

## Summary of Consolidated Financial Statements for the Third 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.

Company Name:	GUNZE LIMITED
Company Code:	3002
Stock Market Listings:	Tokyo
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Filing of Quarterly Securities Report ( <i>Shihanki hokokusho</i> ) (Scheduled):	February 13, 2017
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 FY2016 (April 1, 2016 to December 31, 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	%
Nine months ended Dec. 2016	102,366	(3.8)	5,019	42.3	6,516	101.5
Nine months ended Dec. 2015	106,400	1.3	3,528	6.7	3,234	(34.4)

	Net income attributable to owners of the parent		E.P.S.	Diluted E.P.S.
	¥ millions	%	¥	¥
Nine months ended Dec. 2016	4,469	351.9	23.91	23.76
Nine months ended Dec. 2015	989	(68.1)	5.25	5.21

Note: Comprehensive income

Nine months ended December 2016: ¥4,469 million [1,199.1 %]

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

## (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	¥ millions	¥ millions	%	(¥)
As of December 31, 2016	179,066	109,556	60.5	579.48
As of March 31, 2016	169,749	106,639	61.9	562.44

Reference: Total equity

December 31, 2016: ¥108,341 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 FY2016 (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: 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):
    - 3rd quarter of FY2016: 209,935,165 shares
    - FY2015: 209,935,165 shares
  - (b) Treasury stock at the end of period:
    - 3rd quarter of FY2016: 22,972,907 shares
    - FY2015: 22,966,562 shares
  - (c) Average number of shares during the period (cumulative quarterly period):
    - 3rd quarter of FY2016: 186,966,600 shares
    - 3rd quarter of FY2015: 188,444,863 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 nine months of the current fiscal year (April 1 – December 31, 2016), the Japanese economy showed signs of mild recovery. However, overall business prospects remained uncertain due to substantial fluctuations in the stock and foreign exchange markets caused by the UK's withdrawal from the EU and the US presidential election. Other factors that caused uncertainty included the economic slowdown in China and other emerging nations, which caused increasing uncertainty in overseas economies, as well as depressed 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 but other business categories suffered sluggish sales as a whole. The apparel business performed well while clothing products generally experienced slow storefront sales. This firm performance resulted from stronger efforts made toward expanding high-growth sales channels.

Consequently, the GUNZE Group's consolidated net sales for the first nine months of the current fiscal year amounted to ¥102,366 million (a year-over-year decrease of 3.8%). Consolidated operating income amounted to ¥5,019 million (a year-over-year increase of 42.3%). Consolidated ordinary income was ¥6,516 million (a year-over-year increase of 101.5%). This was primarily due to the posting of an exchange gain (including the gain on valuation of derivatives), caused by the foreign exchange market's swing back to yen depreciation. As a result, GUNZE posted a consolidated net income attributable to owners of the parent amounting to ¥4,469 million (a year-over-year increase of 351.9%).

## Results by Business Segment

### <Functional Solutions>

In plastic film, mainstay shrink films enjoyed robust sales in Japan and Southeast Asia, despite the negative impact of a drop in sales prices reflecting lower raw material prices. OPP film sales for factory-grown vegetables were also strong. These factors helped overall plastic film sales to remain firm. In engineering plastics, heat-shrinkable tubes for industrial applications and semiconductor-related products both performed well, but sales in the office equipment market were slow. 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 ¥36,925 million (a year-over-year decrease of 15.3%), while operating income was ¥3,227 million (a year-over-year increase of 18.1%).

### <Apparel>

Innerwear sales were robust due to expanded sales for differentiated products mainly in the women's innerwear category, and expansion of high-growth channels. In legwear, the core brand *SABRINA* performed impressively, driving overall category sales. Consequently, the apparel business posted net sales of ¥54,555 million (a year-over-year increase of 3.3%). This included sales contributed by the apparel retailers, which became subsidiaries of GUNZE in April 2016. The apparel business's operating income was ¥3,171 million (a year-over-year increase of 27.8%).

### <Lifestyle Creations>

In the real estate category, the *GUNZE Town Center TSUKASHiN* and other commercial facilities suffered slow sales in fashion-related tenants. However, 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. Consequently, the lifestyle creation business recorded net sales of ¥11,182 million (a year-over-year increase of 6.7%) and operating income of ¥891 million (a year-over-year increase of 11.8%).

**(2) Description of Financial Position**

As of December 31, 2016, total assets were ¥179,066 million, an increase of ¥9,317 million compared to the end of the previous fiscal year. The main components of the increase were a ¥4,384 million increase in cash and cash equivalents, a ¥3,245 million increase in notes and accounts receivable, a ¥2,327 million increase in investments in securities, a ¥1,216 million increase in buildings and structures, and a ¥1,019 million increase in land. The main components of a decrease included a ¥2,185 million decrease in machinery, equipment and vehicles.

Total liabilities were ¥69,510 million, an increase of ¥6,400 million compared to the end of the previous fiscal year. The main components of the increase were a ¥5,666 million increase in debt including commercial paper, and a ¥1,857 million increase in accrued income taxes. The main components of a decrease included an ¥822 million decrease in allowance for employees' bonuses.

Net assets were ¥109,556 million, an increase of ¥2,917 million compared to the end of the previous fiscal year. The main components of the increase were a net income attributable to owners of the parent of ¥4,469 million recorded for the period under review, and a ¥1,857 million increase in unrealized gain on available-for-sale securities. The main components of a decrease were a ¥1,777 million decrease in foreign currency translation adjustments, and dividend payments of ¥1,589 million.

**(3) Description of Consolidated Financial Forecast**

As for full-year forecast for the fiscal year ending March 31, 2017, GUNZE's net sales and operating income during the first nine months of the present fiscal year remained within the assumed range. Moreover, as for gain on valuation of derivatives posted in the first nine months of the present fiscal year, significant fluctuations in foreign exchange rates make it difficult to estimate the value of derivatives as of the end of the current fiscal year. As a result, GUNZE has not revised its consolidated full-year forecast from the previous forecast announced on November 2, 2016.

## **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, 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 3rd quarter (As of Dec. 31, 2016)
Assets		
Current assets		
Cash and cash equivalents	7,471	11,856
Notes and accounts receivable, trade	28,925	32,171
Finished products and goods	17,754	18,627
Work in process	6,648	6,247
Raw materials and supplies	5,456	4,131
Other current assets	5,369	5,226
Allowance for doubtful accounts	(19)	(13)
Total current assets	71,605	78,247
Fixed assets		
Property, plants and equipment		
Buildings and structures (Net)	38,867	40,084
Machinery, equipment and vehicles (Net)	15,819	13,633
Land	11,977	12,997
Other (Net)	3,220	3,182
Total property, plants and equipment	69,884	69,897
Intangible fixed assets	1,322	1,832
Investments and other assets		
Investments in securities	18,523	20,850
Other assets	8,515	8,312
Allowance for doubtful accounts	(101)	(73)
Total investments and other assets	26,936	29,089
Total fixed assets	98,143	100,819
Total assets	169,749	179,066

(Millions of yen)

	<b>End of FY2015</b> (As of Mar. 31, 2016)	<b>End of FY2016 3rd quarter</b> (As of Dec. 31, 2016)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable, trade	9,112	8,607
Short-term debt	8,898	7,664
Commercial paper	5,200	14,000
Current portion of long-term debt	1,954	890
Accrued income taxes	331	2,188
Allowance for employees' bonuses	1,117	295
Other current liabilities	11,818	11,405
<b>Total current liabilities</b>	<b>38,433</b>	<b>45,052</b>
Long-term liabilities		
Long-term debt	14,355	13,520
Liabilities related to retirement benefits	4,887	5,361
Long-term deposits and guarantee deposits	4,122	4,550
Other long-term liabilities	1,310	1,025
<b>Total long-term liabilities</b>	<b>24,676</b>	<b>24,457</b>
<b>Total liabilities</b>	<b>63,110</b>	<b>69,510</b>
<b>Net assets</b>		
Shareholders' equity		
Common stock	26,071	26,071
Capital surplus	13,999	13,998
Retained earnings	76,605	79,486
Treasury stock	(9,108)	(9,110)
<b>Total shareholders' equity</b>	<b>107,567</b>	<b>110,445</b>
Accumulated other comprehensive income		
Unrealized gains (losses) on available-for-sale securities	(1,728)	129
Revaluation difference on land	(400)	(400)
Foreign currency translation adjustments	1,838	60
Accumulated adjustments related to retirement benefits	(2,117)	(1,893)
<b>Total accumulated other comprehensive income</b>	<b>(2,408)</b>	<b>(2,104)</b>
Stock acquisition rights	246	288
Non-controlling interests	1,233	927
<b>Total net assets</b>	<b>106,639</b>	<b>109,556</b>
<b>Total liabilities and net assets</b>	<b>169,749</b>	<b>179,066</b>

## (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 FY2015 (Apr. 1, 2015 to Dec. 31, 2015)	3rd quarter of FY2016 (Apr. 1, 2016 to Dec. 31, 2016)
Net sales	106,400	102,366
Cost of sales	79,752	73,379
Gross profit	26,647	28,986
Selling, general and administrative expenses	23,119	23,967
Operating income	3,528	5,019
Non-operating income		
Interest income	32	48
Dividend income	368	409
Rental income	218	206
Exchange gain	-	232
Gain on valuation of derivatives	-	960
Other	95	135
Total non-operating income	716	1,992
Non-operating expenses		
Interest expenses	137	123
Rental expenses	196	177
Exchange loss	258	-
Loss on valuation of derivatives	312	-
Other	105	193
Total non-operating expenses	1,010	495
Ordinary income	3,234	6,516
Extraordinary income		
Gain on sale of fixed assets	64	58
Gain on sale of investment securities	0	216
Gain on transfer of business	-	233
Gain on insurance adjustment	390	-
Other	-	7
Total extraordinary income	454	516
Extraordinary loss		
Loss on sale or disposal of fixed assets	43	310
Impairment loss	1,318	-
Other	48	35
Total extraordinary loss	1,410	345
Income before income taxes	2,279	6,686
Income taxes	1,359	2,360
Net Income	919	4,326
Net income (loss) attributable to non-controlling interests	(69)	(142)
Net income attributable to owners of the parent	989	4,469

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

(Millions of yen)

	3rd quarter of FY2015 (Apr. 1, 2015 to Dec. 31, 2015)	3rd quarter of FY2016 (Apr. 1, 2016 to Dec. 31, 2016)
Net income	919	4,326
Other comprehensive income (loss)		
Unrealized gains (losses) on available-for-sale securities	(279)	1,857
Deferred gains (losses) on hedge	(1)	-
Foreign currency translation adjustments	(292)	(1,939)
Adjustments related to retirement benefits	(2)	224
Total other comprehensive income (loss)	(575)	142
Comprehensive income	344	4,469
(Breakdown)		
Comprehensive income attributable to owners of the parent	466	4,774
Comprehensive income (loss) attributable to non-controlling interests	(122)	(304)

**(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 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.

**II. Third quarter of FY2016 (Nine months ended December 31, 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	36,885	54,372	11,108	102,366	-	102,366
Intersegment sales and transfers	39	183	74	297	(297)	-
Total	36,925	54,555	11,182	102,663	(297)	102,366
Segment profit	3,227	3,171	891	7,290	(2,271)	5,019

Note:

The - (minus) ¥2,271 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.