

Summary of Consolidated Financial Statements for the Third Quarter of the Fiscal Year Ending March 31, 2016 (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):	February 12, 2016
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 third quarter of FY2015 (April 1, 2015 to December 31, 2015)

(1) Consolidated operating results (cumulative)

(Amounts less than one million yen are omitted.)

(Percentages represent year-over-year changes.)

	Net sales		Operating income		Ordinary income	
	¥ millions	%	¥ millions	%	¥ millions	%
Nine months ended Dec. 2015	106,400	1.3	3,528	6.7	3,234	(34.4)
Nine months ended Dec. 2014	105,058	(2.3)	3,305	(13.3)	4,929	3.5

	Net income attributable to owners of the parent		E.P.S.	Diluted E.P.S.
	¥ millions	%	¥	¥
Nine months ended Dec. 2015	989	(68.1)	5.25	5.21
Nine months ended Dec. 2014	3,098	13.7	16.17	16.05

Note: Comprehensive income

Nine months ended December 2015: ¥344 million [(91.2) %]

Nine months ended December 2014: ¥3,928 million [(26.3) %]

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	¥ millions	¥ millions	%	(¥)
As of December 31, 2015	180,911	114,637	62.5	605.54
As of March 31, 2015	175,331	117,359	66.0	603.87

Reference: Total equity

December 31, 2015: ¥113,103 million

March 31, 2015: ¥115,643 million

2. Dividends

	Annual dividends per share (¥)				
	1st quarter	2nd quarter	3rd quarter	Year-end	Full year
FY2014	—	—	—	7.50	7.50
FY2015	—	—	—	—	—
FY2015 (projected)	—	—	—	8.50	8.50

Note: Revisions to dividend projections most recently announced: No

Breakdown of year-end dividend for FY2015 projection: Ordinary dividend: ¥7.50 per share, commemorative dividend (for 120th anniversary): ¥1.00 per share

3. Projected results for FY2015 (April 1, 2015 to March 31, 2016)

(Percentages represent year-over-year changes.)

	Net sales		Operating income		Ordinary income	
	¥ millions	%	¥ millions	%	¥ millions	%
FY2015 full year	140,000	(0.8)	3,200	3.8	3,000	(39.2)

	Net income attributable to owners of the parent		E.P.S.
	¥ millions	%	¥
FY2015 full year	300	(90.7)	1.60

Note: Revisions to projections of consolidated financial results most recently announced: Yes

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):
 - 3rd quarter of FY2015: 209,935,165 shares
 - FY2014: 209,935,165 shares
 - (b) Treasury stock at the end of period:
 - 3rd quarter of FY2015: 23,153,557 shares
 - FY2014: 18,431,872 shares
 - (c) Average number of shares during the period (cumulative quarterly period):
 - 3rd quarter of FY2015: 188,444,863 shares
 - 3rd quarter of FY2014: 191,613,089 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 4-5 of attached materials.

Attached Materials

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1. Qualitative Information on Quarterly Financial Results

(1) Description of Results of Operations

Reviewing overall economic conditions during the first nine months of the current fiscal year (April 1 – December 31, 2015), the Japanese economy showed signs of mild recovery, supported by the government's economic policy package combined with an easy monetary policy. However, the slowdown in the Chinese economy and falling crude oil prices raised concerns about the risk of a downturn in overseas economies. Moreover, personal consumption remained at a standstill, reflecting price hikes for imported products and materials caused by the depreciation of the yen. These factors have resulted in continued uncertainty for the GUNZE Group's management environment.

Faced with this situation, the GUNZE Group's medium-term management plan, called "CAN 20 (fiscal 2014 through fiscal 2020)" has entered its second year. With the key concept of "Focus and Concentration," the GUNZE Group promoted three key measures: 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.

In the GUNZE Group's functional solutions business, medical materials enjoyed stable performance. However, overall performance in other fields remained disappointing due to sluggish economic and market conditions. Despite the adverse impact of the abnormally warm winter, apparel sales remained firm.

Consequently, the GUNZE Group's consolidated net sales for the first nine months of the current fiscal year amounted to ¥106,400 million (a year-over-year increase of 1.3%). Consolidated operating income amounted to ¥3,528 million (a year-over-year increase of 6.7%). However, consolidated ordinary income remained at ¥3,234 million (a year-over-year decrease of 34.4%) due mainly to the posting of an exchange loss. During the period under review, GUNZE also posted an impairment loss on fixed assets related to electronic components. As a result, consolidated net income attributable to owners of the parent was ¥989 million (a year-over-year decrease of 68.1%).

Results by Business Segment

<Functional Solutions>

In plastic film, shrink film sales dipped mainly for beverage applications. Exports to Europe, which had previously been strong, also slowed. These factors caused the plastic film business to experience difficulties. The engineering plastics business also performed poorly, with sales of products for the office equipment market adversely affected by the economic slump in emerging markets. Sales of products for non-OA applications were also disappointing due to the slowdown in the semiconductor industry. In electronic components, touch screens for PCs remained sluggish, while increasingly intense competition made it difficult to secure profits. To cope with this situation, GUNZE has been working to improve productivity by restructuring and streamlining overseas production sites. These efforts, however, were still not enough to boost performance. Medical materials destined for North America continued to perform impressively, while sales were also solid in Japan and China. Consequently, the functional solutions business posted net sales of ¥43,598 million (a year-over-year increase of 0.9%) and operating income of ¥2,732 million (a year-over-year increase of 4.1%).

<Apparel>

For the apparel business in general, winter season product sales were negatively affected by the unusually warm winter. In inner wear, the renewal of mainstay brands and the expansion of high-growth channels put the brakes on decreasing sales. Sales of the new *Kaiteki Kobo* were also strong. In leg wear, the sales area for the mainstay plain stocking brands expanded steadily, while leggings pants continued to enjoy strong sales. Consequently, the apparel business posted net sales of ¥52,833 million (a year-over-year increase of 1.3%) and operating income of ¥2,481 million (a year-over-year increase of 16.5%).

<Lifestyle Creations>

In the real estate category, the reorganization of current tenants and the introduction of new tenants drove up business for the *GUNZE Town Center TSUKASHiN* commercial facility. The sports club business posted an increase in sales mainly due to the opening of new clubs. However, initial expenses incurred for the new clubs scheduled to open at the end of the present fiscal year had an adverse impact on the performance of the sports club business. Consequently, the lifestyle creation

business recorded net sales of ¥10,483 million (a year-over-year increase of 2.8%) and operating income of ¥797 million (a year-over-year increase of 1.0%).

(2) Description of Financial Position

As of December 31, 2015, total assets were ¥180,911 million, an increase of ¥5,579 million compared to the end of the previous fiscal year. The main components of the increase were a ¥5,233 million increase in investments in securities and a ¥3,342 million increase in notes and accounts receivable. The main components of a decrease were a ¥1,404 million decrease in property, plants and equipment and a ¥834 million decrease in inventories.

Total liabilities were ¥66,274 million, an increase of ¥8,302 million compared to the end of the previous fiscal year. The main components of the increase were a ¥7,656 million increase in debt including commercial paper and a ¥1,189 million increase in notes and accounts payable. The main components of a decrease included an ¥856 million decrease in allowance for employees' bonuses.

Net assets were ¥114,637 million, a decrease of ¥2,722 million compared to the end of the previous fiscal year. The main component of an increase was a net income attributable to owners of the parent of ¥989 million recorded for the period under review. The main components of the decrease were ¥1,534 million spent for the acquisition of treasury stock and dividend payments of ¥1,436 million.

(3) Description of Consolidated Financial Forecast

During the first nine months of the current fiscal year, GUNZE's electronic components business worsened more than expected due to intensified competition and sluggish sales of touch screens for PCs. The posting of an impairment loss also led to expectations that consolidated full-year results are likely to drop below the levels of the previous forecast. The projected dividend of ¥8.5 per share will remain unchanged. Details of revisions to the full-year forecast are as follows:

Full-Year Forecast for FY2015 (April 1, 2015 to March 31, 2016)

	Net sales	Operating income	Ordinary income	Net income	E.P.S.
	¥ millions	¥ millions	¥ millions	¥ millions	¥
Previous forecast (A)	143,000	3,500	3,300	2,100	11.17
Revised forecast (B)	140,000	3,200	3,000	300	1.60
Difference (B - A)	(3,000)	(300)	(300)	(1,800)	—
Difference (percentage)	(2.1%)	(8.6%)	(9.1%)	(85.7%)	—
(Ref.) Previous fiscal year results (ended March 31, 2015)	141,172	3,084	4,933	3,215	16.78

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 nine months of the current consolidated 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, 2016.

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

(Changes in accounting policies)

Effective from the first three months of the current fiscal year ending March 31, 2016, GUNZE adopted the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013, hereinafter referred to as the “Business Combination Accounting Standard”); the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013, hereinafter referred to as the “Consolidation Accounting Standard”); and the “Accounting Standard for Business Divestitures” (ASBJ No. 7, September 13, 2013, hereinafter referred to as the “Business Divestiture Accounting Standard”). As a

result of the adoption of these standards, GUNZE changed accounting treatments as follows: recording any differences arising from changes in the proportion of equity ownership in a subsidiary when the parent company retains control over the subsidiary as capital surplus and recognizing acquisition-related costs as expenses for the consolidated fiscal year during which the costs are incurred. As for the business combination that occurred on or after the beginning of the first three months of the current fiscal year, the accounting treatment was revised to reflect the adjustment of purchase price allocation based on provisional accounting on the consolidated financial statements for the quarterly period during which the business combination takes place. In addition, the presentation method of net income was amended, and the reference to “minority interests” was changed to “non-controlling interests.” To reflect these changes in presentation, the consolidated financial statements for the first nine months of the previous consolidated fiscal year and the consolidated financial statements for the previous consolidated fiscal year have been reclassified.

The application of the Business Combination Accounting Standard and others conforms to the provisional treatment stipulated in Section 58-2 (4) of the Business Combination Accounting Standard, Section 44-5 (4) of the Consolidation Accounting Standard, and Section 57-4 (4) of the Business Divestiture Accounting Standard, and these changes are effective from the beginning of the first three months of the current consolidated fiscal year onwards.

These changes will have no impact on the consolidated financial statements for the first nine months of the present consolidated fiscal year.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	End of FY2014 (As of Mar. 31, 2015)	End of FY2015 3rd quarter (As of Dec. 31, 2015)
Assets		
Current assets		
Cash and cash equivalents	9,159	8,316
Notes and accounts receivable, trade	31,075	34,418
Finished products and goods	18,313	17,268
Work in process	6,541	6,798
Raw materials and supplies	6,696	6,649
Other current assets	5,856	5,662
Allowance for doubtful accounts	(20)	(27)
Total current assets	77,621	79,087
Fixed assets		
Property, plants and equipment		
Buildings and structures (Net)	37,896	37,355
Machinery, equipment and vehicles (Net)	17,001	15,742
Land	11,950	11,942
Other (Net)	3,369	3,773
Total property, plants and equipment	70,218	68,814
Intangible fixed assets	1,210	1,244
Investments and other assets		
Investments in securities	18,463	23,696
Other assets	7,912	8,168
Allowance for doubtful accounts	(95)	(100)
Total investments and other assets	26,280	31,764
Total fixed assets	97,709	101,823
Total assets	175,331	180,911

(Millions of yen)

	End of FY2014 (As of Mar. 31, 2015)	End of FY2015 3rd quarter (As of Dec. 31, 2015)
Liabilities		
Current liabilities		
Notes and accounts payable, trade	9,339	10,529
Short-term debt	9,718	9,225
Commercial paper	2,700	12,100
Current portion of long-term debt	3,340	2,052
Accrued income taxes	448	1,002
Allowance for employees' bonuses	1,148	291
Other current liabilities	8,743	9,184
Total current liabilities	35,440	44,387
Long-term liabilities		
Long-term debt	12,889	12,927
Liabilities related to retirement benefits	3,461	3,487
Long-term deposits and guarantee deposits	4,272	4,255
Other long-term liabilities	1,907	1,217
Total long-term liabilities	22,531	21,887
Total liabilities	57,971	66,274
Net assets		
Shareholders' equity		
Common stock	26,071	26,071
Capital surplus	14,056	14,037
Retained earnings	79,313	78,849
Treasury stock	(7,648)	(9,183)
Total shareholders' equity	111,792	109,775
Accumulated other comprehensive income		
Unrealized gains on available-for-sale securities	1,787	1,508
Deferred gains on hedge	1	-
Revaluation difference on land	(400)	(400)
Foreign currency translation adjustments	2,298	2,058
Accumulated adjustments related to retirement benefits	164	162
Total accumulated other comprehensive income	3,850	3,328
Stock acquisition rights	342	284
Non-controlling interests	1,374	1,249
Total net assets	117,359	114,637
Total liabilities and net assets	175,331	180,911

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

Consolidated Statements of Income
(for the nine months from April 1 to December 31)

(Millions of yen)

	3rd quarter of FY2014 (Apr. 1, 2014 to Dec. 31, 2014)	3rd quarter of FY2015 (Apr. 1, 2015 to Dec. 31, 2015)
Net sales	105,058	106,400
Cost of sales	79,314	79,752
Gross profit	25,744	26,647
Selling, general and administrative expenses	22,438	23,119
Operating income	3,305	3,528
Non-operating income		
Interest income	28	32
Dividend income	281	368
Rental income	340	218
Exchange gain	1,418	-
Other	84	95
Total non-operating income	2,153	716
Non-operating expenses		
Interest expenses	96	137
Rental expenses	307	196
Exchange loss	-	571
Other	125	105
Total non-operating expenses	529	1,010
Ordinary income	4,929	3,234
Extraordinary income		
Gain on sale of fixed assets	13	64
Gain on insurance adjustment	-	390
Other	-	0
Total extraordinary income	13	454
Extraordinary loss		
Loss on sale or disposal of fixed assets	37	43
Impairment loss	-	1,318
Other	26	48
Total extraordinary loss	64	1,410
Income before income taxes	4,878	2,279
Income taxes	1,917	1,359
Net Income	2,961	919
Net income (loss) attributable to non-controlling interests	(136)	(69)
Net income attributable to owners of the parent	3,098	989

Consolidated Statements of Comprehensive Income
(for the nine months from April 1 to December 31)

(Millions of yen)

	3rd quarter of FY2014 (Apr. 1, 2014 to Dec. 31, 2014)	3rd quarter of FY2015 (Apr. 1, 2015 to Dec. 31, 2015)
Net income	2,961	919
Other comprehensive income (loss)		
Unrealized gains (losses) on available-for-sale securities	883	(279)
Deferred gains (losses) on hedge	6	(1)
Foreign currency translation adjustments	395	(292)
Adjustments related to retirement benefits	(318)	(2)
Total other comprehensive income (loss)	966	(575)
Comprehensive income	3,928	344
(Breakdown)		
Comprehensive income attributable to owners of the parent	4,028	466
Comprehensive income (loss) attributable to non-controlling interests	(100)	(122)

**(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. Third quarter of FY2014 (Nine months ended December 31, 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	43,125	51,967	9,965	105,058	-	105,058
Intersegment sales and transfers	102	171	233	508	(508)	-
Total	43,228	52,139	10,199	105,567	(508)	105,058
Segment profit	2,625	2,129	789	5,544	(2,239)	3,305

Note:

The - (minus) ¥2,239 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. Third quarter of FY2015 (Nine months ended December 31, 2015)

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	43,547	52,623	10,229	106,400	-	106,400
Intersegment sales and transfers	51	210	253	515	(515)	-
Total	43,598	52,833	10,483	106,915	(515)	106,400
Segment profit	2,732	2,481	797	6,011	(2,483)	3,528

Note:

The - (minus) ¥2,483 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. Information on Impairment Loss on Fixed Assets, Goodwill, etc. by Reportable Segment

(Significant Impairment Loss related to Fixed Assets)

An impairment loss of ¥1,318 million was recognized for electronic component production equipment possessed by a Chinese subsidiary related to the functional solutions business. The loss was taken because the recoverable amount fell below the carrying amount, which in turn was caused by a decline in profitability resulting from worsened business conditions.