

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

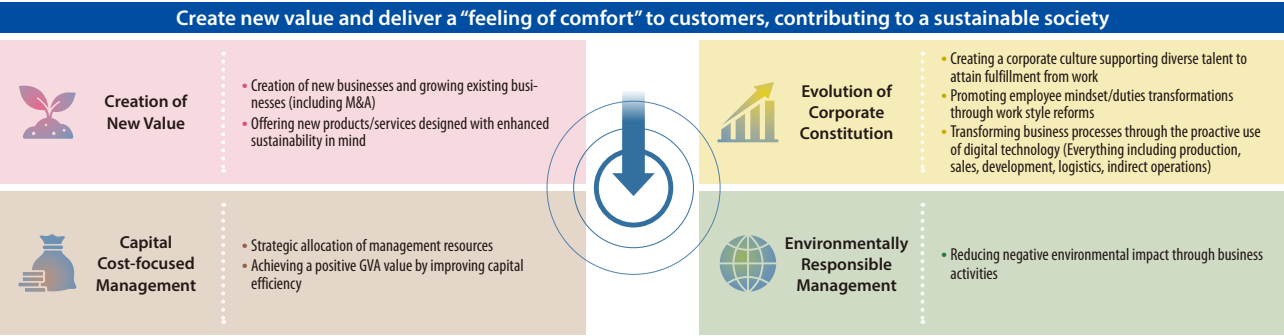
group, the Group aims to enhance its initiatives and improve their effectiveness based on the issues it has identified and its findings in Stage 1.

| 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 | <ul style="list-style-type: none"> 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 | <p>Medium term</p> <ul style="list-style-type: none"> Creation of new businesses and continued growth of existing businesses (including M&A) | <p>New business-related</p> <ul style="list-style-type: none"> 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. | <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> 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 | | | <p>Short term</p> <ul style="list-style-type: none"> Offering new products/services designed with enhanced sustainability in mind | <p>Development of environmentally friendly products</p> <ul style="list-style-type: none"> 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 | |
| Spread of COVID-19 infections, etc. | <ul style="list-style-type: none"> 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 | | | | <p>Net sales of medical-related products</p> <ul style="list-style-type: none"> 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. <p>Net sales of wellness and health category products</p> <ul style="list-style-type: none"> 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. | |
| More stringent legal and social rules | <ul style="list-style-type: none"> 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 | <p>Long term</p> <ul style="list-style-type: none"> Establishing a corporate culture that empowers diverse talent | <p>D&I promotion (Promotion of women's empowerment, etc.)</p> <ul style="list-style-type: none"> Achieved Kurumin certification (FY2023) Ratio of women in managerial roles: 6% Ratio of female employees in the workforce: 35% Paternity leave utilization rate: 78% | <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> 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 | | | <p>Medium term</p> <ul style="list-style-type: none"> Promoting employee mindset/duties transformations through work style reforms | <p>Initiatives for respecting human rights</p> <ul style="list-style-type: none"> 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 <p>Strengthening of risk response capabilities</p> <ul style="list-style-type: none"> Holding of Risk Management Committee meetings: Six times per year | |
| Increased awareness of human rights | <ul style="list-style-type: none"> Potential for human rights violations exist due to insufficient verification of human rights and working environment standards | | | <p>Medium term</p> <ul style="list-style-type: none"> Transforming business processes through proactive use of digital technology (covering all business processes, including production, sales, development, logistics, back-office, etc.) | <p>Building of personnel systems, improvement of work environments</p> <ul style="list-style-type: none"> 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.) <p>Improvement of productivity in all areas, including production, by utilization of AI, IoT, sensing technologies, etc.</p> <ul style="list-style-type: none"> Productivity improvement rate (P value): 103% | |
| Progress in the shift to IT | <ul style="list-style-type: none"> Leakage of important information due to cyberattacks, computer viruses, and other malicious methods Spread of erroneous information through SNSs | Expansion of circular economy-driven business models | Environmentally Responsible Management | <p>Long term</p> <ul style="list-style-type: none"> Reducing environmental impact from business activities | <p>CO₂ emissions reduction rate</p> <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> 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 CO₂ emissions, primarily Scope 3 emissions Achievement of zero plastic waste emissions at all plastic plants |
| Growing severity of global environmental problems | <ul style="list-style-type: none"> Higher raw material and energy costs Risks relating to laws and regulations, such as the introduction of a carbon tax | | | | <p>Focused investment of management resources in growth businesses and growth areas</p> <ul style="list-style-type: none"> 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 | |
| Growing international awareness of marine plastic pollution | <ul style="list-style-type: none"> Stronger regulations regarding disposable plastics Lower sales due to the spread of products made from plastic alternatives | | | <p>Medium term</p> <ul style="list-style-type: none"> Strategic allocation of management resources <p>Medium term</p> <ul style="list-style-type: none"> Achieving a positive GVA value by improving capital efficiency | <p>Restructuring low-growth businesses and fields</p> <ul style="list-style-type: none"> 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. | |

The Previous Medium-term Management Plan “VISION 2030 stage1” review

Four Basic Strategies

In order to promote sustainable management, the Gunze Group has formulated materiality (key) issues for management and has positioned them as the four basic strategies of “VISION 2030 stage1.”



Medium-term Management Plan “VISION 2030 stage2”

With the Launch of “stage2,” Building a Sustainable Business Foundation to Remain Globally Competitive

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Takahiro Oka

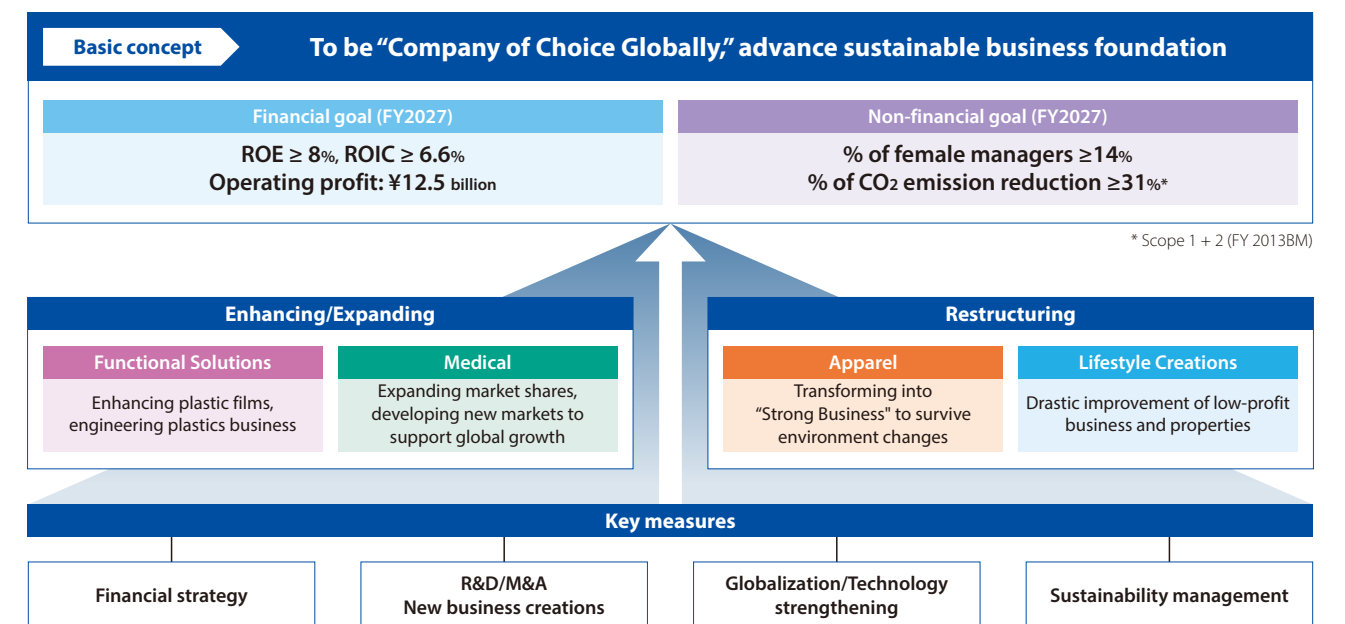
Director, Senior Managing Corporate Officer and
General Manager of Management & Strategy Department

The Gunze Group has established its grand design for the period through 2030: Pursuing our vision for 2030 by promoting the growth of core businesses and implementing an uncompromising structural reform while establishing an optimal capital structure to achieve the sustainable improvement of ROE. Based on our vision, we have formulated the Vision 2030 stage2 Medium-term Management Plan covering the three years from FY2025 to FY2027.

The performance of the medical and functional solutions businesses was steady during stage1, the previous plan, with continued growth being achieved chiefly through the expansion of production capacity. However, profitability challenges persist in the apparel and lifestyle creations businesses. Accordingly, we have positioned stage2 as a three-year period for rebuilding. During this time, we will implement a decisive structural reform. This will lay the foundation for stage3, three years for achieving breakthroughs

and ultimately leading to the realization of our vision for 2030. The stage2 plan is built on the core concept of building a sustainable business foundation to remain globally competitive. “Building a sustainable business foundation” means developing a more robust business structure—one that can withstand changes in the business environment, such as the decrease of Japan's population, exchange rate fluctuations, difficulties in talent acquisition and rising procurement costs. “Remaining globally competitive” means enhancing our international competitiveness by continually refining the technologies and services that keep us the preferred choice of our customers. From a diversity perspective, we will also seek talent on a more global scale. Through these initiatives, we

aim to remain a company that is chosen by all of its stakeholders and contribute to the realization of a sustainable society. We will clarify strategies for each business segment. The functional solutions and medical businesses will pursue the strengthening and expansion of their businesses, and the apparel and lifestyle creations businesses will undertake decisive structural reforms. Additionally, we will pursue both financial and non-financial goals through four company-wide key measures: (1) financial strategy, (2) R&D, M&A and the creation of new businesses, (3) global expansion and the development of technology, and (4) sustainability management.



Key Measures

Regarding our **financial strategy**, we will implement capital policies and initiatives to improve PER in tandem with structural reforms, aiming to enhance corporate value and quickly achieve a PBR of 1.0 or higher. ▶P.22

Through **R&D, M&A and the creation of new businesses**, we will generate new value, push forward with the growth of business, and expand into new domains. Beginning in FY2025, we will restructure our R&D organization to reinforce the foundation of our business through the development of elemental technologies and the support of growth. Our M&A strategy will focus on the medical and resource-recycling fields with the goals of accelerating the growth of the medical business and contributing to the realization of a resource-recycling society. ▶P.32

Regarding our **global expansion and development of technology**, we will not only seek to increase sales and our share of global markets but also strengthen our efforts to acquire talent and our

investor relations activities. On the technology side, we will reinforce our development of new products leveraging the expertise in knitting and weaving that we have cultivated since our foundation in the silk era together the unique processing technologies of each segment. Furthermore, by advancing the automation of operations and leveraging digital and AI technologies, we will enhance our overall competitiveness and aspire to evolve into a global solutions company that shapes the future through the power of people and technology. ▶P.30-31, 50-53

In **sustainability management**, our approach to human capital focuses on the development of talent and the cultivation of an organizational culture that can effectively implement management strategies to sustainably enhance corporate value and its competitiveness. ▶P.26 We will also push forward with initiatives to reduce environmental impact and promote resource circulation, including CO₂ emissions reduction and recycling. ▶P.36