

## Summary of Consolidated Financial Statements for the Second 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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 Stock Market Listings: Tokyo  
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 Filing of Quarterly Securities Report (*Shihanki hokokusho*) (Scheduled): November 11, 2016  
 Start of Distribution of Dividends (Scheduled): –  
 Preparation of Supplementary Materials for the Quarterly Financial Results: Yes  
 Holding of Presentation of Quarterly Financial Results: Yes  
 (for institutional investors/analysts)

### 1. Consolidated results for the second quarter of FY2016 (April 1, 2016 to September 30, 2016)

#### (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	%
Six months ended Sept. 2016	66,015	(4.9)	2,516	60.5	(3,080)	–
Six months ended Sept. 2015	69,410	5.2	1,568	13.5	988	(53.9)

	Net income attributable to owners of the parent		E.P.S.	Diluted E.P.S.
	¥ millions	%	¥	¥
Six months ended Sept. 2016	(2,688)	–	(14.38)	–
Six months ended Sept. 2015	404	(67.7)	2.14	2.12

Note: Comprehensive income

Six months ended September 2016: (¥4,726 million) [ - %]

Six months ended September 2015: ¥391 million [51.5 %]

## (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	¥ millions	¥ millions	%	(¥)
As of September 30, 2016	174,399	100,361	56.8	529.90
As of March 31, 2016	169,749	106,639	61.9	562.44

Reference: Total equity

September 30, 2016: ¥99,074 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 120<sup>th</sup> 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	135,000	(2.4)	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: 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: 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):

2nd quarter of FY2016: 209,935,165 shares

FY2015: 209,935,165 shares

(b) Treasury stock at the end of period:

2nd quarter of FY2016: 22,969,128 shares

FY2015: 22,966,562 shares

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

2nd quarter of FY2016: 186,968,021 shares

2nd quarter of FY2015: 189,155,235 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 5 of attached materials.

## Attached Materials

### Table of Contents

1. Qualitative Information on Quarterly Financial Results	2
(1) Description of Results of Operations	2
(2) Description of Financial Position	4
(3) Description of Consolidated Financial Forecast	5
2. Summary Information (Notes)	6
(1) Changes in Significant Subsidiaries during the Period	6
(2) Application of Specific Accounting Practices for Preparing Quarterly Consolidated Financial Statements	6
(3) Changes in Accounting Policies, Changes in Accounting Estimates, and Restatement after Error Corrections	6
(4) Additional Information	
3. Quarterly Consolidated Financial Statements	7
(1) Quarterly Consolidated Balance Sheets	7
(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income	9
(3) Quarterly Consolidated Statements of Cash Flows	11
(4) Notes to Quarterly Consolidated Financial Statements	13
(Notes Regarding Assumptions of Continuing Operations)	13
(Notes in the Event of Significant Changes in Shareholders' Equity)	13
(Segment Information, etc.)	13
4. Supplementary Information	14
(1) Supplementary Materials for Quarterly Financial Results	14

## 1. Qualitative Information on Quarterly Financial Results

### (1) Description of Results of Operations

Reviewing the economic conditions during the first six months of the current fiscal year (April 1 – September 30, 2016), the Japanese economy showed signs of mild recovery. However, overall business prospects remained uncertain due partly to the progress in the appreciation of the yen since the beginning of the year. Other factors that caused uncertainty included the UK's decision to leave the EU and the economic slowdown in China, which caused increasing uncertainty in overseas economies, as well as a declined consumer confidence resulting in sluggish personal consumption.

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 strong performance in medical materials although the performance of engineering plastics was sluggish. The apparel business remained firm thanks to sales expansion of its core brands and strengthened efforts to expand high-growth sales channels, despite the prolonged sluggishness of store sales.

Consequently, the GUNZE Group's consolidated net sales for the first six months of the current fiscal year amounted to ¥66,015 million (a year-over-year decrease of 4.9%). Consolidated operating income amounted to ¥2,516 million (a year-over-year increase of 60.5%). However, GUNZE recorded an ordinary loss of ¥3,080 billion, compared with an ordinary income of ¥988 million recorded in the same period of the previous fiscal year. This was due to the posting of an exchange loss reflecting the rapid appreciation of the yen (including the loss on valuation of derivatives). As a result, GUNZE posted a consolidated net loss attributable to owners of the parent amounting to ¥2,688 million, compared with a consolidated net income attributable to owners of the parent of ¥404 million recorded during 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 strong exports to Southeast Asia. However, the increasingly intense competition for food packaging films and a drop in sales price reflecting declines in raw material prices caused overall plastic film sales to decrease. In engineering plastics, products for the non-office equipment market, such as semiconductor-related products, recorded impressive sales, but sales in the office equipment market were sluggish. As for electronic components, GUNZE has been continuously working on structural reforms by restructuring and streamlining the Group's production facilities. Even so, increasingly intense competition in the touch screen and film markets resulted in slow sales overall for the electronic components category. In medical materials, reinforcement felts performed strongly both inside and outside of Japan. Consequently, the functional solutions business posted net sales of ¥24,124 million (a year-over-year decrease of 17.7%), while operating income was ¥1,924 million (a year-over-year increase of 7.8%).

### <Apparel>

Innerwear sales were robust due to the renewal of mainstay brands, expanded sales for differentiated products mainly in the women's innerwear category, and expansion of high-growth channels. In leg wear, the core brand *SABRINA* and leggings pants with foot covers performed strongly, driving overall category sales. Starting in the first six months of the present consolidated fiscal year, apparel retailers Jeans & Casual Dan Co., Ltd. and Date Department Store Co., Ltd. were included in the scope of consolidation. Consequently, the apparel business posted net sales of ¥34,729 million (a year-over-year increase of 3.7%) and operating income of ¥1,537 million (a year-over-year increase of 61.4%).

### <Lifestyle Creations>

In the real estate category, the *GUNZE Town Center TSUKASHiN* and other commercial facilities suffered slow sales in fashion-related tenants reflecting lingering summer heat. Master lease business and leasing of housings and office buildings made a positive contribution to the category's overall performance. The sports club business enjoyed an increase in sales mainly due 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 ¥7,351 million (a year-over-year increase of 5.6%) and operating income of ¥546 million (a year-over-year increase of 13.0%).

## (2) Description of Financial Position

As of September 30, 2016, total assets were ¥174,399 million, an increase of ¥4,650 million compared to the end of the previous fiscal year. The main components of the increase were a ¥5,096 million increase in cash and cash equivalents, and a ¥1,066 million increase in finished products and goods. The main components of a decrease included a ¥1,847 million decrease in machinery, equipment and vehicles.

Total liabilities were ¥74,037 million, an increase of ¥10,927 million compared to the end of the previous fiscal year. The main components of the increase were a ¥6,732 million increase in long- and short-term debt including commercial paper and a ¥3,847 million increase in other current liabilities (including forward exchange contracts, etc.).

Net assets were ¥100,361 million, a decrease of ¥6,277 million compared to the end of the previous fiscal year. The main components of the decrease were a net loss attributable to owners of the parent of ¥2,688 million recorded for the period under review, dividend payments of ¥1,589 million, and a ¥1,631 million decrease in foreign currency translation adjustments.

### (Cash Flows)

As of September 30, 2016, cash and cash equivalents were ¥12,568 million, ¥5,096 million more than at the end of the previous fiscal year. Below is an overview of cash flows and reasons for changes during the first six months of the current fiscal year.

Net cash provided by operating activities for the period under review was ¥3,820 million, an increase of ¥734 million compared to the same period of the previous fiscal year. The major components of cash inflows were a ¥5,030 million loss on valuation of derivatives and depreciation and amortization of ¥3,283 million. The major components of cash outflows were a loss before income taxes of ¥2,882 million and a ¥1,556 million increase in inventories.

Net cash used in investing activities totaled ¥4,529 million, a decrease of ¥5,131 million compared to the same period of the previous fiscal year. The main components of cash outflows included payments for purchase of fixed assets amounting to ¥4,143 million, including capital investment in equipment related to the lifestyle creation business.

Net cash provided by financing activities totaled ¥6,551 million, an increase of 756 million compared to the same period of the previous fiscal year. The main components of cash inflows included proceeds from long- and short-term debt amounting to ¥8,190 million, including commercial paper. The main components of cash outflows included ¥1,581 million spent for dividend payments.

### (3) Description of Consolidated Financial Forecast

In view of the sales conditions of the functional solutions business during the first six months of the present fiscal year, GUNZE's consolidated full-year net sales for the fiscal year ending March 31, 2017 are projected to remain lower than the previous full-year forecast. Because of this, GUNZE has revised its consolidated full-year forecast for net sales as shown below.

However, the operating income during the first six months of the current fiscal year remained within the assumed range. Moreover, as for loss on valuation of derivatives and exchange loss, it is difficult to project the amounts of valuation losses to be incurred as of the end of the current fiscal year. As a result, GUNZE has decided not to change the previous forecasts for operating income, ordinary income, and income attributable to owners of the parent. The projected dividend of ¥7.5 per share will also remain unchanged.

#### Full-Year Forecast for FY2016 (April 1, 2016 to March 31, 2017)

	Net sales	Operating income	Ordinary income	Net income attributable to owners of the parent	E.P.S.
	¥ millions	¥ millions	¥ millions	¥ millions	¥
Previous forecast (A)	141,000	4,000	4,600	2,600	13.91
Revised forecast (B)	135,000	4,000	4,600	2,600	13.91
Difference (B - A)	(6,000)				
Difference (percentage)	(4.3%)				
(Ref.) Previous fiscal year results (Year ended March 31, 2016)	138,324	3,662	791	(1,201)	(6.39)



## **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 six 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 2nd quarter (As of Sept. 30, 2016)
Assets		
Current assets		
Cash and cash equivalents	7,471	12,568
Notes and accounts receivable, trade	28,925	28,228
Finished products and goods	17,754	18,820
Work in process	6,648	6,858
Raw materials and supplies	5,456	5,043
Other current assets	5,369	5,958
Allowance for doubtful accounts	(19)	(13)
Total current assets	71,605	77,465
Fixed assets		
Property, plants and equipment		
Buildings and structures (Net)	38,867	38,881
Machinery, equipment and vehicles (Net)	15,819	13,971
Land	11,977	11,978
Other (Net)	3,220	3,071
Total property, plants and equipment	69,884	67,902
Intangible fixed assets	1,322	1,863
Investments and other assets		
Investments in securities	18,523	17,834
Other assets	8,515	9,409
Allowance for doubtful accounts	(101)	(77)
Total investments and other assets	26,936	27,167
Total fixed assets	98,143	96,934
Total assets	169,749	174,399

(Millions of yen)

	End of FY2015 (As of Mar. 31, 2016)	End of FY2016 2nd quarter (As of Sept. 30, 2016)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable, trade	9,112	8,966
Short-term debt	8,898	7,839
Commercial paper	5,200	14,700
Current portion of long-term debt	1,954	896
Accrued income taxes	331	507
Allowance for employees' bonuses	1,117	1,120
Other current liabilities	11,818	15,665
Total current liabilities	38,433	49,696
Long-term liabilities		
Long-term debt	14,355	13,703
Liabilities related to retirement benefits	4,887	5,213
Long-term deposits and guarantee deposits	4,122	4,416
Other long-term liabilities	1,310	1,008
Total long-term liabilities	24,676	24,341
Total liabilities	63,110	74,037
<b>Net assets</b>		
Shareholders' equity		
Common stock	26,071	26,071
Capital surplus	13,999	13,998
Retained earnings	76,605	72,328
Treasury stock	(9,108)	(9,109)
Total shareholders' equity	107,567	103,289
Accumulated other comprehensive income		
Unrealized gains (losses) on available-for-sale securities	(1,728)	(2,053)
Revaluation difference on land	(400)	(400)
Foreign currency translation adjustments	1,838	207
Accumulated adjustments related to retirement benefits	(2,117)	(1,968)
Total accumulated other comprehensive income	(2,408)	(4,214)
Stock acquisition rights	246	288
Non-controlling interests	1,233	999
Total net assets	106,639	100,361
Total liabilities and net assets	169,749	174,399

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

Consolidated Statements of Income  
(for the six months from April 1 to September 30)

(Millions of yen)

	2nd quarter of FY2015 (Apr. 1, 2015 to Sept. 30, 2015)	2nd quarter of FY2016 (Apr. 1, 2016 to Sept. 30, 2016)
Net sales	69,410	66,015
Cost of sales	52,498	47,742
Gross profit	16,911	18,273
Selling, general and administrative expenses	15,343	15,757
Operating income	1,568	2,516
Non-operating income		
Interest income	17	28
Dividend income	224	265
Rental income	146	140
Other	70	91
Total non-operating income	458	526
Non-operating expenses		
Interest expenses	90	82
Rental expenses	136	120
Exchange loss	105	750
Loss on valuation of derivatives	627	5,030
Other	79	138
Total non-operating expenses	1,038	6,123
Ordinary income (loss)	988	(3,080)
Extraordinary income		
Gain on sale of fixed assets	63	43
Gain on sale of investment securities	0	147
Gain on transfer of business	-	233
Total extraordinary income	63	424
Extraordinary loss		
Loss on sale or disposal of fixed assets	27	199
Other	8	26
Total extraordinary loss	36	226
Income (loss) before income taxes	1,015	(2,882)
Income taxes	654	(129)
Net Income (loss)	361	(2,753)
Net income (loss) attributable to non-controlling interests	(43)	(65)
Net income (loss) attributable to owners of the parent	404	(2,688)

Consolidated Statements of Comprehensive Income  
(for the six months from April 1 to September 30)

(Millions of yen)

	2nd quarter of FY2015 (Apr. 1, 2015 to Sept. 30, 2015)	2nd quarter of FY2016 (Apr. 1, 2016 to Sept. 30, 2016)
Net income (loss)	361	(2,753)
Other comprehensive income (loss)		
Unrealized gains on available-for-sale securities	(335)	(324)
Deferred gains on hedge	(0)	-
Foreign currency translation adjustments	367	(1,797)
Adjustments related to retirement benefits	(1)	149
Total other comprehensive income	29	(1,972)
Comprehensive income (loss)	391	(4,726)
(Breakdown)		
Comprehensive income (loss) attributable to owners of the parent	376	(4,494)
Comprehensive income (loss) attributable to non-controlling interests	14	(232)

### (3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	2nd quarter of FY2015 (Apr. 1, 2015 to Sept. 30, 2015)	2nd quarter of FY2016 (Apr. 1, 2016 to Sept. 30, 2016)
Cash flows from operating activities		
Income (loss) before income taxes	1,015	(2,882)
Depreciation and amortization	3,424	3,283
Amortization of goodwill	-	13
Increase (decrease) in allowance for doubtful accounts	1	(7)
Increase (decrease) in liabilities related to retirement benefits	108	397
Increase (decrease) in allowance for employees' bonuses	(37)	(11)
Interest and dividend income	(242)	(294)
Interest expenses	90	82
Exchange loss (gain)	-	195
Loss (gain) on valuation of derivatives	627	5,030
Loss (gain) on sale or disposal of fixed assets	(36)	156
Loss (gain) on sale or valuation of investments in securities	-	(147)
Loss (gain) on transfer of business	-	(233)
Other losses (gains)	39	34
Decrease (increase) in notes and accounts receivable	1,022	117
Decrease (increase) in inventories	(545)	(1,556)
Decrease (increase) in other current assets	(862)	(332)
Increase (decrease) in notes and accounts payable	557	171
Increase (decrease) in deposits and guarantee deposits	(127)	297
Increase (decrease) in other current liabilities	(810)	(10)
Increase (decrease) in other long-term liabilities	(717)	(696)
Subtotal	3,507	3,610
Interest and dividends received	234	298
Interest paid	(93)	(84)
Income tax refund (paid)	(561)	(3)
Net cash provided by (used in) operating activities	3,086	3,820
Cash flows from investing activities		
Payments for purchase of fixed assets	(4,064)	(4,143)
Proceeds from sale of fixed assets	96	128
Payments for disposition of fixed assets	(23)	(124)
Payments for acquisition of investment securities	(5,881)	(133)
Proceeds from sale of investment securities	283	537
Payments for acquisition of subsidiary shares accompanying a change in scope of consolidation	-	(657)
Proceeds from transfer of business	-	279
Net decrease (increase) in loans	(168)	(57)
Other	96	(358)
Net cash provided by (used in) investing activities	(9,661)	(4,529)

(Millions of yen)

	2nd quarter of FY2015 (Apr. 1, 2015 to Sept. 30, 2015)	2nd quarter of FY2016 (Apr. 1, 2016 to Sept. 30, 2016)
Cash flows from financing activities		
Net increase (decrease) in short-term debt and commercial paper	8,415	9,688
Proceeds from issuance of long-term debt	2,008	-
Repayments of long-term debt	(1,463)	(1,498)
Acquisition of treasury stock	(1,651)	(1)
Cash dividends paid	(1,430)	(1,581)
Cash dividends paid to holders of non-controlling interests	-	(1)
Other	(83)	(53)
Net cash provided by (used in) financing activities	5,795	6,551
Effect of exchange rate changes on cash & cash equivalents	38	(746)
Net increase (decrease) in cash and cash equivalents	(739)	5,096
Cash and cash equivalents at beginning of period	9,159	7,471
Increase (decrease) in cash and cash equivalents due to change in scope of consolidation	(3)	-
Cash and cash equivalents at end of period	8,416	12,568

**(4) 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. Second quarter of FY2015 (Six months ended September 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	29,273	33,346	6,790	69,410	-	69,410
Intersegment sales and transfers	30	129	172	332	(335)	-
Total	29,304	33,475	6,962	69,742	(332)	69,410
Segment profit	1,785	952	483	3,221	(1,653)	1,568

Note:

The - (minus) 1,653 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. Second quarter of FY2016 (Six months ended September 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	24,098	34,617	7,300	66,015	-	66,015
Intersegment sales and transfers	26	112	51	189	(189)	-
Total	24,124	34,729	7,351	66,205	(189)	66,015
Segment profit	1,924	1,537	546	4,009	(1,492)	2,516

Note:

The - (minus) 1,492 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.