Risks and Opportunities, Materiality

To effectively respond to the rapidly changing external environment and achieve the sustainable improvement of corporate value, the Gunze Group has identified its materiality (key issues). The Group has established key performance indicators (KPIs) and is implementing specific initiatives to address each issue. To become a sustainable corporate group, the Group aims to enhance its initiatives and improve their effectiveness based on the issues it has identified and its findings in Stage 1.

Social Changes	Risks	Opportunities	Materiality	Our Measures	Stage 1 KPIs and Results (FY2024) ▶P18-19	Issues the Group Should Address as a Sustainable Group ▶P20-21
Changes in the market environment surrounding the Gunze Group	• Decline in profitability due to the emergence of non-profit yielding business divisions • Obsolescence of technologies/services due to decreased competitiveness • Contraction of the domestic market resulting from population decline	Measures to address high social issues created through diverse business development	Creation of New Value	Medium term • Creation of new businesses and continued growth of existing businesses (including M&A) Short term • Offering new products/services designed with enhanced sustainability in mind	**New business-related** • Basic function development has been completed for film for next-generation lithium-ion batteries, and test samples have been supplied. Mass production was not accomplished, and the efforts to commercialize the product have been abandoned. **Development of environmentally friendly products** • Expand sales of GEOPLAS®, an environment-friendly shrink film made from recycled raw materials • Development and market launch of a thin coextruded blown film for the vacuum packaging of frozen foods to reduce food waste; expansion of use **Net sales of medical-related products** • A transformation to a medical device-dedicated organizational structure which ensures seamless operations from research to sales • New products (including adhesion barrier sheets and cranial reshaping helmets) were launched. **Net sales of wellness and health category products** • Sales of MediCure (a brand that enhances customers' quality of life) and NEXTILE (which helps mitigate functional decline due to aging) increased. • The product lineup for various lifestyles, such as BODY WILD and Tuché, was expanded.	• Striving to become a global solutions company (functional solutions, medical, apparel) • Innovations by groups of technical experts • Expansion of business domains through M&A (medical and circular economy areas) • Expansion of the engineering plastics field into new areas • Evolution of apparel products through the use of new technology • Expansion of eco-friendly products and refinements to resource recycling technology
Country risk in nations where Gunze operates	• 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 • Deterioration in the profitability of overseas production due to fluctuations in foreign currency exchange rates					
Spread of COVID-19 infections, etc.	• Damage to production, logistics, and commercial facilities due to large-scale earthquakes, typhoons, floods, and other natural disasters • Limitations on the business structure due to changes in society and lifestyles • Difficulty in procuring raw materials due to supply chain disruptions					
More stringent legal and social rules	• Litigation, including intellectual property litigation, causing brand value to be lost • Revision of products and services due to changes in quality standards • Suspension of business activities due to legal violations	Business expansion that contributes to improving quality of life	Evolution of Corporate Constitution	Long term • Establishing a corporate culture that empowers diverse talent Medium term • Promoting employee mindset/duties transformations through work style reforms Medium term • Transforming business processes through proactive use of digital technology (covering all business processes, including production, sales, development, logistics, back-office, etc.)	**D&I promotion (Promotion of women's empowerment, etc.)** • Achieved *Kurumin* certification (FY2023) • Ratio of women in managerial roles: 6% • Ratio of female employees in the workforce: 35% • Paternity leave utilization rate: 78% **Initiatives for respecting human rights** • In-house assessments were conducted at six domestic plants to evaluate their status regarding foreign technical interns. Additionally, fifteen plants operated by manufacturers that the Group outsources operations to employ foreign technical interns carried out assessments of their own. • Assessments of 119 suppliers across all related businesses **Strengthening of risk response capabilities** • Holding of Risk Management Committee meetings: Six times per year **Building of personnel systems, improvement of work environments** • Improvement of engagement score: 62 points • Annual leave utilization rate: 73% • Implementation of work style reforms using digital tools and improvement of productivity by improving office environments (Shiodome, Dojima, Konan, etc.) **Improvement of productivity in all areas, including production, by utilization of AI, IoT, sensing technologies, etc.** • Productivity improvement rate (P value): 103%	• Increase of the ratio of women in managerial roles to 25% or higher • Maintenance of a 50% ratio of women hired • Establishment of support services for childcare and nursing care • Improvement of productivity and business performance through improved engagement • Acquisition of diverse talent to implement the Group's strategies • Increase of corporate brand awareness • Coexistence and mutual prosperity with suppliers • Transactions based on human rights and biodiversity • Improvement of productivity and expansion of the product range at overseas plants • Ability to customize production to meet local characteristics and needs • Creation of a system that allows people from any country to work with peace of mind • Improvement of productivity through the pursuit of automation, digital and AI technologies
Contraction of domestic labor markets	• Difficulty in securing human resources due to a shrinking labor force • A lack of creative thinking capabilities due to immobilization of the personnel composition and an upside down population pyramid • Lack of diversity due to a low percentage of female employees	Human capital management that embodies a people-oriented approach				
Increased awareness of human rights	• Potential for human rights violations exist due to insufficient verification of human rights and working environment standards					
Progress in the shift to IT	• Leakage of important information due to cyberattacks, computer viruses, and other malicious methods • Spread of erroneous information through SNSs					
Growing severity of global environmental problems	• Higher raw material and energy costs • Risks relating to laws and regulations, such as the introduction of a carbon tax	Expansion of circular economy-driven business models	Environmentally Responsible Management	Long term • Reducing environmental impact from business activities	**CO_2 emissions reduction rate** • Scope 1 + Scope 2: 108,316t Reduction of 37.2% or more (vs. FY2013) • Scope 3: 393,953t • FY2024 per-unit energy consumption reduction rate: 0.2% increase vs. the previous year (domestic) • Received a B score for climate change in CDP 2024	• Expansion of the product lineup of films that help reduce food waste • Scope 1 + Scope 2: Reduction of 35% or higher (FY2030) • Reduction of Scope 3 emissions throughout the supply chain • Reduction of CO_2 emissions, primarily Scope 3 emissions • Achievement of zero plastic waste emissions at all plastic plants
Growing international awareness of marine plastic pollution	• Stronger regulations regarding disposable plastics • Lower sales due to the spread of products made from plastic alternatives		Capital Cost-focused Management	Medium term • Strategic allocation of management resources Medium term • Achieving a positive GVA value by improving capital efficiency	**Focused investment of management resources in growth businesses and growth areas** • Environment-related investment: Moriyama Circular Factory and ESG investments totaling ¥7.1 billion (FY2022 through FY2024) • EC+SPA sales ratio: 26% • Establishment of Ballelite joint venture with MASH Group and launch of new company SEESAY **Restructuring low-growth businesses and fields** • ROE 5.3% • GVA -¥0.9 billion (improvement of ¥1.8 billion vs. the previous year) • The transfer of the electronic components business was completed, production and logistic facilities were consolidated in the apparel business (China, Indonesia, etc.), and the management of sports clubs was improved.	• Achievement of an ROE of 10.0% or higher and operating income ¥16.0 billion (FY2030) • Maintenance of a high PBR • Establishment of an internal profit improvement structure