

## Our Understanding of the Business Environment (Risks and Opportunities)

As the external environment, we have identified the major social issues that may have an impact on the Gunze Group's ability to generate value in the medium- to long-term. The risks and opportunities associated with these have also been identified.

To resolve social issues while appropriately addressing risks and taking advantage of opportunities, we recognize the priority themes raised in the Medium-term Management Plan as management materiality and will continue to enhance value creation.

Social Changes	Issues	Risks	Opportunities	Countermeasures	Materiality
<b>1</b> Changes in the market environment surrounding the Gunze Group  <b>2</b> Country risk in nations where Gunze operates  <b>3</b> Spread of COVID-19 infections, etc.	<ul style="list-style-type: none"> <li>Response to changes in customer preferences due to restrictions on social activities</li> <li>Shrinking of domestic market</li> </ul> <ul style="list-style-type: none"> <li>Reorganization of business strategies</li> </ul> <ul style="list-style-type: none"> <li>Business continuity under different environments from normal times</li> </ul>	<ul style="list-style-type: none"> <li>Decline in profitability due to the emergence of non-profit yielding business divisions</li> <li>Obsolescence of technologies/services due to decreased competitiveness</li> <li>Obsolescence of existing needs</li> </ul> <ul style="list-style-type: none"> <li>Difficulties in continuing business operations due to drastic changes in political and economic conditions, including friction between the U.S. and China, conflicts in Ukraine/Israel, deterioration of Chinese economy</li> <li>Deterioration in the profitability of overseas production due to fluctuations in foreign currency exchange rates</li> </ul> <ul style="list-style-type: none"> <li>Damage to production, logistics, and commercial facilities due to large-scale earthquakes, typhoons, floods, and other natural disasters</li> <li>Limitations on the business structure due to changes in society and lifestyles</li> <li>Difficulty in procuring raw materials due to supply chain disruptions</li> </ul>	<b>Measures to address high social issues created through diverse business development</b>	<ul style="list-style-type: none"> <li>Strengthen profitability by focusing on the business portfolio ▶ <b>For details: P.30~</b> → Financial Capital Strategy</li> <li>Develop products and services that generate social value, including products that contribute to the reduction of CO<sub>2</sub> ▶ <b>For details: P.6~</b> → Message from the President</li> </ul> <ul style="list-style-type: none"> <li>Global business expansion ▶ <b>For details: P.46~</b> → Functional Solutions Business, ▶ <b>For details: P.48~</b> → Medical Business Risk diversification through the development of businesses in regions the Group has not yet entered</li> <li>Return to domestic production ▶ <b>For details: P.50~</b> → Apparel Business</li> </ul> <ul style="list-style-type: none"> <li>Construction of labor-saving and unmanned lines at plastics and apparel plants ▶ <b>For details: P.22~</b> → Special Feature, ▶ <b>For details: P.46~</b> → Functional Solutions Business</li> <li>Measures to expand the ability to attract customers to the e-commerce site ▶ <b>For details: P.50~</b> → Apparel Business</li> <li>BCP-driven supplier system development ▶ <b>For details: P.46~</b> → Functional Solutions Business</li> </ul>	Creation of New Value
<b>4</b> More stringent legal and social rules  <b>5</b> Contraction of domestic labor markets  <b>6</b> Increased awareness of human rights  <b>7</b> Progress in the shift to IT	<ul style="list-style-type: none"> <li>Difficulty of manufacturing under existing standards</li> </ul> <ul style="list-style-type: none"> <li>Lack of diversity among human resources</li> </ul> <ul style="list-style-type: none"> <li>Insufficient revision of standards</li> </ul> <ul style="list-style-type: none"> <li>Increase in cyber-attacks that cannot be handled by existing security systems</li> <li>Irresponsible postings due to the anonymity of SNSs</li> </ul>	<ul style="list-style-type: none"> <li>Litigation, including intellectual property litigation, causing brand value to be lost</li> <li>Revision of products and services due to changes in quality standards</li> <li>Suspension of business activities due to legal violations</li> </ul> <ul style="list-style-type: none"> <li>Difficulty in securing human resources due to a shrinking labor force</li> <li>A lack of creative thinking capabilities due to immobilization of the personnel composition and an upside down population pyramid</li> <li>Lack of diversity due to a low percentage of female employees</li> </ul> <ul style="list-style-type: none"> <li>Potential for human rights violations exist due to insufficient verification of human rights and working environment standards</li> </ul> <ul style="list-style-type: none"> <li>Leakage of important information due to cyber-attacks, computer viruses, and other malicious methods</li> <li>Spread of erroneous information through SNSs</li> </ul>	<b>Business expansion that contributes to improving quality of life</b>  <b>Human capital management that embodies a people-oriented approach</b>	<ul style="list-style-type: none"> <li>Applications for patents, trademarks and design rights ▶ <b>For details: P.38~</b> → IP and Legal Strategy</li> <li>Reinforcement of projects requiring certification ▶ <b>For details: P.48~</b> → Medical Business</li> <li>Compliance with global standards ▶ <b>For details: P.48~</b> → Medical Business</li> </ul> <ul style="list-style-type: none"> <li>Improvement of productivity in all areas, including production, sales, logistics, and back-office operations through the use of AI, IoT, sensing technologies, etc. ▶ <b>For details: P.46~</b> → Functional Solutions Business, ▶ <b>For details: P.50~</b> → Apparel Business</li> <li>Improvement of productivity through mindset, operating, and office reforms ▶ <b>For details: P.32~</b> → Human Resources Strategy</li> <li>Building of a personnel system that leads to increased engagement, improvements in the working environment ▶ <b>For details: P.32~</b> → Human Resources Strategy</li> <li>D&amp;I promotion ▶ <b>For details: P.32~</b> → Human Resources Strategy</li> <li>Promotion of women's empowerment ▶ <b>For details: P.32~</b> → Human Resources Strategy</li> <li>Promotion of human resources and independent career development ▶ <b>For details: P.32~</b> → Human Resources Strategy</li> </ul> <ul style="list-style-type: none"> <li>Implementation of human rights due diligence ▶ <b>For details: P.32~</b> → Human Rights Initiatives throughout the Supply Chain</li> <li>Education of employees with regard to respect for human rights ▶ <b>For details: P.40~</b> → Human Rights Initiatives throughout the Supply Chain</li> </ul> <ul style="list-style-type: none"> <li>Reinforcement of cyber-attack countermeasure systems</li> <li>Dissemination of information tailored to stakeholder demographics</li> </ul>	Evolution of Corporate Constitution
<b>8</b> Growing severity of global environmental problems  <b>9</b> Growing international awareness of marine plastic pollution	<ul style="list-style-type: none"> <li>Global warming</li> </ul> <ul style="list-style-type: none"> <li>Conversion to business that reduces use of petroleum-derived raw materials</li> </ul>	<ul style="list-style-type: none"> <li>Higher raw material and energy costs</li> <li>Risks relating to laws and regulations, such as the introduction of a carbon tax</li> </ul> <ul style="list-style-type: none"> <li>Stronger regulations regarding disposable plastics</li> <li>Lower sales due to the spread of products made from plastic alternatives</li> </ul>	<b>Expansion of circular economy-driven business models</b>	<ul style="list-style-type: none"> <li>Transition to renewable energy ▶ <b>For details: P.22~</b> → Special Feature</li> <li>Construction of a net zero carbon factory (Yanase Factory)</li> <li>Procurement of raw materials and environmental load reduction materials ▶ <b>For details: P.42~</b> → Environmental Strategy</li> <li>Reduction of CO<sub>2</sub> emissions by 35% or more ▶ <b>For details: P.42~</b> → Environmental Strategy</li> </ul> <ul style="list-style-type: none"> <li>Promotion of circular factory projects ▶ <b>For details: P.22~</b> → Special Feature, ▶ <b>For details: P.42~</b> → Environmental Strategy</li> <li>Improvement of recycled hybrid film raw material ratio ▶ <b>For details: P.22~</b> → Special Feature</li> </ul>	Environmentally Responsible Management  Capital Cost-focused Management