

## Summary of Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2019 (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
URL	<a href="http://www.gunze.co.jp">http://www.gunze.co.jp</a>
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Filing of Quarterly Securities Report ( <i>Shihanki hokokusho</i> ) (Scheduled):	August 10, 2018
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 FY2018 (April 1, 2018 to June 30, 2018)

#### (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	%
Three months ended June 2018	33,642	1.9	1,882	(7.5)	2,274	(11.9)
Three months ended June 2017	33,005	3.3	2,035	29.6	2,580	—

	Net income attributable to owners of the parent		E.P.S.	Diluted E.P.S.
	¥ millions	%	¥	¥
Three months ended June 2018	1,954	14.0	107.03	106.38
Three months ended June 2017	1,714	—	92.14	91.55

Note: Comprehensive income

Three months ended June 2018: ¥1,240 million [(60.5%)]

Three months ended June 2017: ¥3,140 million [- %]

Note: GUNZE carried out consolidation of its shares in which every ten shares of the Company's common stock would be consolidated into one share effective October 1, 2017. Accordingly, earnings per share (EPS) and diluted EPS, shown above, were calculated assuming that the said share consolidation was carried out at the beginning of the previous fiscal year.

## (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	¥ millions	¥ millions	%	(¥)
As of June 30, 2018	167,919	111,960	65.8	6,053.25
As of March 31, 2018	171,273	112,129	64.9	6,084.46

Reference: Total equity

June 30, 2018: ¥110,456 million

March 31, 2018: ¥111,141 million

## 2. Dividends

	Annual dividends per share (¥)				
	1st quarter	2nd quarter	3rd quarter	Year-end	Full year
FY2017	—	—	—	90.00	90.00
FY2018	—	—	—	90.00	90.00
FY2018 (projected)	—	—	—	100.00	100.00

Note: Revisions to dividend projections most recently announced: No

## 3. Projected results for FY2018 (April 1, 2018 to March 31, 2019)

(Percentages represent year-over-year changes.)

	Net sales		Operating income		Ordinary income	
	¥ millions	%	¥ millions	%	¥ millions	%
FY2018 full year	145,000	3.2	7,000	12.2	7,000	8.6

	Net income attributable to owners of the parent		E.P.S.
	¥ millions	%	¥
FY2018 full year	4,000	14.7	219.15

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 FY2018: 20,993,516 shares

FY2017: 20,993,516 shares

(b) Treasury stock at the end of period:

1st quarter of FY2018: 2,746,013 shares

FY2017: 2,727,023 shares

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

1st quarter of FY2018: 18,262,656 shares

1st quarter of FY2017: 18,609,085 shares

Note:

- The number of shares of treasury stock at the end of the period includes those held by the GUNZE Group Employee Shareholding Association Exclusive Trust.
- GUNZE carried out consolidation of its shares in which every ten shares of the Company's common stock would be consolidated into one share effective October 1, 2017. Accordingly, the average number of shares outstanding during the first quarter of fiscal 2018, shown above, was calculated assuming that the said share consolidation was carried out at the beginning of the previous fiscal year.

Note: This summary of consolidated results is exempt from the quarterly review procedures.

Notes regarding the use of projections of the 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" of "1. Qualitative Information on Quarterly Financial Results" 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 three months of the current fiscal year (April 1 – June 30, 2018), the Japanese economy as a whole showed signs of mild recovery, with ongoing improvements in corporate performance and the employment situation. However, overall business prospects remained increasingly uncertain due to several factors. These include political risks in the U.S. and Europe, as well as geopolitical risks in Asia. Other factors include rising resource prices and uncertainty regarding emerging economies.

Faced with this situation, the GUNZE Group's medium-term management plan, called "CAN 20" has entered the second year of its second phase (fiscal 2017 through fiscal 2020). With the key concept of "Focus and Concentration," the GUNZE Group promoted three pivotal strategies: implementation of segment-specific business strategies, creation of new businesses, and reinforcement of the management foundation.

The GUNZE Group's functional solutions business enjoyed strong performance mainly in the areas of plastic films and engineering plastics. In the apparel business, stronger efforts were made for expanding sales of differentiated products and promoting high-growth sales channels, but legwear suffered sluggish performance.

Consequently, the GUNZE Group's consolidated net sales for the first three months of the current fiscal year amounted to ¥33,642 million (a year-over-year increase of 1.9%). Consolidated operating income amounted to ¥1,882 million (a year-over-year decrease of 7.5%). Consolidated ordinary income amounted to ¥2,274 million (a year-over-year decrease of 11.9%). Due to the posting of a gain on sale of fixed assets, GUNZE posted a consolidated net income attributable to owners of the parent of ¥1,954 million (a year-over-year increase of 14.0%).

### Results by Business Segment

#### <Functional Solutions>

The plastic film business was robust, as mainstay shrink films and nylon films recorded significant sales increases. In engineering plastics, products for industrial equipment performed strongly, mainly for the semiconductor market. In electronic components, both touch screens and films recorded robust sales. In medical

materials, a new domestic sales system for bioabsorbable reinforcement felt was launched smoothly, while sales of bioabsorbable bone fixation devices and artificial dermis were also solid. However, the medical materials business was adversely impacted by the increase in clinical trial costs.

Consequently, the functional solutions business posted net sales of ¥12,585 million (a year-over-year increase of 9.1%) and operating income of ¥1,628 million (a year-over-year increase of 20.3%).

#### **<Apparel>**

In innerwear, sales expanded for *YG CUTOFF* in the men's innerwear category, completely seamless items in the women's innerwear category, and sports category products. However, these were not enough to offset a declining sales trend of basic innerwear. The innerwear business also experienced the negative impact of increased selling costs and labor costs incurred for expanding new sales channels. The legwear sales were slow overall due to a change in trends of fashion bottoms and the worsening product mix.

Consequently, the apparel business posted net sales of ¥17,274 million (a year-over-year decrease of 2.6%) and operating income of ¥732 million (a year-over-year decrease of 40.8%).

#### **<Lifestyle Creations>**

In the real estate category, the shopping center business continued to perform strongly through local community-based operations. Revenues from new properties contributed to the healthy performance of the rental property business. The sports club business performed well through the revitalization of existing and new clubs and strengthening of the company structure.

Consequently, the lifestyle creation business recorded net sales of ¥3,878 million (a year-over-year increase of 1.6%) and operating income of ¥291 million (a year-over-year increase of 41.3%).

## **(2) Description of Financial Position**

As of June 30, 2018, total assets were ¥167,919 million, a decrease of ¥3,354 million compared to the end of the previous fiscal year. The main components of an increase in total assets included a ¥1,063 million increase in buildings and structures (net) mainly because of Elumi Kounosu Co., Ltd. related to the lifestyle creation business, which became a consolidated subsidiary at the beginning of the first quarter under review. The main component of the decrease was a ¥1,718 million decrease in investments in securities, including a ¥663 million decrease related to the inclusion of new subsidiaries in its scope of consolidation. Other components of the decrease included a ¥1,644 million decrease in cash and cash equivalents, and a ¥1,576 million decrease in notes and accounts receivable.

Total liabilities were ¥55,958 million, a decrease of ¥3,184 million compared to the end of the previous fiscal year. The main components of the decrease were a ¥1,075 million decrease in long- and short-term debt including commercial paper, and a ¥1,029 million decrease in other current liabilities (forward exchange contracts, etc.), and a ¥927 million decrease in notes and accounts payable.

Net assets were ¥111,960 million, a decrease of ¥169 million compared to the end of the previous fiscal year. The main components of an increase included a net income attributable to owners of the parent amounting to ¥1,954 million recorded for the period under review. The main components of the decrease were dividend payments of ¥1,654 million and a ¥742 million decrease in unrealized gains on available-for-sales securities.

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

GUNZE has not revised its consolidated full-year forecast for the present fiscal year ending March 31, 2019 from the previous forecast announced on May 14, 2018, as the GUNZE Group's performance during the first three months of the current fiscal year remained within the assumed range.

## 2. Quarterly Consolidated Financial Statements and Main Notes

### (1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	End of FY2017 (As of Mar. 31, 2018)	End of FY2018 1st quarter (As of June 30, 2018)
<b>Assets</b>		
Current assets		
Cash and cash equivalents	9,477	7,833
Notes and accounts receivable, trade	30,277	28,700
Finished products and goods	19,468	19,565
Work in process	5,906	6,489
Raw materials and supplies	4,387	4,412
Other current assets	3,260	2,936
Allowance for doubtful accounts	(9)	(8)
Total current assets	72,769	69,930
Fixed assets		
Property, plants and equipment		
Buildings and structures (Net)	39,106	40,169
Machinery, equipment and vehicles (Net)	10,436	10,317
Land	12,516	13,111
Other (Net)	2,795	2,822
Total property, plants and equipment	64,853	66,420
Intangible fixed assets	1,817	2,307
Investments and other assets		
Investments in securities	23,775	22,056
Other assets	8,142	7,289
Allowance for doubtful accounts	(84)	(84)
Total investments and other assets	31,832	29,261
Total fixed assets	98,503	97,989
Total assets	171,273	167,919



(単位：百万円)

	End of FY2017 (As of Mar. 31, 2018)	End of FY2018 1st quarter (As of June 30, 2018)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Notes and accounts payable, trade	9,640	8,713
Short-term debt	6,501	6,230
Commercial paper	6,000	5,000
Current portion of long-term debt	5,077	5,055
Accrued income taxes	337	853
Allowance for employees' bonuses	1,229	444
Other current liabilities	9,973	8,944
<b>Total current liabilities</b>	<b>38,760</b>	<b>35,240</b>
<b>Long-term liabilities</b>		
Long-term debt	9,912	10,130
Liabilities related to retirement benefits	5,263	5,229
Long-term deposits and guarantee deposits	4,293	4,472
Other long-term liabilities	913	885
<b>Total long-term liabilities</b>	<b>20,383</b>	<b>20,718</b>
<b>Total liabilities</b>	<b>59,143</b>	<b>55,958</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Common stock	26,071	26,071
Capital surplus	13,942	13,942
Retained earnings	79,718	79,917
Treasury stock	(11,152)	(11,286)
<b>Total shareholders' equity</b>	<b>108,579</b>	<b>108,644</b>
<b>Accumulated other comprehensive income</b>		
Unrealized gains on available-for-sale securities	2,711	1,969
Deferred gains (losses) on hedge	(81)	25
Revaluation difference on land	(54)	(54)
Foreign currency translation adjustments	1,248	1,016
Accumulated adjustments related to retirement benefits	(1,261)	(1,144)
<b>Total accumulated other comprehensive income</b>	<b>2,561</b>	<b>1,812</b>
Stock acquisition rights	281	281
Non-controlling interests	706	1,222
<b>Total net assets</b>	<b>112,129</b>	<b>111,960</b>
<b>Total liabilities and net assets</b>	<b>171,273</b>	<b>167,919</b>

**(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 FY2017 (Apr. 1, 2017 to June 30, 2017)	1st quarter of FY2018 (Apr. 1, 2018 to June 30, 2018)
Net sales	33,005	33,642
Cost of sales	23,071	23,532
Gross profit	9,934	10,109
Selling, general and administrative expenses	7,898	8,226
Operating income	2,035	1,882
Non-operating income		
Interest income	10	20
Dividend income	225	248
Rental income	76	111
Exchange gain	22	81
Gain on valuation of derivatives	175	101
Other	214	39
Total non-operating income	725	603
Non-operating expenses		
Interest expenses	42	48
Rental expenses	64	101
Other	73	62
Total non-operating expenses	180	211
Ordinary income	2,580	2,274
Extraordinary income		
Gain on sale of fixed assets	2	646
Gain on sale of investment securities	6	—
Other	—	3
Total extraordinary income	8	649
Extraordinary loss		
Loss on sale or disposal of fixed assets	7	25
Total extraordinary loss	7	25
Income before income taxes	2,581	2,898
Income taxes	807	884
Net Income	1,774	2,014
Net income attributable to non-controlling interests	59	59
Net income attributable to owners of the parent	1,714	1,954

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

(Millions of yen)

	1st quarter of FY2017 (Apr. 1, 2017 to June 30, 2017)	1st quarter of FY2018 (Apr. 1, 2018 to June 30, 2018)
Net income	1,774	2,014
Other comprehensive income (loss)		
Unrealized gains (losses) on available-for-sale securities	1,575	(742)
Deferred gains on hedge	—	107
Foreign currency translation adjustments	(243)	(255)
Adjustments related to retirement benefits	33	116
Total other comprehensive income (loss)	1,365	(774)
Comprehensive income	3,140	1,240
(Breakdown)		
Comprehensive income attributable to owners of the parent	3,089	1,195
Comprehensive income attributable to non-controlling interests	51	44

### **(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

#### **[Application of Specific Accounting Practices for Preparing Quarterly Consolidated Financial Statements]**

(Calculation of taxes)

For the current consolidated fiscal year ending March 31, 2019, after the application of tax effect accounting for the earnings before taxes, taxes are calculated by multiplying earnings before taxes posted in the first three months of the current consolidated fiscal year by the reasonably estimated effective tax rate.

#### **[Changes in Accounting Policies, Changes in Accounting Estimates, and Restatement after Error Corrections]**

None applicable.

**[Segment Information, etc.]**

First quarter of FY2017 (Three months ended June 30, 2017)

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

(Millions of yen)

	Reportable segments				Adjustment (note 1)	Consolidated (note 2)
	Functional solutions	Apparel	Lifestyle creations	Total		
Net sales						
Sales to customers	11,525	17,687	3,793	33,005	—	33,005
Intersegment sales and transfers	11	50	22	85	(85)	—
Total	11,536	17,737	3,816	33,090	(85)	33,005
Segment profit	1,353	1,237	206	2,797	(761)	2,035

Note:

- The - (minus) ¥761 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.
- Segment profit total was adjusted to be consistent with the operating income recorded on the Consolidated Statements of Income.

First quarter of FY2018 (Three months ended June 30, 2018)

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

(Millions of yen)

	Reportable segments				Adjustment (note 1)	Consolidated (note 2)
	Functional solutions	Apparel	Lifestyle creations	Total		
Net sales						
Sales to customers	12,560	17,225	3,856	33,642	—	33,642
Intersegment sales and transfers	24	48	22	96	(96)	—
Total	12,585	17,274	3,878	33,738	(96)	33,642
Segment profit	1,628	732	291	2,653	(770)	1,882

Note:

- The - (minus) ¥770 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.
- Segment profit total was adjusted to be consistent with the operating income recorded on the Consolidated Statements of Income.