

Summary of Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2017 (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 9, 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 first quarter of FY2016 (April 1, 2016 to June 30, 2016)

(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 2016	31,952	(4.3)	1,570	34.3	(3,332)	—
Three months ended June 2015	33,404	3.6	1,169	27.5	1,461	40.6

	Net income attributable to owners of the parent		E.P.S.	Diluted E.P.S.
	¥ millions	%	¥	¥
Three months ended June 2016	(5,709)	—	(30.54)	—
Three months ended June 2015	887	57.0	4.65	4.62

Note: Comprehensive income

Three months ended June 2016: (¥4,821 million) [- %]

Three months ended June 2015: ¥2,412 million [544.9 %]

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	¥ millions	¥ millions	%	(¥)
As of June 30, 2016	171,029	100,227	57.8	528.63
As of March 31, 2016	169,749	106,639	61.9	562.44

Reference: Total equity

June 30, 2016: ¥98,838 million

March 31, 2016: ¥105,158 million

2. Dividends

	Annual dividends per share (¥)				
	1st quarter	2nd quarter	3rd quarter	Year-end	Full year
FY2015	—	—	—	8.50	8.50
FY2016	—	—	—	—	—
FY2016 (projected)	—	—	—	7.50	7.50

Note: Revisions to dividend projections most recently announced: No

Breakdown of year-end dividend for FY2015:

Ordinary dividend: ¥7.50 per share, commemorative dividend (for 120th anniversary): ¥1.00 per share

3. Projected results for FY2017 (April 1, 2016 to March 31, 2017)

(Percentages represent year-over-year changes.)

	Net sales		Operating income		Ordinary income	
	¥ millions	%	¥ millions	%	¥ millions	%
FY2016 full year	141,000	1.9	4,000	9.2	4,600	481.5

	Net income attributable to owners of the parent		E.P.S.
	¥ millions	%	¥
FY2016 full year	2,600	—	13.91

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: No
- (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 FY2016: 209,935,165 shares

FY2015: 209,935,165 shares

(b) Treasury stock at the end of period:

1st quarter of FY2016: 22,966,014 shares

FY2015: 22,966,562 shares

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

1st quarter of FY2016: 186,968,159 shares

1st quarter of FY2015: 190,926,390 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 the economic conditions during the first three months of the current fiscal year (April 1 – June 30, 2016), the Japanese economy showed signs of mild recovery. However, overall business prospects were increasingly uncertain due to the economic slowdown in China and other overseas economies, and the rapid appreciation of the yen with the UK's decision to leave the EU. The adverse effects of the Kumamoto Earthquake that hit Japan this past April also contributed to the growing uncertainty.

Faced with this situation, the GUNZE Group's medium-term management plan, called "CAN 20 (fiscal 2014 through fiscal 2020)" has entered its third and final year of its first phase. With the key concept of "Focus and Concentration," the GUNZE Group implemented 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.

The GUNZE Group's functional solutions business enjoyed firm sales in the area of medical materials, but the performance of other fields was sluggish overall. The apparel business remained firm thanks to the sales expansion of its core brands and efforts to strengthen high-growth sales channels.

Consequently, the GUNZE Group's consolidated net sales for the first three months of the current fiscal year amounted to ¥31,952 million (a year-over-year decrease of 4.3%). Consolidated operating income amounted to ¥1,570 million (a year-over-year increase of 34.3%). However, reflecting the rapid appreciation of the yen, GUNZE posted a ¥4,660 million valuation loss in derivatives transactions as non-operating expenses. This was attributable to currency options implemented for the purpose of hedging against foreign exchange movement risk. As a result, GUNZE recorded an ordinary loss of ¥3,332 million, compared with an ordinary income of ¥1,461 million recorded in the same period of the previous fiscal year. Furthermore, GUNZE posted a ¥3,894 million valuation loss on investments in securities, reflecting a considerable drop in their market values, as extraordinary loss.

As a result, GUNZE posted a consolidated net loss attributable to owners of the parent amounting to ¥5,709 million compared with a consolidated net income attributable to owners of the parent of ¥887 million recorded in the same period of the previous fiscal year.

Results by Business Segment

<Functional Solutions>

In plastic film, mainstay shrink films enjoyed robust sales in Japan, and exports were strong to Southeast Asia. However, slow sales of films for food packaging applications, and a drop in the unit sales price reflecting declines in raw material prices, resulted in an overall sales decrease for the plastic film category. In engineering plastics, products for the non-office equipment market recorded impressive sales, but sales for the office equipment market were sluggish. As for electronic components, GUNZE has been working on structural reforms by restructuring and streamlining the Group's production facilities. Even so, increasingly intense competition and slow sales of touch screens caused this category to experience challenging conditions. In medical materials, reinforcement felts performed strongly both inside and outside of Japan.

Consequently, the functional solutions business posted net sales of ¥11,789 million (a year-over-year decrease of 14.0%) and operating income of ¥967 million (a year-over-year decrease of 11.6%).

<Apparel>

Innerwear sales performed well, with promoted sales and expanded high-growth channels for mainstay brands such as *Kaiteki Kobo* and differentiated products in the women's innerwear category. In leg wear, the core brand *SABRINA* performed strongly and leggings pants also showed impressive performance with a new launch of men's products.

Consequently, the apparel business posted net sales of ¥16,376 million (a year-over-year increase of 1.8%) and operating income of ¥1,049 million (a year-over-year increase of 82.8%).

<Lifestyle Creations>

In the real estate category, the business of the *GUNZE Town Center TSUKASHiN* commercial facility was adversely impacted by temporary closure of the main tenant store due to its renovation of sales areas. Even so, the master lease business of other shopping malls contributed to the category's sales and profit increases. The sports club business enjoyed an increase in sales thanks to the opening of new clubs. However, initial expenses incurred for the new clubs had an adverse impact on the category's performance.

Consequently, the lifestyle creation business recorded net sales of ¥3,874 million (a year-over-year increase of 3.2%) and operating income of ¥298 million (a year-over-year increase of 4.2%).

(2) Description of Financial Position

As of June 30, 2016, total assets were ¥171,029 million, an increase of ¥1,280 million compared to the end of the previous fiscal year. The main components of the increase were a ¥2,202 million increase in cash and cash equivalents, and a ¥1,689 million increase in other current assets (deferred tax assets, etc.). The main components of a decrease included a ¥995 million decrease in machinery, equipment and vehicles (net), and an ¥867 million decrease in notes and accounts receivable.

Total liabilities were ¥70,801 million, an increase of ¥7,691 million compared to the end of the previous fiscal year. The main components of the increase were a ¥5,378 million increase in long- and short-term debt including commercial paper, and a ¥4,566 million increase in other current liabilities (forward exchange contracts, etc.). The main components of a decrease were a ¥1,047 million decrease in notes and accounts payable, and a ¥789 million decrease in allowance for employees' bonuses.

Net assets were ¥100,227 million, a decrease of ¥6,411 million compared to the end of the previous fiscal year. The main components of an increase were a ¥1,501 million decrease in unrealized losses on available-for-sale securities. The main components of the decrease were a net loss attributable to owners of the parent amounting to ¥5,709 million, and dividend payments of ¥1,589 million.

(3) Description of Consolidated Financial Forecast

GUNZE has not revised its consolidated full-year forecast for the present fiscal year ending March 31, 2017 from the previous forecast announced on May 12, 2016, as the operating income during the first three months of the current fiscal year remained within the assumed range. As for valuation losses on derivatives and investments in securities posted in the first three months of the current fiscal year, it is difficult to project the amounts of valuation losses to be incurred as of the end of the current fiscal year due to rapid fluctuations in exchange rates and stock prices. This also resulted in a decision to keep the previous forecast unchanged.

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 three 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, 2017.

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

None applicable.

(4) Additional Information

Effective from the first three months of the current fiscal year ending March 31, 2017, GUNZE adopted the “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016).

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	End of FY2015 (As of Mar. 31, 2016)	End of FY2016 1st quarter (As of June 30, 2016)
Assets		
Current assets		
Cash and cash equivalents	7,471	9,674
Notes and accounts receivable, trade	28,925	28,057
Finished products and goods	17,754	17,427
Work in process	6,648	7,032
Raw materials and supplies	5,456	4,682
Other current assets	5,369	7,059
Allowance for doubtful accounts	(19)	(13)
Total current assets	71,605	73,920
Fixed assets		
Property, plants and equipment		
Buildings and structures (Net)	38,867	38,173
Machinery, equipment and vehicles (Net)	15,819	14,823
Land	11,977	11,944
Other (Net)	3,220	4,254
Total property, plants and equipment	69,884	69,196
Intangible fixed assets	1,322	1,252
Investments and other assets		
Investments in securities	18,523	18,771
Other assets	8,515	7,989
Allowance for doubtful accounts	(101)	(100)
Total investments and other assets	26,936	26,660
Total fixed assets	98,143	97,109
Total assets	169,749	171,029

(Millions of yen)

	End of FY2015 (As of Mar. 31, 2016)	End of FY2016 1st quarter (As of June 30, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable, trade	9,112	8,064
Short-term debt	8,898	8,579
Commercial paper	5,200	11,200
Current portion of long-term debt	1,954	1,928
Accrued income taxes	331	337
Allowance for employees' bonuses	1,117	328
Other current liabilities	11,818	16,385
Total current liabilities	38,433	46,824
Long-term liabilities		
Long-term debt	14,355	14,079
Liabilities related to retirement benefits	4,887	4,925
Long-term deposits and guarantee deposits	4,122	4,289
Other long-term liabilities	1,310	683
Total long-term liabilities	24,676	23,977
Total liabilities	63,110	70,801
Net assets		
Shareholders' equity		
Common stock	26,071	26,071
Capital surplus	13,999	13,998
Retained earnings	76,605	69,307
Treasury stock	(9,108)	(9,108)
Total shareholders' equity	107,567	100,269
Accumulated other comprehensive income		
Unrealized gains (losses) on available-for-sale securities	(1,728)	(226)
Revaluation difference on land	(400)	(400)
Foreign currency translation adjustments	1,838	1,241
Accumulated adjustments related to retirement benefits	(2,117)	(2,044)
Total accumulated other comprehensive income	(2,408)	(1,431)
Stock acquisition rights	246	246
Non-controlling interests	1,233	1,143
Total net assets	106,639	100,227
Total liabilities and net assets	169,749	171,029

(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 FY2015 (Apr. 1, 2015 to June 30, 2015)	1st quarter of FY2016 (Apr. 1, 2016 to June 30, 2016)
Net sales	33,404	31,952
Cost of sales	24,865	23,057
Gross profit	8,538	8,895
Selling, general and administrative expenses	7,369	7,324
Operating income	1,169	1,570
Non-operating income		
Interest income	9	11
Dividend income	196	235
Rental income	78	70
Exchange gain	162	-
Other	42	63
Total non-operating income	489	381
Non-operating expenses		
Interest expenses	39	44
Rental expenses	95	59
Exchange loss	-	478
Loss on valuation of derivatives	10	4,660
Other	51	41
Total non-operating expenses	196	5,283
Ordinary income (loss)	1,461	(3,332)
Extraordinary income		
Gain on sale of fixed assets	64	43
Gain on transfer of business	-	242
Other	0	-
Total extraordinary income	64	285
Extraordinary loss		
Loss on sale or disposal of fixed assets	18	163
Loss on valuation of investments in securities	-	3,894
Total extraordinary loss	18	4,058
Income (loss) before income taxes	1,507	(7,105)
Income taxes	636	(1,367)
Net Income (loss)	871	(5,737)
Net income (loss) attributable to non-controlling interests	(16)	(28)
Net income (loss) attributable to owners of the parent	887	(5,709)

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

(Millions of yen)

	1st quarter of FY2015 (Apr. 1, 2015 to June 30, 2015)	1st quarter of FY2016 (Apr. 1, 2016 to June 30, 2016)
Net income (loss)	871	(5,737)
Other comprehensive income (loss)		
Unrealized gains on available-for-sale securities	1,409	1,501
Deferred gains on hedge	3	-
Foreign currency translation adjustments	128	(658)
Adjustments related to retirement benefits	(0)	73
Total other comprehensive income	1,540	916
Comprehensive income (loss)	2,412	(4,821)
(Breakdown)		
Comprehensive income (loss) attributable to owners of the parent	2,404	(4,731)
Comprehensive income (loss) attributable to non-controlling interests	7	(90)

**(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 FY2015 (Three months ended June 30, 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	13,694	16,042	3,667	33,404	-	33,404
Intersegment sales and transfers	12	51	85	150	(150)	-
Total	13,707	16,094	3,753	33,555	(150)	33,404
Segment profit	1,094	574	286	1,955	(786)	1,169

Note:

The - (minus) ¥786 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 FY2016 (Three months ended June 30, 2016)

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	11,776	16,325	3,849	31,952	-	31,952
Intersegment sales and transfers	12	50	24	87	(87)	-
Total	11,789	16,376	3,874	32,040	(87)	31,952
Segment profit	967	1,049	298	2,315	(745)	1,570

Note:

The - (minus) ¥745 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.