Risks and Opportunities, Materiality

To sustainably enhance corporate value, the Gunze Group identifies materiality in light of the rapidly changing business environment, sets KPIs for each material issue, and implements specific initiatives. Building on the achievements, challenges, and insights gained during stage1, in stage2 we will further advance these initiatives and enhance their effectiveness, with the aim of creating corporate value on a sustainable basis.

Social Changes	• **Changes in the market environment surrounding the Gunze Group** • **Country risk in nations where Gunze operates** • **Large-scale natural disasters and pandemics**	• **More stringent legal and social rules** • **Contraction of domestic labor markets and increased awareness of human rights** • **Rapid advances in AI / Progress in digitalization**	• **Growing severity of global environmental problems**	• **Growing international awareness of marine plastic pollution** • **Changes in the market environment**
Risks	• 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 • Delays or failure to achieve reforms in low-ROIC businesses • Business models becoming unsustainable due to changes in lifestyles • Difficulty maintaining business operations due to sudden changes in political and economic conditions • Declining profitability of overseas production • Damage to production and logistics bases and commercial facilities caused by natural disasters • Difficulty procuring raw materials due to supply chain disruptions • Business disruption caused by pandemics resulting from infectious diseases	• Loss of brand value due to various legal actions • Revision of products and services due to changes in quality standards • Suspension of business activities due to legal violations • Difficulty securing human resources due to a shrinking working-age population • Lack of flexible thinking due to a rigid workforce composition • Shortage of human resources with diverse backgrounds • Risk of human rights violations due to insufficient due diligence • Acceptance and spread of misinformation • Leakage of critical information due to cyberattacks and other threats	• Higher raw material and energy costs • Tightening of laws and regulations, such as the introduction of a carbon tax • Accelerating climate change • Environmental pollution caused by owned properties, wastewater discharges, and chemical substances	• Stronger regulations regarding disposable plastics • Lower sales due to the spread of products made from plastic alternatives • Decline in corporate value due to falling share prices • Changes in market trends and consumer preferences • Fluctuations in foreign exchange rates

Risks and Opportunities, Materiality

	Creation of New Value	Evolution of Corporate Constitution	Environmentally Responsible Management	Capital Cost-focused Management
Opportunities	Measures to address high social issues created through diverse business development	Creating opportunities to raise awareness of our diverse businesses (Redefine Gunze beyond its image as an "underwear company")	Business expansion that contributes to improving quality of life	Human capital management that embodies a people-oriented approach Growing demand for healthcare driven by an aging population Expansion of circular economy-driven business models
Materiality				
Gunze Group Targets	**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	**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 AI (production, sales, development, logistics, indirect operations, and all other areas)	**Long term** • Reducing environmental impact from business activities	**Medium term** • Strategic allocation of management resources **Medium term** • Achieving a positive GVA value by improving capital efficiency
Initiatives and Results in the First Year of stage2	• **Striving to become a global solutions company** FY2025 results: Overseas sales of ¥27.5 billion (overseas sales ratio: 21%) • **Innovations by groups of technical experts** Created new products and services by further refining differentiated technologies	• **Increase of the ratio of women in managerial roles to 14% or higher (FY2027)** FY2025 result: 13.1% • **Maintenance of a 50% ratio of women hired** FY2025 result: 45% • **Establishment of support services for childcare and nursing care** FY2025 paternity leave utilization rate: 86% • **Improvement of productivity and business performance through improved engagement** Average engagement score: 61 points	• **Completion of resource-recycling technologies** Achieved zero waste at the Moriyama Plant in FY2025 and promoted rollout to other production sites • **Scope 1 + Scope 2: Reduction of 35% or higher (FY2030)** FY2025 reduction rate: 42.7% (vs. FY2013)	• **Achievement of an ROE of 10.0% or higher and operating profit ¥16.0 billion (FY2030)** Aim to achieve ROE of 8.0% or higher and operating profit of ¥12.5 billion in FY2027 through structural reforms during the three-year period for transforming the Company. • **Maintenance of a high PBR**

Risks and Opportunities, Materiality

Initiatives and Results in the First Year of stage2

Creation of New Value

- **Expansion of business domains through M&A**
  Exploring potential partners
- **Expansion of the engineering plastics field into new areas**
  Launched environmentally friendly films
- **Evolution of apparel products through the use of new technologies**
  Enhancing ASEDORON functionality
- **Expanding environmentally friendly products**
  Launched environmentally friendly films
- **Accelerating global expansion of the Medical Business**
- **Promoting open innovation through industry-academia and external collaboration**

Evolution of Corporate Constitution

- **Acquisition of diverse talent to implement the Group's strategies**
  Ratio of mid-career hires among regular employees: 33%
- **Increase of corporate brand awareness**
  FY2025 result: Brand awareness rate of 70%
- **Coexistence and mutual prosperity with suppliers**
- **Transactions based on human rights and biodiversity**
  Implemented human rights due diligence (▶P.35)
- **Improvement of productivity and expansion of the product range at overseas plants**
  Expanded production of high-value-added products at innerwear plants in Thailand and Vietnam
- **Ability to customize production to meet local characteristics and needs**
  Expanded production in China and ASEAN by further developing demand for sewing thread for apparel and industrial materials
- **Creation of a system that allows people from any country to work with peace of mind**
  Preparation of work rules and other manuals in multiple languages
  Preparation of video-based work manuals for manufacturing sites
- **Improvement of productivity through the pursuit of automation, digital and AI technologies**
  Improved productivity through the installation of automated lines at each plant

Environmentally Responsible Management

- **Reduction of Scope 3 emissions throughout the supply chain**
  FY2025 result: 382,151 t-CO_2
- **Achievement of zero plastic waste emissions at all plastic plants**
  Achieved zero waste at the Moriyama Plant
- **Reduction of per-unit energy consumption**
  FY2025 result: 104.2% year on year
- **Conservation of water resources and strengthening of wastewater management**
- **Enhancement of disclosure reliability through third-party verification of CO_2 emissions**
  Obtained third-party verification
- **Response to biodiversity (promotion of TNFD-aligned initiatives)**
- **Increase in the renewable energy ratio**
  Installation of solar panels (Building No. 7 at the Konan Plant; Medical Office and No. 3 Plant)

Capital Cost-focused Management

- **Establishment of an internal profit improvement structure**
  Apparel business structural reform (▶PP.55,56)
  Build-Up Project (establishing a lean organizational structure that continuously pursues higher profitability and building a framework that prevents backsliding)
- **Strengthening cash flow generation and allocating cash to growth investments**
- **Enhancing shareholder returns**

Value Created

Social Value

- Providing comfort through products and services
- Manufacturing that considers both people and the planet
- Developing and securing human resources to accelerate global expansion
- Creating ways of working that embrace diversity

Environmental Value

- Realizing a resource-recycling society (promoting resource conservation, the use of recycled materials, and reduced environmental impact)
- Establishing a model that balances reduced environmental impact with business growth (turning environmental initiatives from a cost into a source of competitiveness)

Economic Value

- Providing stable and consistent shareholder returns
- Enhancing corporate value across the Gunze Group
- Expanding growth investments by improving capital efficiency and profitability