUNZE Outside Director, Pegasus Sewing Machine Mfg. Co., Ltd. (to present) Outside Director, Sumitomo Precision Products Co., Ltd. (to present)	16,000
<p><b>Reasons for supporting the candidate for outside Director</b> The Company would like Ms. Aya Shirai to continue to serve the Company, given her approximately six 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, consumer, and a woman 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.</p>				

[Translation]

No.	Name (Date of Birth)	Brief Personal Record, Current Posts, Responsibilities and Additional Important Posts		Number of Shares of the Company Owned
5	Yasuhiro Akase (Jul. 6, 1958)	Apr. 1982	Joined “GUNZE”	15,000
		Apr. 2010	Corporate Officer, General Manager of Personnel & General Affairs Department and Deputy CHO, GUNZE	
		Jun. 2013	Director, Corporate Officer, General Manager of Personnel & General Affairs Department and Deputy CHO, GUNZE	
		Jun. 2014	Director, Corporate Officer, General Manager of Personnel & General Affairs Department, CCO and Deputy CHO, GUNZE	
		Apr. 2017	Director, Corporate Officer, General Manager of Personnel & General Affairs Department, GUNZE (to present)	
		<p><b>Reasons for supporting the candidate for Director</b> The Company would like Mr. Yasuhiro Akase to continue to serve the Company as a Director, given his ample experience and broad knowledge, mainly in the field of apparel and administration. As the General Manager of the Personnel &amp; General Affairs Department, he has been working to develop human resources and improve labor welfare. In expectation that he will continue to appropriately perform his duties as a Director, the Company proposes that he be elected as a Director.</p>		
6	Nobuya Oka (Aug. 28, 1959)	Apr. 1985	Joined “GUNZE”	10,000
		Apr. 2012	Corporate Officer and General Manager of Threads & Accessories Division, GUNZE	
		Jun. 2014	Director, Corporate Officer and General Manager of Threads & Accessories Division, GUNZE (to present)	
		<p><b>Reasons for supporting the candidate for Director</b> The Company would like Mr. Nobuya Oka to continue to serve the Company as a Director, given his ample experience and broad knowledge, mainly in the field of threads and accessories. As the general manager in charge of the threads and accessories business, he has been working to enhance the stability of the Company’s business in Japan and strengthen international business development. In expectation that he will continue to appropriately perform his duties as a Director, the Company proposes that he be elected as a Director.</p>		
7	Katsuhiko Kimura (Apr. 2, 1963)	Apr. 1986	Joined “GUNZE”	4,000
		Apr. 2012	Corporate Officer and General Manager of Engineering Plastics Division, GUNZE	
		Jun. 2016	Director, Corporate Officer and General Manager of Engineering Plastics Division, GUNZE (to present)	
		<p><b>Reasons for supporting the candidate for Director</b> The Company would like Mr. Katsuhiko Kimura to serve the Company as a Director, given his ample experience and broad knowledge, mainly in the field of engineering plastics. As the general manager in charge of the engineering plastics business, he has been working to build a profitable business base and promoting the creation of newly developed products. In expectation that he will continue to appropriately perform his duties as a Director, the Company proposes that he be elected as a Director.</p>		

[Translation]

No.	Name (Date of Birth)	Brief Personal Record, Current Posts, Responsibilities and Additional Important Posts		Number of Shares of the Company Owned
8	Shigeki Takao (Dec. 30, 1958)	Apr. 1981 Apr. 2014  Apr. 2016  Jun. 2016	Joined “GUNZE” Corporate Officer, Deputy Company President of Apparel Company and General Manager of Leg Wear Divisions Group, Apparel Company, GUNZE Corporate Officer, Company President of Apparel Company and General Manager of Leg Wear Divisions Group, Apparel Company, GUNZE Director, Corporate Officer, Company President of Apparel Company and General Manager of Leg Wear Divisions Group, Apparel Company, GUNZE (to present)	5,522
<p><b>Reasons for supporting the candidate for Director</b>            The Company would like Mr. Shigeki Takao to serve the Company as a Director, given his ample experience and broad knowledge, mainly in the apparel business sector. As the company president in charge of the apparel business, he has been working to ensure growth in the apparel business by developing new products that anticipate potential changes in the marketplace and creating new markets. In expectation that he will continue to appropriately perform his duties as a Director, the Company proposes that he be elected as a Director.</p>				
9	Katsuya Anno (Apr. 3, 1955)	Mar. 1979 Apr. 2014  Apr. 2015  Jun. 2016  Apr. 2017	Joined “GUNZE” Corporate Officer, Deputy General Manager of Innerwear Divisions Group, Apparel Company and General Manager of Innerwear Production Department, Apparel Company, GUNZE Corporate Officer, General Manager of Technology & Development Department and CTO, GUNZE Director, Corporate Officer, General Manager of Technology & Development Department and CTO, GUNZE Director, Corporate Officer, General Manager of Technology & Development Department, GUNZE (to present)	6,000
<p><b>Reasons for supporting the candidate for Director</b>            The Company would like Mr. Katsuya Anno to serve the Company as a Director, given his ample experience and broad knowledge, mainly in the technical field. As the General Manager of the Technology &amp; Development Department, he has achieved good results most recently, promoting technological innovation and improving productivity and product quality at the Company’s offices/factories in Japan and abroad. In expectation that he will continue to appropriately perform his duties as a Director, the Company proposes that he be elected as a Director.</p>				

[Translation]

No.	Name (Date of Birth)	Brief Personal Record, Current Posts, Responsibilities and Additional Important Posts		Number of Shares of the Company Owned
10	Katsuhiko Oikawa (Apr. 12, 1963)	Apr. 1986	Joined “GUNZE”	2,983
		Apr. 2014	Corporate Officer and General Manager of Research & Development Department, GUNZE	
		Jun. 2014	Corporate Officer, General Manager of Research & Development Department and CRO, GUNZE	
		Jun. 2016	Director, Corporate Officer, General Manager of Research & Development Department and CRO, GUNZE	
		Apr. 2017	Director, Corporate Officer and General Manager of Research & Development Department, GUNZE (to present)	
		<p><b>Reasons for supporting the candidate for Director</b>            The Company would like Mr. Katsuhiko Oikawa to serve the Company as a Director, given his ample experience and broad knowledge, mainly in the field of research and development. As the General Manager of the Research &amp; Development Department in recent years, he has achieved good results in the promotion of various research themes as well as the development and cultivation of new businesses. In expectation that he will continue to appropriately perform his duties as a Director, the Company proposes that he be elected as a Director.</p>		
11	Makoto Kumada* (Jul. 24, 1961)	Mar. 1984	Joined “GUNZE”	6,341
		Jul. 2012	General Manager of Management & Administration Department, Apparel Company, GUNZE	
		Jun. 2015	General Manager of Management & Administration Department, Apparel Company and Deputy General Manager of Innerwear Divisions Group, Apparel Company, GUNZE	
		Apr. 2016	Deputy Company President of Apparel Company, General Manager of Management & Administration Department, Apparel Company, GUNZE and President and Representative Director of Gunze Distribution Co., Ltd.	
		Apr. 2017	Corporate Officer and General Manager of Finance & Accounting Department, GUNZE (to present)	
		<p><b>Reasons for supporting the candidate for Director</b>            The Company would like Mr. Makoto Kumada to serve the Company as a Director, given his ample experience and broad knowledge, mainly in the field of accounting and administration. Since April, he has been responsible for supervising company-wide finance and accounting as the General Manager of the Finance &amp; Accounting Department. In expectation that he will contribute to improving GUNZE’s corporate value as a Director, the Company proposes that he be elected as a new Director.</p>		

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

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

Note 3: Mr. Katsusuke Amano and Ms. Aya Shirai are candidates for outside Directors.

When selecting candidates for outside Directors, the Company selected those who met the requirements of the Companies Act, as well as the independence criteria stipulated in the Tokyo Stock Exchange regulations, and who will not cause conflict of interest against general shareholders. Once they are elected, as proposed, the Company will inform the Tokyo Stock Exchange of their continuous appointments as independent officers.

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

- (1) Reasons for supporting the candidates for outside Directors  
As described in the table above.
- (2) Term of office of outside Directors

[Translation]

- a. The term of office of Mr. Katsusuke Amano has been seven years at the close of this general meeting of shareholders.
  - b. The term of office of Ms. Aya Shirai has been six 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.

#### **Fourth Proposition: Election of Two (2) Corporate Auditors**

The term of office of Corporate Auditors Mr. Yukio Shimoï and Mr. Makoto Hamamura will expire at the close of this Ordinary General Meeting of Shareholders. It is therefore proposed that two (2) Corporate Auditors be elected. The Company has established a policy regarding qualifications for Corporate Auditors and nomination procedures in its Corporate Governance Guidelines. (Refer to the Company's website: <http://www.gunze.co.jp/ir/policy/governance/>.) All candidates for Corporate Auditors in this proposition are selected in accordance with the said policy.

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

[Translation]

The candidates are as follows:

No.	Name (Date of Birth)	Brief Personal Record, Current Posts and Additional Important Posts		Number of Shares of the Company Owned
1	Hiroshi Mizunuma* (Mar. 5, 1957)	Apr. 1980	Joined GUNZE	3,450
		Jul. 2010	Manager of Management & Strategy Section, Management & Strategy Department, GUNZE	
		Jul. 2012	Manager of Secretarial Section, GUNZE (to present)	
		<b>Reasons for supporting the candidate for Corporate Auditor</b> The Company would like Mr. Hiroshi Mizunuma to serve the Company as a Corporate Auditor, given his ample experience and broad knowledge, mainly in the field of finance and accounting. Based on the judgment that he will appropriately perform his duties as a Corporate Auditor, the Company proposes that he be elected as a new Corporate Auditor.		
2	Katsuhiko Mizoguchi* (Jun. 28, 1955)	Mar. 1979	Joined GUNZE	7,000
		Nov. 2009	Manager of General Affairs Service Center, Personnel & General Affairs Department, GUNZE	
		Nov. 2011	Manager of General Affairs Service Center, Personnel & General Affairs Department, GUNZE and President and Representative Director of Gunze Office Service Co., Ltd.	
		Apr. 2013	Corporate Officer and President and Representative Director of Gunze Development Co., Ltd.	
		Mar. 2017	Outside Auditor, Nitto Seiko Co., Ltd. (to present)	
		Apr. 2017	Assistant to President of Gunze Development Co., Ltd. (to present)	
		<b>Reasons for supporting the candidate for Corporate Auditor</b> The Company would like Mr. Katsuhiko Mizoguchi to serve the Company as a Corporate Auditor, given his ample experience mainly in the field of accounting and administration and his broad knowledge gained through the management of business companies. Based on the judgment that he will appropriately perform his duties as a Corporate Auditor, the Company proposes that he be elected as a new Corporate Auditor.		

Note 1: The candidates marked with an asterisk (\*) are new candidates for Corporate Auditors.

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

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.evotep.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 Thursday, June 22, 2017. However, we ask that you vote sooner if possible. If you have any questions concerning the procedures for voting via the Internet,

[Translation]

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 -



[Translation]

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[Translation]

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