

Summary of Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2015 (Japanese Standards)

This document is an English translation of the Japanese-language original. All financial information has been prepared in accordance with accounting principles generally accepted in Japan.

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Company Code:	3002
Stock Market Listings:	Tokyo
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Filing of Quarterly Securities Report (<i>Shihanki hokokusho</i>) (Scheduled):	August 8, 2014
Start of Distribution of Dividends (Scheduled) :	–
Preparation of Supplementary Materials for the Quarterly Financial Results:	No
Holding of Presentation of Quarterly Financial Results:	No

1. Consolidated results for the first quarter of FY2014 (April 1, 2014 to June 30, 2014)

(1) Consolidated operating results (cumulative)

(Amounts less than one million yen are omitted)

(The percentages represent year-over-year changes.)

	Net sales		Operating income		Ordinary income	
	¥ millions	%	¥ millions	%	¥ millions	%
Three months ended June 2014	32,234	(5.5)	917	(13.5)	1,039	(30.7)
Three months ended June 2013	34,104	7.2	1,060	16.1	1,500	65.9

	Net income		E.P.S.	Diluted E.P.S.
	¥ millions	%	¥	¥
Three months ended June 2014	565	(30.4)	2.95	2.93
Three months ended June 2013	812	72.8	4.24	4.22

Note: Comprehensive income

Three months ended June 2014: ¥374 million [(81.6) %]

Three months ended June 2013: ¥2,030 million [–%]

(2) Consolidated financial position

	Total assets	Net assets	Net worth ratio	Net assets per share
	¥ millions	¥ millions	%	(¥)
As of June 30, 2014	168,195	113,021	66.2	580.72
As of March 31, 2014	166,544	114,183	67.5	586.35

Reference: Net worth

June 30, 2014: ¥111,276 million

March 31, 2014: ¥112,357 million

2. Dividends

	Annual dividends per share (¥)				
	1st quarter	2nd quarter	3rd quarter	Year-end	Full year
FY2013	—	—	—	7.50	7.50
FY2014	—	—	—	—	—
FY2014 (projected)	—	—	—	7.50	7.50

Note: Revisions to dividend projections most recently announced: No

3. Projected results for FY2014 (April 1, 2014 to March 31, 2015)

(Percentages represent year-over-year changes.)

	Net sales		Operating income		Ordinary income	
	¥ millions	%	¥ millions	%	¥ millions	%
FY2014 full year	144,000	1.1	4,500	2.9	4,300	(15.0)

	Net income		E.P.S.
	¥ millions	%	¥
FY2014 full year	2,100	(16.3)	10.96

Note: Revisions to projections of consolidated financial results most recently announced: No

Notes

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries during the period accompanied by changes in the scope of consolidation): No
- (2) Application of specific accounting practices for preparing quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates, and restatement after error corrections
 - (a) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes
 - (b) Changes in accounting policies due to other reasons: No
 - (c) Changes in accounting estimates: No
 - (d) Restatement after error corrections: No

(4) Number of shares issued and outstanding (common stock)

(a) Number of shares at the end of period (including treasury stock):

1st quarter of FY2014: 209,935,165 shares

End of FY2013: 209,935,165 shares

(b) Treasury stock at the end of period:

1st quarter of FY2014: 18,318,397 shares

End of FY2013: 18,312,159 shares

(c) Average number of shares during the period (cumulative quarterly period):

1st quarter of FY2014: 191,619,080 shares

1st quarter of FY2013: 191,680,716 shares

Notes regarding quarterly review

This summary of consolidated financial statements is outside the scope of quarterly review procedures under the Financial Instruments and Exchange Law of Japan, and that review had not been completed on the day of disclosure.

Notes regarding the use of projections of results and other matters

Projections of results and future developments are based on information available to the Company at the current time, as well as certain assumptions judged by the Company to be reasonable. Various factors could cause actual results to differ materially from these projections. For the assumptions that form the basis of the projected results and notes regarding the use of projections, see (3) “Description of Consolidated Financial Forecast” on page 4 of attached materials.

Attached Materials

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1. Qualitative Information on Quarterly Financial Results

(1) Description of Results of Operations

Reviewing the economic conditions during the first quarter of the current fiscal year (April 1 – June 30, 2014), the Japanese economy showed signs of recovery, reflecting the positive effects of the so-called “Abenomics” economic policy in its second year. However, costs of raw materials and energy hovered at high levels, causing increasing concerns of escalating prices. This, combined with the effects of the consumption tax hike, resulted in a persistently defensive mindset among consumers with regard to spending. These factors caused continuing uncertainty in the GUNZE Group’s management environment.

Faced with this situation, the GUNZE Group launched its new medium-term management plan, called “CAN 20 (fiscal 2014 through fiscal 2020),” in the current fiscal year. With the key concept of “Focus and Concentration,” the GUNZE Group began implementing three key measures. These are: 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 experienced difficulties with worsened market conditions and price drops for touch screens in the electronic components category. The apparel business generally remained within the range of assumptions, although it had to face a “reverse effect” of the last-minute surge in demand experienced before the consumption tax hike.

Consequently, the GUNZE Group’s consolidated net sales for the first quarter of the current fiscal year amounted to ¥32,234 million (a year-over-year decrease of 5.5%). Consolidated operating income amounted to ¥917 million (a year-over-year decrease of 13.5%), while consolidated ordinary income was ¥1,039 million (a year-over-year decrease of 30.7%). Consolidated net income was ¥565 million (a year-over-year decrease of 30.4%).

Results by Business Segment

<Functional Solutions>

In plastic film, while prices for raw materials continued to stay at high levels, sales of packaging films remained sluggish, due partly to the “reverse effect” of last-minute demand prior to the rise in the consumption tax rate. However, sales of film for industrial applications remained firm. Engineering plastics performed well, thanks to the recovery of the office equipment market and expanded sales for general industrial applications. In electronic components, sales of semi-finished products and films for smartphones enjoyed quantity increases. After entering the second half of the previous fiscal year, however, projected capacitive touch screens suffered worsened market conditions and substantial declines in prices, which adversely impacted the category’s overall sales. In medical materials, sales increased steadily in Japan and North America. Consequently, the functional solutions business posted net sales of ¥12,910 million (a year-over-year decrease of 7.2%) and operating income of ¥853 million (a year-over-year decrease of 9.0%).

<Apparel>

In innerwear, basic products generally performed as expected despite the concern for a “reverse effect” related to the consumption tax. By contrast, seasonal products and fashionable products suffered slow performance due to increasingly intense competition. GUNZE continued to promote business structure reform to reduce cost of sales and fixed costs. Even so, these efforts were not enough to offset the increases in costs of raw materials caused by the yen’s depreciation and the negative effects of sales declines. In leg wear, plain pantyhose products and leggings pants continued to enjoy firm sales. Consequently, the apparel business posted net sales of ¥15,874 million (a year-over-year decrease of 5.0%), while operating income was ¥504 million (a year-over-year decrease of 10.0%).

<Lifestyle Creations>

In the real estate category, the solar power generation business that was launched in the second half of the previous fiscal year contributed to overall category sales. However, the *GUNZE Town Center TSUKASHiN* commercial facility experienced difficulties due to a downturn in consumer confidence and the consumption tax “reverse effect.” The campaign for attracting new members and other promotions contributed to steady performance of the sports club business. Consequently, the lifestyle creation business recorded net sales of ¥3,614 million (a year-over-year

decrease of 1.0%) and operating income of ¥287 million (a year-over-year increase of 14.3%).

(2) Description of Financial Position

As of June 30, 2014, total assets were ¥168,195 million, an increase of ¥1,651 million compared to the end of the previous fiscal year. The main components of the increase were a ¥1,426 million increase in cash and cash equivalents, a ¥1,214 million increase in raw materials and supplies, and a ¥1,153 million increase in other fixed assets (an increase in construction in progress, etc.). The main components of a decrease were a ¥1,198 million decrease in notes and accounts receivable, and a ¥741 million decrease in other assets contained in investments and other assets (a decrease in long-term deferred tax assets, etc.).

Total liabilities were ¥55,173 million, an increase of ¥2,813 million compared to the end of the previous fiscal year. The main components of the increase included a ¥6,450 million increase in long- and short-term debt including commercial paper. Main components of a decrease were a ¥2,118 million decrease in other current liabilities (a decrease in notes payable on acquisition of equipment, etc.) and a ¥781 million decrease in allowance for employees' bonuses.

Net assets were ¥113,021 million, a decrease of ¥1,162 million compared to the end of the previous fiscal year. The main factors contributing to an increase were a net income of ¥565 million recorded during the first quarter of the current fiscal year, and a ¥503 million increase in unrealized gains on available-for-sale securities. The main components of the decrease were dividend payments of ¥1,437 million and a ¥501 million decrease in foreign currency translation adjustments.

(3) Description of Consolidated Financial Forecast

GUNZE has not revised its consolidated full-year forecast for the present fiscal year ending March 31, 2015 from the previous forecast announced on May 13, 2014, as performance during the first quarter of the current fiscal year remained within the assumed range.

2. Summary Information (Notes)

(1) Changes in Significant Subsidiaries during the Period

None applicable

(2) Application of Specific Accounting Practices for Preparing Quarterly Consolidated Financial Statements

(Calculation of taxes)

Taxes are calculated by multiplying income before income taxes posted in the first quarter of the current fiscal year by the reasonably estimated effective tax rate subsequent to the application of tax effect accounting to the income before income taxes for the current consolidated fiscal year ending March 31, 2015.

(3) Changes in Accounting Policies, Changes in Accounting Estimates, and Restatement after Error Corrections

(Change in accounting policies)

Application of the Accounting Standard for Retirement Benefits, etc.

With respect to the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, revised on May 17, 2012; hereinafter referred to as the “Retirement Benefit Accounting Standard”) and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, revised on May 17, 2012; hereinafter referred to as the “Retirement Benefit Guidance”). GUNZE adopted the provisions set forth in Clause 35 of the Retirement Benefit Accounting Standard and Clause 67 of the Retirement Benefit Guidance, effective from the first quarter of the current fiscal year.

Accordingly, GUNZE reviewed the calculation method for retirement benefit obligations and service costs, and changed the attribution method for retirement benefit estimates from the period-based straight-line method to the benefit calculation-based method. Moreover, GUNZE changed the application of the discount rate. Previously, the single discount rate was determined based on the approximate number of years of the average remaining service period of employees. The new method employs a single weighted average discount rate, which reflects the projected payment period of retirement benefits and an amount for each projected payment period.

The application of the Retirement Benefit Accounting Standard and the Retirement Benefit Guidance is subject to the transitional accounting treatment set forth in Clause 37 of the Retirement Benefit Accounting Standard. As such, the effect of the change in the calculation method for retirement benefit obligations and service costs has been reflected as an increase or decrease in retaining earnings at the beginning of the first quarter of the current fiscal year.

This caused the liabilities related to retirement benefits to increase by ¥157 million and retained earnings to decrease by ¥102 million at the beginning of the first quarter of the current fiscal year. The effect of this change on operating income, ordinary income and income before income taxes and minority interests in the first quarter of the current fiscal year is immaterial.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	End of FY2013 (As of Mar. 31, 2014)	End of FY2014 1st quarter (As of June 30, 2014)
Assets		
Current assets		
Cash and cash equivalents	6,757	8,184
Notes & accounts receivable, trade	30,252	29,053
Finished products and goods	19,439	19,538
Work in process	6,746	6,796
Raw materials and supplies	6,370	7,584
Other current assets	3,969	3,872
Allowance for doubtful accounts	(33)	(34)
Total current assets	73,503	74,996
Fixed assets		
Property, plants and equipment		
Buildings and structures (Net)	38,093	37,451
Machinery, equipment and vehicles (Net)	16,084	15,616
Land	11,894	11,887
Other (Net)	2,691	3,844
Total property, plants and equipment	68,763	68,799
Intangible fixed assets	1,468	1,506
Investments and other assets		
Investments in securities	12,684	13,467
Other assets	10,275	9,534
Allowance for doubtful accounts	(151)	(109)
Total investments and other assets	22,808	22,892
Total fixed assets	93,040	93,199
Total assets	166,544	168,195

(Millions of yen)

	End of FY2013 (As of Mar. 31, 2014)	End of FY2014 1st quarter (As of June 30, 2014)
Liabilities		
Current liabilities		
Notes & accounts payable, trade	9,491	8,943
Short-term debt	4,781	5,216
Commercial paper	4,500	10,700
Current portion of long-term debt	1,451	1,384
Accrued income taxes	622	421
Allowance for employees' bonuses	1,109	327
Other current liabilities	10,544	8,426
Total current liabilities	32,502	35,419
Long-term liabilities		
Long-term debt	13,333	13,217
Long-term deposits & guarantee deposits	4,401	4,435
Liabilities related to retirement benefits	1,672	1,705
Other long-term liabilities	450	396
Total long-term liabilities	19,858	19,753
Total liabilities	52,360	55,173
Net assets		
Shareholders' equity		
Common stock	26,071	26,071
Capital surplus	14,061	14,061
Retained earnings	77,771	76,797
Treasury stock	(7,614)	(7,616)
Total shareholders' equity	110,289	109,313
Accumulated other comprehensive income		
Unrealized gains on available-for-sale securities	365	869
Deferred gains on hedge	0	(0)
Revaluation difference on land	(400)	(400)
Foreign currency translation adjustments	850	348
Accumulated adjustments related to retirement benefits	1,251	1,145
Total accumulated other comprehensive income	2,067	1,962
Stock acquisition rights	312	312
Minority interests	1,514	1,432
Total net assets	114,183	113,021
Total liabilities and net assets	166,544	168,195

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income

Consolidated Statements of Income
(for the three months from April 1 to June 30)

(Millions of yen)

	1st quarter of FY2013 (Apr. 1, 2013 to June 30, 2013)	1st quarter of FY2014 (Apr. 1, 2014 to June 30, 2014)
Net sales	34,104	32,234
Cost of sales	25,624	24,007
Gross profit	8,479	8,226
Selling, general & administrative expenses	7,418	7,309
Operating income	1,060	917
Non-operating income		
Interest income	9	6
Dividend income	160	172
Rental income	131	120
Exchange gain	287	-
Other	55	61
Total non-operating income	644	362
Non-operating expenses		
Interest expenses	41	29
Rental expenses	118	107
Exchange loss	-	47
Other	45	54
Total non-operating expenses	204	240
Ordinary income	1,500	1,039
Extraordinary income		
Gain on sale of property, plants & equipment	61	1
Total extraordinary income	61	1
Extraordinary loss		
Loss on sale or disposal of property, plants & equipment	6	2
Amortization of actuarial differences in retirement benefits	221	-
Other	-	0
Total extraordinary loss	228	2
Income before income taxes and minority interests	1,333	1,037
Income taxes	482	497
Income before minority interests	851	540
Minority interests in income (loss)	38	(25)
Net income	812	565

Consolidated Statements of Comprehensive Income
(for the three months from April 1 to June 30)

(Millions of yen)

	1st quarter of FY2013 (Apr. 1, 2013 to June 30, 2013)	1st quarter of FY2014 (Apr. 1, 2014 to June 30, 2014)
Income before minority interests	851	540
Other comprehensive income (loss)		
Unrealized gains on available-for-sale securities	408	503
Deferred gains (losses) on hedge	(2)	(1)
Foreign currency translation adjustments	772	(562)
Adjustments related to retirement benefits	-	(106)
Total other comprehensive income (loss)	1,179	(165)
Comprehensive income (loss) attributable to:	2,030	374
Shareholders of the parent company	1,923	456
Minority interests	107	(81)

**(3) Notes to Quarterly Consolidated Financial Statements
(Notes Regarding Assumptions of Continuing Operations)**

None applicable

(Notes in the Event of Significant Changes in Shareholders' Equity)

None applicable

(Segment Information, etc.)

I. First quarter of FY2013 (Three months ended June 30, 2013)

1. Information on Net Sales and Profit (Loss) of Each Reportable Segment

(Millions of yen)

	Reportable segments				Adjustment (note)	Consolidated
	Functional solutions	Apparel	Lifestyle creations	Total		
Net sales						
Sales to customers	13,882	16,663	3,557	34,104	-	34,104
Intersegment sales and transfers	33	44	94	172	(172)	-
Total	13,915	16,708	3,652	34,276	(172)	34,104
Segment profit	937	560	251	1,749	(688)	1,060

Note:

The - (minus) ¥688 million segment profit adjustment consists of overall costs not allocated to reportable segments.

Overall costs refer to SG&A expenses not allocated to reportable segments.

II. First quarter of FY2014 (Three months ended June 30, 2014)

1. Information on Net Sales and Profit (Loss) of Each Reportable Segment

(Millions of yen)

	Reportable segments				Adjustment (note)	Consolidated
	Functional solutions	Apparel	Lifestyle creations	Total		
Net sales						
Sales to customers	12,876	15,824	3,533	32,234	-	32,234
Intersegment sales and transfers	33	50	80	165	(165)	-
Total	12,910	15,874	3,614	32,399	(165)	32,234
Segment profit	853	504	287	1,645	(728)	917

Note:

The - (minus) ¥728 million segment profit adjustment consists of overall costs not allocated to reportable segments.

Overall costs refer to SG&A expenses not allocated to reportable segments.

2. Matters Regarding Changes in Reportable Segments

(Change in accounting policies)

Application of the Accounting Standard for Retirement Benefits, etc.

With respect to the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, revised on May 17, 2012; hereinafter referred to as the "Retirement Benefit Accounting Standard") and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, revised on May 17, 2012; hereinafter referred to as the "Retirement Benefit Guidance"). GUNZE adopted the provisions set forth in Clause 35 of the Retirement Benefit Accounting Standard and Clause 67 of the Retirement Benefit Guidance, effective from the first quarter of the current fiscal year. Accordingly, GUNZE reviewed the calculation method for retirement benefit obligations and service costs, and changed the attribution method for retirement benefit estimates from the period-based straight-line method to the benefit calculation-based method. Moreover, GUNZE changed the application of the discount rate. Previously, the single discount rate was determined based on the approximate number of years of the average remaining service period of employees. The new method employs a single weighted average discount rate, which reflects the projected payment period of retirement benefits and an amount for each projected payment period.

The effect of this change on segment profits in the first quarter of the current fiscal year is immaterial.