

[Translation]

**GUNZE LIMITED**

[**Disclaimer:** Please note that the following purports to be an excerpt translation from the original Proxy Statement of GUNZE LIMITED prepared for the convenience of shareholders outside Japan with voting rights. However, in case of any discrepancy between the translation and the Japanese original, the latter shall prevail. Please also be advised that certain expressions for domestic procedures that are not applicable to the aforesaid shareholders have been omitted or modified to avoid confusion.]

June 4, 2018

To Our Shareholders:

**NOTICE OF CONVOCATION OF  
THE 122ND ORDINARY GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholders:

You are cordially invited to attend the 122<sup>nd</sup> Ordinary General Meeting of Shareholders of GUNZE LIMITED. The meeting will be held as described below.

If you are unable to attend the meeting, you are requested to study the reference materials for the general meeting of shareholders below, and then please either complete and send by mail the enclosed Voting Rights Exercise Form indicating your approval or disapproval for each matter for resolution so that it shall arrive at the Company no later than 5:00 P.M. on Monday, June 25, 2018, or make an entry for approval or disapproval for each matter for resolution on the site provided for exercising your voting right in the Internet (<https://evote.tr.mufg.jp/>) as designated by the Company no later than the aforementioned date and time.

Yours very truly,

GUNZE LIMITED  
1 Zeze, Aono-cho, Ayabe-shi  
Kyoto, Japan

By: Atsushi Hirochi  
Representative Director and President

[Translation]

## **PARTICULARS**

- 1. Date and Time of the Meeting:** 1:00 P.M., Tuesday, June 26, 2018 [Registration starts at 12:00 Noon]
  
- 2. Place of the Meeting:** Auditorium, Head Office of the Company  
1 Zeze, Aono-cho, Ayabe-shi, Kyoto, Japan
  
- 3. Agenda of the Meeting:**

### **Matters for Reporting:**

1. Report on the Results of Operations, the Consolidated Accounting Documents and Non-Consolidated Accounting Documents for the 122<sup>nd</sup> Business Term (from April 1, 2017 to March 31, 2018).
2. Report on the Results of Audits for the Consolidated Accounting Documents by Accounting Auditors and the Board of Corporate Auditors for the 122<sup>nd</sup> Business Term (from April 1, 2017 to March 31, 2018).

### **Matters for Resolution:**

- |                            |   |
|----------------------------|---|
| <b>First Proposition:</b>  | <b>Proposed Disposal of Surplus</b>                     |
| <b>Second Proposition:</b> | <b>Election of Eleven (11) Directors</b>                |
| <b>Third Proposition:</b>  | <b>Election of One (1) Substitute Corporate Auditor</b> |

[Translation]

## **Guide to Exercising Voting Rights via the Internet, etc.**

When you exercise your voting rights via the Internet, please check the following guidelines and follow the procedures outlined below.

Deadline for accepting votes via the Internet:

5:00 p.m. on Monday, June 25, 2018

Voting via the Internet is possible only by accessing the Site for Exercising Voting Rights (the “Voting Site”; <https://evote.tr.mufg.jp/>) designated by the Company. After accessing the Voting Site, log in using the login ID and temporary password shown on the voting form. Then select “approve” or “disapprove” for each proposition by following the guidelines on the screen. (Please note that this site will be closed every day between the hours of 2:00 a.m. and 5:00 a.m.)

Votes via the Internet will be accepted until 5:00 p.m. on Monday, June 25, 2018. However, we ask that you vote sooner if possible.

Please note you will have to bear expenses incurred in accessing the Voting Site (Internet connection expenses, etc.).

If you vote more than once via the Internet, only your last vote will be considered valid. Also if you vote both from your computer, smartphone and mobile phone, only your last vote will be considered valid.

For inquiries regarding the system, etc.

Mitsubishi UFJ Trust and Banking Corporation Stock Transfer Agent Department (Help Desk)

TOLL FREE: 0120-173-027

(Hours of operation: 9:00 a.m. through 9:00 p.m.)

## **Electronic Voting Platform for Institutional Investors**

Institutional investors are entitled to use the Electronic Voting Platform operated by ICJ, Inc. for electromagnetically exercising their voting rights for this Ordinary General Meeting of Shareholders of GUNZE LIMITED.

## **REFERENCE MATERIALS CONCERNING GENERAL MEETING OF SHAREHOLDERS**

### **Propositions and Reference Matters:**

#### **First Proposition:                    Proposed Disposal of Surplus**

It is proposed that surplus be disposed as follows:

1. Matters related to the term-end dividend:

Returning earnings to shareholders is one of the most important management policies of the Company. Accordingly, the Company works to continue providing a stable dividend based on the medium-term business outlook, with a target payout ratio of approximately 50% on a consolidated basis. In line with this basic policy, it is proposed that the 122<sup>nd</sup> term-end dividend shall be as follows:

- (1) Kind of asset distributed:  
Cash
- (2) Matter related to distribution of asset to shareholders and total amount:  
¥90 per share of common stock of the Company  
Total amount: ¥1,654,082,370
- (3) Effective date for distribution of surplus:  
June 27, 2018

[Translation]

## Second Proposition: Election of Eleven (11) Directors

The terms of office of all eleven (11) Directors will expire at the close of this General Meeting of Shareholders. It is therefore proposed that eleven (11) Directors will be elected. The Company has established a policy regarding qualifications for Directors and nomination procedures in its Corporate Governance Guidelines. (Refer to the Company's website: <http://www.gunze.co.jp/ir/policy/governance/>.) All candidates for Directors in this proposition are selected in accordance with the said policy.

The candidates are as follows:

Candidate No.		Name	Current Posts and Responsibilities	Percentage of Attendance in BOD Meetings
1	Reelection	Atsushi Hirochi	President, Representative Director and President Corporate Officer	100% (13/13)
2	Reelection	Toshiyasu Saguchi	Managing Director, Managing Corporate Officer and General Manager of Management & Strategy Department	100% (13/13)
3	Reelection Outside Independent	Aya Shirai	Director	100% (13/13)
4	Reelection	Yasuhiro Akase	Director, Corporate Officer and General Manager of Personnel & General Affairs Department	100% (13/13)
5	Reelection	Nobuya Oka	Director, Corporate Officer and General Manager of Threads & Accessories Division	100% (13/13)
6	Reelection	Katsuhiko Kimura	Director, Corporate Officer and General Manager of Engineering Plastics Division	100% (13/13)
7	Reelection	Shigeki Takao	Director, Corporate Officer, Company President of Apparel Company and General Manager of Leg Wear Divisions Group, Apparel Company	100% (13/13)
8	Reelection	Katsuya Anno	Director, Corporate Officer and General Manager of Technology & Development Department	100% (13/13)
9	Reelection	Katsuhiko Oikawa	Director, Corporate Officer and General Manager of Research & Development Department	100% (13/13)
10	Reelection	Makoto Kumada	Director, Corporate Officer and General Manager of Finance & Accounting Department	100% (10/10)
11	New Outside Independent	Hiroe Nakai	-	-

Note: As for Mr. Makoto Kumada, his status after he was appointed a Director on June 23, 2017 is shown above.

No.	Name (Date of Birth)	Brief Personal Record, Current Posts, Responsibilities and Additional Important Posts		Number of Shares of the Company Owned
1	Atsushi Hirochi (Jan. 11, 1960)  <b>Reelection</b>	Mar. 1983 Jun. 2012 Jan. 2013 Apr. 2014 Jun. 2014 Apr. 2016 Jun. 2016 Apr. 2017	Joined "GUNZE" Director, Corporate Officer, General Manager of Leg Wear Divisions Group, Apparel Company and CCO, GUNZE Director, Corporate Officer, General Manager of Innerwear Divisions Group, Apparel Company and CCO, GUNZE Director, Corporate Officer, Company President of Apparel Company, General Manager of Innerwear Divisions Group and CCO, GUNZE Managing Director, Managing Corporate Officer, Company President of Apparel Company, General Manager of Innerwear Divisions Group, Apparel Company, CMO and CLO, GUNZE Managing Director, Managing Corporate Officer, General Manager of Management & Strategy Department, CHO, CCSRO and CMO, GUNZE Senior Managing Director, Representative Director, Senior Managing Officer, General Manager of Management & Strategy Department, CHO, CCSRO and CMO, GUNZE President, Representative Director and President Corporate Officer, GUNZE (to present)	4,400
<b>Reasons for supporting the candidate for Director</b> The Company would like Mr. Atsushi Hirochi to continue to serve the Company as a Director, as he led the management of the GUNZE Group through the implementation of each strategy of its medium-term management plan and the reinforcement of its corporate governance since he was appointed the President and Representative Director of the Company in April 2017. Moreover, as the Chairman of the Board of Directors, Mr. Hirochi has been working to vitalize the Board. In expectation that he will continue to appropriately perform his duties as a Director, the Company proposes that he be elected as a Director.				
2	Toshiyasu Saguchi (Nov. 14, 1961)  <b>Reelection</b>	Mar. 1984 Jun. 2014 Apr. 2017	Joined "GUNZE" Director, Corporate Officer and Company President of Plastic Film Company, GUNZE Managing Director, Managing Corporate Officer and General Manager of Management & Strategy Department, GUNZE (to present)	1,200
<b>Reasons for supporting the candidate for Director</b> The Company would like Mr. Toshiyasu Saguchi to continue to serve the Company as a Director, given his ample experience and broad knowledge, mainly in the field of plastic film. As the general manager in charge of the plastic film business, he has been working to enhance the stability of the Company's business in Japan and strengthen international business development. Since April 2017, he has been responsible for company-wide strategies as General Manager of the Management & Strategy Department. In expectation that he will continue to appropriately perform his duties as a Director, the Company proposes that he be elected as a Director.				

[Translation]

No.	Name (Date of Birth)	Brief Personal Record, Current Posts, Responsibilities and Additional Important Posts		Number of Shares of the Company Owned
3	Aya Shirai (May 23, 1960)  <b>Reelection Outside Independent</b>	Jun. 1993 Dec. 2002 Jun. 2011 Jun. 2015 Jun. 2015	Elected as Amagasaki city council member Elected as the Mayor of Amagasaki city (to Dec. 2010) Director, GUNZE Outside Director, Pegasus Sewing Machine Mfg. Co., Ltd. (to present) Outside Director, Sumitomo Precision Products Co., Ltd. (to present)	1,800
<p><b>Reasons for supporting the candidate for outside Director</b> The Company would like Ms. Aya Shirai to continue to serve the Company, given her approximately seven years of experience as an outside Director of the Company. During her time of service, she provided appropriate guidance and advice from the position of a citizen, consumer, and a woman regarding decisions made by the Company's Board of Directors. She did this based on her broad knowledge and experience gained through long years of involvement in municipal administration. For these reasons, the Company proposes that she be elected as an outside Director.</p>				
4	Yasuhiro Akase (Jul. 6, 1958)  <b>Reelection</b>	Apr. 1982 Apr. 2010 Jun. 2013 Jun. 2014 Apr. 2017	Joined "GUNZE" Corporate Officer, General Manager of Personnel & General Affairs Department and Deputy CHO, GUNZE Director, Corporate Officer, General Manager of Personnel & General Affairs Department and Deputy CHO, GUNZE Director, Corporate Officer, General Manager of Personnel & General Affairs Department, CCO and Deputy CHO, GUNZE Director, Corporate Officer, General Manager of Personnel & General Affairs Department, GUNZE (to present)	2,000
<p><b>Reasons for supporting the candidate for Director</b> The Company would like Mr. Yasuhiro Akase to continue to serve the Company as a Director, given his ample experience and broad knowledge, mainly in the field of apparel and administration. As the General Manager of the Personnel &amp; General Affairs Department, he has been working to develop human resources and improve labor welfare. In expectation that he will continue to appropriately perform his duties as a Director, the Company proposes that he be elected as a Director.</p>				
5	Nobuya Oka (Aug. 28, 1959)  <b>Reelection</b>	Apr. 1985 Apr. 2012 Jun. 2014	Joined "GUNZE" Corporate Officer and General Manager of Threads & Accessories Division, GUNZE Director, Corporate Officer and General Manager of Threads & Accessories Division, GUNZE (to present)	1,200
<p><b>Reasons for supporting the candidate for Director</b> The Company would like Mr. Nobuya Oka to continue to serve the Company as a Director, given his ample experience and broad knowledge, mainly in the field of threads and accessories. As the general manager in charge of the threads and accessories business, he has been working to enhance the stability of the Company's business in Japan and strengthen international business development. In expectation that he will continue to appropriately perform his duties as a Director, the Company proposes that he be elected as a Director.</p>				
6	Katsuhiko Kimura (Apr. 2, 1963)  <b>Reelection</b>	Apr. 1986 Apr. 2012 Jun. 2016	Joined "GUNZE" Corporate Officer and General Manager of Engineering Plastics Division, GUNZE Director, Corporate Officer and General Manager of Engineering Plastics Division, GUNZE (to present)	600
<p><b>Reasons for supporting the candidate for Director</b> The Company would like Mr. Katsuhiko Kimura to serve the Company as a Director, given his ample experience and broad knowledge, mainly in the field of engineering plastics. As the general manager in charge of the engineering plastics business, he has been working to build a profitable business base and promoting the creation of newly developed products. In expectation that he will continue to appropriately perform his duties as a Director, the Company proposes that he be elected as a Director.</p>				

[Translation]

No.	Name (Date of Birth)	Brief Personal Record, Current Posts, Responsibilities and Additional Important Posts		Number of Shares of the Company Owned
7	Shigeki Takao (Dec. 30, 1958)  <b>Reelection</b>	Apr. 1981 Apr. 2014  Apr. 2016  Jun. 2016	Joined "GUNZE" Corporate Officer, Deputy Company President of Apparel Company and General Manager of Leg Wear Divisions Group, Apparel Company, GUNZE Corporate Officer, Company President of Apparel Company and General Manager of Leg Wear Divisions Group, Apparel Company, GUNZE Director, Corporate Officer, Company President of Apparel Company and General Manager of Leg Wear Divisions Group, Apparel Company, GUNZE (to present)	952
<p><b>Reasons for supporting the candidate for Director</b> The Company would like Mr. Shigeki Takao to serve the Company as a Director, given his ample experience and broad knowledge, mainly in the apparel business sector. As the company president in charge of the apparel business, he has been working to ensure growth in the apparel business by developing new products that anticipate potential changes in the marketplace and creating new markets. In expectation that he will continue to appropriately perform his duties as a Director, the Company proposes that he be elected as a Director.</p>				
8	Katsuya Anno (Apr. 3, 1955)  <b>Reelection</b>	Mar. 1979 Apr. 2014  Apr. 2015  Jun. 2016  Apr. 2017	Joined "GUNZE" Corporate Officer, Deputy General Manager of Innerwear Divisions Group, Apparel Company and General Manager of Innerwear Production Department, Apparel Company, GUNZE Corporate Officer, General Manager of Technology & Development Department and CTO, GUNZE Director, Corporate Officer, General Manager of Technology & Development Department and CTO, GUNZE Director, Corporate Officer, General Manager of Technology & Development Department, GUNZE (to present)	700
<p><b>Reasons for supporting the candidate for Director</b> The Company would like Mr. Katsuya Anno to serve the Company as a Director, given his ample experience and broad knowledge, mainly in the technical field. As the General Manager of the Technology &amp; Development Department, he has achieved good results most recently, promoting technological innovation and improving productivity and product quality at the Company's offices/factories in Japan and abroad. In expectation that he will continue to appropriately perform his duties as a Director, the Company proposes that he be elected as a Director.</p>				



No.	Name (Date of Birth)	Brief Personal Record, Current Posts, Responsibilities and Additional Important Posts		Number of Shares of the Company Owned
9	Katsuhiko Oikawa (Apr. 12, 1963)  <b>Reelection</b>	Apr. 1986 Apr. 2014 Jun. 2014 Jun. 2016 Apr. 2017	Joined "GUNZE" Corporate Officer and General Manager of Research & Development Department, GUNZE Corporate Officer, General Manager of Research & Development Department and CRO, GUNZE Director, Corporate Officer, General Manager of Research & Development Department and CRO, GUNZE Director, Corporate Officer and General Manager of Research & Development Department, GUNZE (to present)	498
<p><b>Reasons for supporting the candidate for Director</b> The Company would like Mr. Katsuhiko Oikawa to serve the Company as a Director, given his ample experience and broad knowledge, mainly in the field of production and research &amp; development. As the General Manager of the Research &amp; Development Department in recent years, he has achieved good results in the promotion of various research themes as well as the development and cultivation of new businesses. In expectation that he will continue to appropriately perform his duties as a Director, the Company proposes that he be elected as a Director.</p>				
10	Makoto Kumada (Jul. 24, 1961)  <b>Reelection</b>	Mar. 1984 Apr. 2017 Jun. 2017	Joined "GUNZE" Corporate Officer and General Manager of Finance & Accounting Department, GUNZE Director, Corporate Officer and General Manager of Finance & Accounting Department, GUNZE (to present)	600
<p><b>Reasons for supporting the candidate for Director</b> The Company would like Mr. Makoto Kumada to serve the Company as a Director, given his ample experience and broad knowledge, mainly in the field of accounting and administration. Since April 2017, he has been adequately performing his duties as the General Manager of the Finance &amp; Accounting Department. In expectation that he will continue to appropriately perform his duties as a Director, the Company proposes that he be elected as a Director.</p>				
11	Hiroe Nakai (May 20, 1961)  <b>New Outside Independent</b>	Apr. 1985 Apr. 1995 Sep. 2011 Jun. 2013 Aug. 2016	Registered as an attorney (at Osaka Bar Association) (to present) Established "Inoue and Nakai Law Office" Established "Hinata Law Office" (to present) Outside Auditor, Endo Lighting Corp. Outside Auditor, Kansai Paint Co., Ltd.	--
<p><b>Reasons for supporting the candidate for outside Director</b> The Company would like Ms. Hiroe Nakai to serve the Company, given her ample experience as an attorney and knowledge in the field of corporate legal affairs. By doing so, the Company would like her to provide appropriate guidance and advice from an objective viewpoint regarding decisions made by the Company's Board of Directors, covering the entire corporate society including laws and ordinances. For these reasons, the Company proposes that she be elected as an outside Director. Moreover, although Ms. Nakai has not been engaged in corporate management in a way other than as an outside Corporate Auditor, the Company judges that she would be able to appropriately perform her duties as an outside Director due to the aforementioned reasons.</p>				

[Translation]

- Note 1: There is no special interest between the Company and each of the candidates for Director.
- Note 2: When selecting candidates for outside Directors, the Company selected those who met the requirements of the Companies Act, as well as the independence criteria stipulated in the Tokyo Stock Exchange regulations, and who will not cause conflict of interest against general shareholders. Once Ms. Aya Shirai and Ms. Hiroe Nakai are elected, as proposed, the Company will inform the Tokyo Stock Exchange of their appointments as independent officers.
- Note 3: Candidates for outside Directors
- (1) Agreement to limit liability of the candidates for outside Directors  
The Company has entered into a limited liability agreement with Ms. Aya Shirai, under which each outside Director's liability to compensate the Company under Article 423, Paragraph 1 of the Companies Act shall be limited to ¥6,000,000 or the minimum amount stipulated by laws and ordinances, whichever is higher, under the condition that the outside Director discharges his duties in good faith and without gross negligence. The Company will also enter into the same agreement with Ms. Hiroe Nakai to limit liability.
- (2) Name notation  
Ms. Hiroe Nakai's legal name on family register is Hiroe Asami.
- Note 4: Abbreviation of titles  
CCO: Chief Compliance Officer  
CMO: Chief Marketing Officer  
CLO: Chief Logistics Officer  
CHO: Chief Human Resources Officer  
CCSRO: Chief Corporate Social Responsibility Officer  
CTO: Chief Technical Officer  
CRO: Chief Research and Development Officer  
The Company discontinued the Chief Officer system on April 1, 2017.

There are no matters other than the above that need to be stated in the proposition relating to the election of Directors pursuant to Article 74 of the Ordinance for Enforcement of the Companies Act.

[Translation]

### **Third Proposition: Election of One (1) Substitute Corporate Auditor**

The term of office of Substitute Corporate Auditor will expire at the opening of this Ordinary General Meeting of Shareholders. Therefore, to prepare for a case in which the number of incumbent Corporate Auditors becomes less than the number legally required, the Company's shareholders are requested to elect Mr. Hideo Miki as Substitute Corporate Auditor. Election of Substitute Corporate Auditor shall be in effect until the opening of the ordinary general meeting of shareholders for the last of the fiscal years ending within the upcoming four years. Furthermore, the election of Mr. Hideo Miki as Substitute Corporate Auditor may be cancelled with the consent of the Board of Corporate Auditors by resolution of the Board of Directors as long as he has not yet assumed the office of Corporate Auditor. The Company has established a policy regarding qualifications for Corporate Auditors and nomination procedures in its Corporate Governance Guidelines. The candidate for Substitute Corporate Auditor in this Proposition is selected in accordance with the said policy.

We have obtained consent from the Board of Corporate Auditors with respect to this Proposition.

The candidate is as follows:

Name (Date of Birth)	Brief Personal Record, Current Posts and Additional Important Posts		Number of Shares of the Company Owned
Hideo Miki (Jun. 18, 1955)	Apr. 1984	Registered as an attorney (at Osaka Bar Association) (to present)	--
	Sep. 1991	Established "Miki Hideo Law Office" (to present)	
	Apr. 2010	Vice Chairman, Osaka Bar Association Standing Director, Kinki Federation of Bar Associations Member, Japan Federation of Bar Associations	
<b>Reasons for supporting the candidate for Substitute Corporate Auditor</b> The Company has judged that Mr. Hideo Miki would be able to appropriately perform his duties as an outside Corporate Auditor, considering his professional knowledge as an attorney in addition to his ample and wide range of practical experience.			

Note 1: There is no special interest between the Company and the said candidate.

Note 2: Mr. Hideo Miki, a candidate for Substitute Corporate Auditor, is a candidate for outside Corporate Auditor. When selecting candidates for outside Corporate Auditors, the Company selected those who met the requirements of the Companies Act, as well as the independence criteria stipulated in the Tokyo Stock Exchange regulations, and who will not cause conflict of interest against general shareholders. Once Mr. Hideo Miki is elected, as proposed, the Company will inform the Tokyo Stock Exchange of his appointment as an independent officer.

Note 3: Agreement to limit liability of the candidates for outside substitute Corporate Auditors  
Article 34 of the Articles of Incorporation of the Company provides that the Company may enter into an agreement to limit liability with outside Corporate Auditors, under which their liability to compensate for the Company shall be limited to ¥6,000,000 or the minimum amount provided in the laws and ordinances, whichever is higher, under the condition that the Corporate Auditors discharge duties in good faith and without gross negligence. By virtue of this Article, the Company is scheduled to enter into an agreement to limit liability with Mr. Hideo Miki, in the event he assumes the position of outside Corporate Auditor.

There are no matters other than the above that need to be stated in the proposition relating to the election of Corporate Auditors pursuant to Article 76 of the Ordinance for Enforcement of the Companies Act.

## Results of Operations (April 1, 2017 to March 31, 2018)

### 1. Items Related to the Current Status of the GUNZE Group

#### (1) Business Progress and Results

Reviewing economic conditions during the fiscal year ended March 31, 2018, the Japanese economy as a whole showed signs of mild recovery, with ongoing improvements in corporate performance and the employment situation. However, the GUNZE Group's management environment continued to face uncertainty 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, uncertainty regarding emerging economies, and fluctuations in the stock and foreign exchange markets.

Faced with this situation, the GUNZE Group's medium-term management plan, called "CAN 20," has entered the initial 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 suffered a decline in electronic component sales due to business downsizing. However, plastic film and engineering plastics performed strongly. The apparel business remained firm thanks to expanded sales of differentiated products, and stronger efforts made toward high-growth sales channels.

Consequently, the GUNZE Group's consolidated net sales for the fiscal year under review amounted to ¥140,521 million (a year-over-year increase of 2.9%). Consolidated operating income amounted to ¥6,239 million (a year-over-year increase of 48.3%). Consolidated ordinary income was ¥6,446 million (a year-over-year increase of 38.0%). As a result, GUNZE posted a consolidated net income attributable to owners of the parent amounting to ¥3,486 million (a year-over-year increase of 12.4%).

#### Results by Business Segment

##### [Functional Solutions]

In plastic film, mainstay shrink films enjoyed robust sales in Japan as well as solid exports. Plastic film sales for flexible packaging and industrial applications were also strong. Engineering plastics recorded healthy performance driven by strong sales of semiconductor-related products and recovery in sales for office equipment applications. In medical materials, bioabsorbable reinforcement felt destined for China and the new product *Dura Wave* performed strongly. However, the increase in expenses incurred for strengthening the sales system, and inventory adjustment by main clients, adversely impacted the overall performance of this category.

Consequently, the functional solutions business posted net sales of ¥50,828 million (a year-over-year increase of 1.3%) and operating income of ¥5,381 million (a year-over-year increase of 55.2%).

[Translation]

### [Apparel]

Innerwear sales were robust thanks to expanded sales of women's innerwear centering on completely seamless items, as well as differentiated brands such as *CUT OFF* and sports category products. Other contributors included increased sales through high-growth channels such as EC and SPA. In legwear, tights and cold weather items showed robust performance, but sales of stockings and socks, both of which are year-round products, were sluggish.

Consequently, the apparel business posted net sales of ¥74,012 million (a year-over-year increase of 3.3%) and operating income of ¥2,628 million (a year-over-year increase of 4.9%).

### [Lifestyle Creations]

In the real estate category, the shopping center business remained firm thanks to local community-based operations. Revenues from new properties contributed to the healthy performance of the rental business. The sports club business offset the negative impact of initial expenses incurred for newly opened clubs by revitalizing existing clubs and implementing cost-cutting measures.

Consequently, the lifestyle creation business recorded net sales of ¥16,122 million (a year-over-year increase of 6.3%) and operating income of ¥1,386 million (a year-over-year increase of 4.8%).

### Net Sales and Operating Income by Segment

(Millions of yen)

	121 <sup>st</sup> term (FY2016)		122 <sup>nd</sup> (FY2017)	
	Net sales	Operating income	Net sales	Operating income
Functional solutions	50,195	3,468	50,828	5,381
Apparel	71,629	2,505	74,012	2,628
Lifestyle creations	15,168	1,322	16,122	1,386
Total	136,994	7,296	140,964	9,396
Eliminations/Corporate	(415)	(3,090)	(442)	(3,157)
Consolidated	136,579	4,206	140,521	6,239

The main products handled in each business segment are as follows:

Functional solutions business: Plastic films, engineering plastics, electronic components, machinery, medical materials, etc.

Apparel business: Innerwear, leg wear, textiles, threads and accessories

Lifestyle creation business: Leasing, buying and selling of real estate, trees and plants, operation and management of sports facilities, etc.

[Translation]

## **(2) Medium-to-Long Term Management Strategy and Key Management Issues for the GUNZE Group**

The Japanese economy is enjoying a strong positive mindset among businesses, with expanding capital investment in equipment resulting from robust corporate performance. Still, these are concerns of a downturn in the economy due to unstable international situations and soaring raw material prices. While consumers remain strongly budget-minded, resulting in a slowdown in personal consumption, labor shortages are causing labor costs to rise. These factors are expected to cause the business environment surrounding the GUNZE Group to remain unpredictable.

Against this backdrop, fiscal 2018 marks the second year of the second phase (fiscal 2017 through fiscal 2020) of GUNZE's medium-term management plan, called "CAN 20 (fiscal 2014 through fiscal 2020)." As such, GUNZE will combine the efforts of all members of the Group to deal with strategic issues related to the maturation of mainstay products and channels. By so doing, GUNZE will front-load measures intended to promote further growth.

In CAN 20, GUNZE's portfolio strategy has been centered on "Focus and Concentration," by classifying the current business segments into strategic business units (SBU) and evaluating them. As the heart of its growth strategy, GUNZE has set up a cross-divisional Cross Functional Approach (CFA) project. This is designed to combine the GUNZE Group's management resources to efficiently create and cultivate new businesses. As part of this effort, GUNZE has been working on expanding business in the health and medical care field, seeking to improve quality of life (QOL). As a measure for reinforcing the management foundation to support its growth strategy, GUNZE has been striving to enhance its core technological strengths and global responsiveness, while strengthening its intangible assets, including corporate brand value.

Focusing on shareholders, GUNZE seeks to raise return on equity (ROE), which it views as the Group's key performance indicator. As part of this effort, the Group implements various measures aimed at increasing profitability, using capital more productively, and repurchasing treasury stock. Toward this end, the GUNZE Group has also set a return on assets (ROA) target for each business division or affiliated company as a measure to gauge the efficiency of business investments. This is part of the drive to improve both profit margin on sales and total asset turnover.

In the second phase of CAN 20, GUNZE will seek to revive growth in the functional solutions business, such as plastic films, by leveraging its technological strengths with inherent high potential. This will allow the functional solutions business to join the apparel business, which is currently gaining upward momentum, to serve as two wheels that keep the GUNZE Group's business management on track. At the same time, GUNZE will promote its QOL-related business, such as medical materials, as a growth engine essential for attaining its strategic goals.

Additionally, GUNZE will accelerate the implementation of its three pivotal strategies: (1) restructuring of existing business; (2) creation of new business; and (3) reinforcement of the management foundation. For the creation of new business in particular, GUNZE will establish a structure to facilitate new buds of business to sprout, and eventually bloom and yield fruit.

Through these initiatives, GUNZE will strive to contribute to society as a global corporate group that offers customers a "Feeling of Comfort" by taking advantage of the GUNZE Group's unique characteristics.

[Translation]

Presently, the economic conditions mainly in the manufacturing industry are facing a turn of the tide. In this situation, GUNZE's high value-added products that draw on its differentiating technologies mainly in the plastic film and innerwear fields are highly acclaimed in the marketplace for their competitive advantage. GUNZE will continue to unite the concerted efforts of the Group to enhance the development of differentiated products and expand their sales, while improving profitability through production innovation.

In the functional solutions business, with its plastic film business enjoying expansion, GUNZE will promote the development of new markets and products and strengthen the global production system. In engineering plastics, efforts will be concentrated on expanding mainstay products targeting the office equipment market and those employing GUNZE's fiber technology, such as products related to semiconductors. In electronic components, GUNZE will seek to yield profits by pursuing synergy with other internal film-related business fields. In medical materials, GUNZE will strive to strengthen and expand its global business operation system covering new factories as well, while also launching a new sales system in Japan to promote further growth.

In the apparel business, GUNZE will aim to further expand sales of its mainstay brands in the innerwear category by leveraging its proprietary differentiating technologies. Moreover, GUNZE will strengthen the high-growth EC and SPA channels and sales outside Japan. In legwear, GUNZE will strive to develop new markets and products by anticipating and meeting potential consumer needs and market trends.

In the lifestyle creation business, GUNZE will seek to improve the profitability of its real estate business by promoting the new rental properties business and revising its commercial facility operation system. In the sports club category, GUNZE will also strive to expand sales and enable more efficient operation through aggressive multi-club chain expansion inside and outside Japan.

The continued support and patronage of our shareholders will be greatly appreciated.

### (3) Financial Conditions

#### Consolidated Operating Results and Summary of Assets

(Millions of yen)

	119 <sup>th</sup> term (FY2014)	120 <sup>th</sup> term (FY2015)	121 <sup>st</sup> term (FY2016)	122 <sup>nd</sup> term (FY2017)
Net sales	141,172	138,324	136,579	140,521
Operating income	3,084	3,662	4,206	6,239
Ordinary income	4,933	791	4,671	6,446
Net income (loss) attributable to owners of the parent	3,215	(1,201)	3,102	3,486
Net income (loss) per share (¥)	167.81	(63.90)	165.95	189.30
Total assets	175,331	169,749	169,460	171,273
Net assets	117,359	106,639	108,353	112,129

Note 1: 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, net income per share and net loss per share, shown above, were calculated assuming that the said share consolidation was carried out at the beginning of the 119<sup>th</sup> term.

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Note 2: The average number of shares of the Company's common stock during the period used for calculating net income per share during the 122<sup>nd</sup> term (fiscal 2017) excludes the number of GUNZE shares held by the GUNZE Group Employee Shareholding Association Trust.

## **2. Systems to Ensure Propriety in Business Operations**

### **(1) Systems to ensure Directors' compliance with laws and regulations and the Articles of Incorporation**

- 1) The Company continually promotes and keeps all its employees informed about the GUNZE Activity Guidelines that stipulate guidelines for conduct, which all Directors and employees of the GUNZE Group must follow, in order to ensure implementation of its corporate philosophy.
- 2) The Company appoints a Director/Corporate Officer in charge of CSR to strengthen the GUNZE Group's CSR practices. A Director/Corporate Officer in charge of compliance is also appointed to ensure strict legal and regulatory compliance and establish high standards of corporate ethics. Moreover, in accordance with its Rules concerning CSR, Rules concerning Compliance and other related rules, the Corporate-wide CSR Committee, a cross-divisional team chaired by the Director/Corporate Officer in charge of CSR, strives to strengthen the corporate structure intended to ensure strict compliance with laws and regulations.
- 3) In accordance with its Rules concerning the Board of Directors, the Company's Board of Directors (BOD), as a basic rule, meets once a month. The BOD is responsible for deliberating and resolving important corporate and business matters, while overseeing the Directors' performance of management duties.
- 4) To further strengthen the BOD's management oversight functions, the Company selects highly independent outside Directors to join the Board.
- 5) The Company makes diligent efforts to prevent illegal or unethical acts by Directors, Corporate Officers and Corporate Auditors by holding CSR seminars targeting them on a regular basis.
- 6) In accordance with its Auditing Rules for Corporate Auditors, Standing Executive Auditors attend BOD meetings and other important corporate meetings, and conduct audits to monitor the performance of Directors in carrying out their duties.
- 7) The Company implements quick and organized measures to deal with demands from antisocial forces or groups that threaten public order and security, and stands firm in rejecting such demands through cooperation with external specialized agencies.
- 8) In accordance with its Information Disclosure Rules, the Company appoints an officer responsible for handling information to ensure appropriate management and control of the GUNZE Group's corporate information, and discloses appropriate information quickly and fairly as an open-door corporate group.

### **(2) Systems of retention and management of information concerning Directors' execution of their duties**

The Company manages and retains documents, records and information materials, including minutes of the General Meetings of Shareholders, minutes of Board of Directors meetings, circulars for managerial approval, and contracts, in accordance with its Documentation Rules and other regulations.



**(3) Rules and other systems concerning risk management**

- 1) In accordance with its Risk Management Rules, the Company builds a solid cross-divisional risk management system that covers the entire Group in order to avoid any kind of risks and to appropriately prepare for unexpected contingencies. For information-related risks in particular, the Company strives to protect the GUNZE Group's information assets based on its IT (Information Technology) Security Policy and Standard Countermeasures against IT (Information Technology) Security Issues.
- 2) In accordance with its Basic Rules concerning Management of Trade Secrets and Trade Secret Management Standards, the Company sets up a cross-divisional supervisory team, the Trade Secrets Management Committee (chaired by the Director/Corporate Officer in charge of compliance), in order to appropriately manage trade secret assets available across the Group and prevent leakage of important trade secrets.

**(4) Systems to ensure that Directors efficiently perform their duties**

- 1) To enhance the Board of Directors' functions and improve management efficiency, the Company, in accordance with its Rules concerning Executive Officer Meetings, holds an Executive Officer meeting attended by Representative Directors, Managing Directors, and Directors/Corporate Officers in charge of specific functions. This is held roughly once a week to deliberate important matters related to the Group's business operations.
- 2) The Company adopts a Corporate Officers System to clearly separate decision-making regarding business practices and management oversight functions from business operations, and augment the Board of Directors' monitoring functions. It is also intended to vitalize the BOD and facilitate quicker decision-making.
- 3) To swiftly and flexibly respond to radical changes taking place in the Company's management environment and clearly define management responsibility, the term of office of Directors at the Company is designated as one (1) year.
- 4) The Company sets forth its internal Rules concerning Division of Duties, Rules concerning the Authority and Responsibility of Internal Company Presidents, and Rules concerning the Authority and Responsibility of Business Group General Managers, to ensure propriety of the GUNZE Group's internal controls, clarify procedures for business practices, and enhance efficiency of management and administration.
- 5) To conduct efficient business operations for the GUNZE Group, the Company promotes business reforms utilizing information technology through its corporate-wide project activities.
- 6) Corporate Auditors monitor and assess the establishment and operation of the internal control system of the GUNZE Group, which Directors conduct while exercising the due care of a responsible manager.

**(5) Systems to ensure that employees' performance of their duties conforms to laws and regulations and the Articles of Incorporation**

- 1) To ensure strict legal and regulatory compliance, the Company regularly provides all employees of the GUNZE Group with the necessary education and training. The Company responds quickly to the enactment of a new law or amendment to existing law by offering relevant education and training. The Company also offers relevant education and training

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quickly in the event that material misconduct or an accident arises within the Group or at other companies.

- 2) The Company posts all rules and regulations applicable to the GUNZE Group on intranets so that Group employees can access and view them whenever necessary.
- 3) The Company has a whistleblower system in place, by which employees can directly report compliance-related information or ask compliance-related questions via the Advice Hotline for Employees, in order to prevent misconduct and accidents. Should material violation of laws or regulations, or other compliance-related problems be discovered, employees should also report directly to the President or the Director/Corporate Officer in charge of compliance.

**(6) Systems to ensure the propriety of business operations of the GUNZE Group**

- 1) Under the supervision of the Corporate-wide CSR Committee, a Compliance Officer is in place at each business department or Group company to ensure strict legal and regulatory compliance. For information security in particular, a Division Information Officer (DIO) responsible for maintaining IT security is in place at each business division or Group company to ensure strict management of information.
- 2) As for the management of individual companies comprising the GUNZE Group, the Company gives guidance or advice to them based on their periodical business reports, prior discussions regarding important matters or other arrangements, while respecting their individual initiative, in order to ensure propriety of business operations for the Group as a whole.
- 3) The Business Audit Section conducts internal audits to inspect the operating effectiveness of the GUNZE Group's internal controls for overall business practices, in order to maintain the propriety and efficiency of business operations for the Group as a whole.
- 4) When deemed necessary from reported results of audits, as discussed in item 3) above, Corporate Auditors conduct audits of the Group companies to monitor the operating effectiveness of their internal controls, as well as the propriety and efficiency of business operations as a corporate group. Should Corporate Auditors consider it necessary, Corporate Auditors will directly perform audits of the Group companies.

**(7) Systems to ensure reliability of financial reporting**

To appropriately assess the validity of the GUNZE Group's internal controls over financial reporting, as stipulated by the Financial Instruments and Exchange Act, the Company assigns an officer responsible for assessing the internal control system (Director/Corporate Officer in charge of finance) and various other responsible personnel based on the Internal Control Standards. By so doing, the Company maintains, implements and assesses internal controls of the Company and its consolidated subsidiaries, which comprise the Group's consolidated financial statements, and announces the results of assessment through internal control reports.

**(8) Assignment of employees to assist Corporate Auditors when so requested by Corporate Auditors**

In accordance with the Auditing Rules for Corporate Auditors, Corporate Auditors may, as necessary, assign staff of the Business Audit Section and other sections to assist Corporate Auditors in performing their duties.

**(9) Matters concerning independence of supporting employees from Directors and ensuring**

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**effectiveness of Directors' instructions to supporting employees**

Supporting employees who have received the necessary commands for auditing practices from a Corporate Auditor(s) will not be subject to any orders or control from higher-ranked employees such as Directors and the Manager of the Business Audit Section regarding the aforementioned command issued by the Corporate Auditor(s).

**(10) System for reporting by Directors, employees, and officers and employees of the Company's subsidiaries to Corporate Auditors and other systems concerning reporting to Corporate Auditors**

- 1) Officers and employees of the GUNZE Group report to Corporate Auditors without delay while taking appropriate measures in the event that they discover any fact that could have a negative impact, in a material degree, on the GUNZE Group, such as impairment of its credibility or adverse effects on its business operations and financial performance.
- 2) Officers and employees of the GUNZE Group make reports necessary for auditing to Corporate Auditors of the Company without delay when so requested by Corporate Auditors.
- 3) The Group Board of Corporate Auditors meeting is held regularly, at which Corporate Auditors of the Company's subsidiaries report compliance risks concerning the subsidiaries.
- 4) The Manager of the Business Audit Section reports to Corporate Auditors without delay issues discovered through auditing of the GUNZE Group by the Business Audit Section.
- 5) Officers and employees of the GUNZE Group report to Corporate Auditors without delay important matters among information as described in item 3) of section (5) above.
- 6) In accordance with the Whistleblower Protection Rules, GUNZE prohibits making any detrimental treatment to officers or employees of the GUNZE Group who made reports such as described in item 5) above for the reason of having made such reports.

**(11) Systems to ensure that audits by Corporate Auditors are conducted effectively**

- 1) Corporate Auditors formulate an auditing policy and assign work in accordance with the Board of Auditors Regulations and Auditing Rules for Corporate Auditors, and periodically exchange views and information with Representative Directors, independent accounting auditors and the staff of the Business Audit Section.
- 2) Corporate Auditors submit issues discovered through their audits to Directors and employees, and give recommendations for improvement or advice to the concerned department as necessary in order to ensure that internal controls function effectively.
- 3) Outside auditors account for half or more of all Corporate Auditors to ensure transparency of audits.
- 4) In the event that Corporate Auditors make requests to the Company to pay or reimburse expenses, etc. in accordance with Article 388 of the Companies Act, the Company shall promptly respond to such requests, except in cases where it proves that the expenses relating to such requests are not necessary for the execution of their duties. The Company also provides an annual budget with a fixed amount for expenses, etc. arising from the execution of their duties.

### **3. Outline of Implementation of Systems to Ensure Appropriate Business Operations of the Company**

#### **(1) Legal and regulatory compliance system**

Every year, the Company distributes a pamphlet entitled “Gunze-no-Ze” (Policy of GUNZE), which introduces its Founding Philosophy and GUNZE Activity Guidelines across the GUNZE Group. The pamphlet is designed to help all Directors and employees of the GUNZE Group understand the GUNZE Activity Guidelines and put them into practice. The Company offers a course with an introduction to compliance to new employees when they are hired and during all new employee training, using “Gunze-no-Ze” and other educational materials. In fiscal 2017, the Company conducted a seminar for SDGs and CSV implementation targeting CSR Committee members and divisional general managers. Moreover, the ATG Activity was promoted under the leadership of CSR promotion leaders in 53 business units. This project is intended to promote a workplace culture of openness by creating a bright, enjoyable and active work environment that encourages vibrant and healthy discussions.

The Company has the Advice and Report Hotline for Employees in place for compliance-related advice and reporting. In fiscal 2017, a total of 24 hotline contacts was made to seek advice or make reports. Hotline issues are reported to the responsible personnel of the relevant office upon obtaining consent of the whistleblower, aiming at swift resolution of compliance-related problems and prevention of their recurrence. Hotline issues are also reported to the Directors in charge of CSR and compliance, Corporate Auditors, and the President.

#### **(2) Risk management system**

As for risk management related to business operations, the Company specified and dealt with the top-priority issues in fiscal 2017, taking into consideration the degree of impact on society and its customers/partners, as well the probability of occurrence, and focused efforts on these areas. These issues included the enhancement of governance in overseas subsidiaries, protection of personal information, and compliance with the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors, Antimonopoly Act and the Act against Unjustifiable Premiums and Misleading Representations. The Company also makes it mandatory to report to the Legal Affairs & Compliance Control Section whenever a risk becomes apparent within the Company, and the Risk Management Committee shares that information among divisions. In fiscal 2017, the Risk Management Committee raised an issue of reestablishing the label information check system for the Apparel Company, and the Intellectual Property Strategy Section and the Legal Affairs & Compliance Control Section worked in tandem to set up a check system that facilitates more agile decision-making. To ensure strict compliance with the Act against Unjustifiable Premiums and Misleading Representations and the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors, the Legal Affairs & Compliance Control Section took the initiative to organize and offer in-house training for related departments.

#### **(3) Information retention system**

The documents, records and information materials pertaining to the execution of duties by

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Directors are managed and retained by the secretariat of each meeting or the responsible department in accordance with the Documentation Rules. Management and retention of information pertaining to business divisions and subsidiaries of the Company are inspected and confirmed by the Business Audit Section mainly during auditing.

**(4) Systems to ensure efficiency**

The Company adopts a Corporate Officers System in order to facilitate quicker decision-making and reinforce its business execution system, selecting 16 Corporate Officers, nine (9) of whom concurrently assume the position of a Director. To clarify the management responsibilities to be assumed by Directors and Corporate Officers and build a management system capable of swiftly responding to changes in the Company's management environment, the term of office of Directors and Corporate Officers is designated as one (1) year. As a basic rule, the Board of Directors meeting is held once a month (held 13 times in the fiscal year ended March 31, 2018) to decide important matters regarding execution of business and matters stipulated in laws or the Articles of Incorporation, while also overseeing the Directors' execution of their duties. Along with this, an Executive Officer meeting is held roughly once a week (held 24 times in the fiscal year ended March 31, 2018). Eight (8) persons including the Representative Director, Managing Director, and Directors and Corporate Officers in charge of specific functions attend the Executive Officer meeting to deliberate on important matters regarding business execution, while seeking to facilitate quicker decision-making.

**(5) Internal controls for the corporate group**

For the purpose of auditing the appropriateness of the business process and management efficiency of the GUNZE Group including the Company's affiliated companies, the Company has a Business Audit Section in place as a department under the direct control of the President to conduct internal audits. At present, five (5) staff members of the Business Audit Section conduct internal audits with the aim of enhancing the internal control functions of the Group as a whole.

Business operations of the Company's subsidiaries are managed on a monthly basis. At a management meeting held at the time of drawing up the budget, and the Executive Officer meeting pertaining to annual financial reporting, the Company receives direct reports from representatives of overseas subsidiaries.

As for the educational system, the Overseas Subsidiary President meeting is held regularly to provide representatives of subsidiaries with training regarding important compliance risks, etc.

In China, where many of the Company's subsidiaries are gathered, a department tasked with managing business in China has been set up in Shanghai. The department is working to enhance response to risks pertaining to China by eliminating duplication of indirect administrative functions dispersed in multiple local Chinese companies and augmenting functions that are insufficient.

**(6) Internal controls for financial reporting**

In conformance with the Internal Control Standards, the establishment and implementation status of internal controls over financial reporting were assessed. The results of the assessment were put on the agenda of a Board of Directors meeting, etc. after having undergone deliberations (twice) by the Internal Control Validity Assessment Committee. Based on the resolution reached at the Board of Directors meeting, the Company disclosed that its internal controls over financial reporting were deemed valid.

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#### **(7) Systems to ensure effectiveness of audits conducted by Corporate Auditors**

At the beginning of each fiscal year, Corporate Auditors and the Board of Corporate Auditors draw up the Board's auditing plan and make prior confirmation with the independent accounting auditors and the Business Audit Section (a department for conducting internal audits) regarding the outline of plans for auditing by accounting auditors and internal audit plans, as well as their audit items. Corporate Auditors also attend onsite audits and audit reviews of independent accounting auditors and the Business Audit Section as necessary, while receiving reports on the results of audits from the independent accounting auditors and the Business Audit Section. In fiscal 2017, Corporate Auditors attended 27 audit sessions for GUNZE Group sites inside and outside of Japan, including interviews with representatives of all business divisions, based on the audit plans. Corporate Auditors also held regular meetings with Directors including the Representative Directors, senior executives, independent accounting auditors, and the staff of the Business Audit Section, to exchange views and information. The Group Board of Corporate Auditors meeting was held twice, receiving reports from Corporate Auditors of the Company's subsidiaries regarding audit plans, status of audits, etc.

### **4. Basic Policy for Corporate Control**

#### **(1) Basic policy**

In conformance with its "quality first" policy and its commitment to "technology-oriented management," the GUNZE Group promotes customer-focused business operations. In doing so, the Group lives up to its founding philosophy that underscores a people-oriented approach, a commitment to quality, and harmonious coexistence. Based on this philosophy, the Group strives to fulfill its corporate social responsibility (CSR). With a strong determination to provide customers with a "Feeling of Comfort" through the products and services offered by each business line, the GUNZE Group aims to become "a corporate group that fulfills the needs of society" and "a corporate group that grows sustainably alongside society."

With the aim of raising its corporate value, and in accordance with its basic stance of promoting shareholder-focused management attitudes, the Company endeavors to increase profitability and enhance capital efficiency. Moreover, returning earnings to shareholders is one of the Group's most important management policies. Accordingly, the Company works to distribute earnings to shareholders in a continual and stable manner, based on the medium- and long-term business perspective, through the payment of dividends and the repurchase of treasury stock.

The Company also believes that decisions regarding which parties are entitled to be shareholders of the Company should be reached through free trading of the Company's shares. The Company therefore considers that, in the event of a takeover offer that accompanies transfer of controlling stakes, the decision to accept or reject the proposal should ultimately be the responsibility of the shareholders.

However, to realize sustained enhancement of the Group's corporate value and common interests of its shareholders through the efforts described above, it is essential that the Company maintain and develop appropriate relations not only with shareholders but also other parties comprising the Company's stakeholders, including customers, business associates, employees and local communities. Consequently, the Company considers that persons who control the decisions on the financial and operational policies of the Company must fully understand the financial

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position and business operations of the Company, as well as the sources of its corporate value, and implement management practices in consideration of stakeholders' interests.

Accordingly, the Company concludes that persons attempting to conduct a large-scale acquisition of the Company's shares or other assets in a way that could possibly impair the GUNZE Group's corporate value, the Company's interests, and the common interests of its shareholders consequently, will be unsuited to executing the decision on the financial and operational policies of the Company. The Company thus believes that the implementation of necessary and suitable defense measures against the said acquisition will be necessary to secure the GUNZE Group's corporate value and the interests of the Company, as well as the common interests of its shareholders.

## **(2) Efforts to contribute to the implementation of the basic policy**

To contribute to the implementation of the basic policy, the Company promotes the following strategies as it pursues the enhancement of the GUNZE Group's corporate value and common interests of its shareholders.

### **1) Promotion of medium-term management plan**

The GUNZE Group is currently carrying out its medium-term management plan ("CAN 20 Plan" for the period covering the 119<sup>th</sup> business term to the 125<sup>th</sup> business term (FY2020)). With the key concept of "Focus and Concentration," the Group will strive to enhance the GUNZE Group's corporate value by implementing the three basic strategies. These are: selection and focus for existing businesses based on strategic business units (SBUs); 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.

Focusing on shareholders, the GUNZE Group will seek to raise return on equity (ROE), which it views as the Group's key performance indicator. As part of this effort, the Group will implement various measures aimed at increasing profitability, using capital more productively, and repurchasing treasury stock. Toward this end, the GUNZE Group will also set a return on assets (ROA) target for each business division or affiliated company as a measure to gauge the efficiency of business investments. This is part of the drive to improve both profit margin on sales and total asset turnover.

### **2) Strengthening of corporate governance**

To facilitate more agile decision-making and strengthen management oversight functions, the Company launched a Corporate Officers System and reduced the maximum number of members of the Board of Directors in the 110<sup>th</sup> business term (fiscal year ended March 31, 2006). In the 111<sup>th</sup> business term (fiscal year ended March 31, 2007), the term of office of Directors was reduced from two (2) years to one (1) year to clarify the management responsibility of Directors and establish a management system capable of quickly responding to changes in the business environment. The Company is committed to strengthening corporate governance through these measures, while at the same time inviting outside Directors to join the Board with the aim of maintaining transparency in all management practices.

At its Board of Directors meeting held on December 18, 2015, the Company established the GUNZE Corporate Governance Guidelines as the basic policy regarding the GUNZE

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Group's corporate governance. The Guidelines are posted on the Gunze corporate website (<http://www.gunze.co.jp/ir/policy/governance/index.html>).

**(3) Efforts to prevent inappropriate control of the Company**

The Company will take appropriate measures as far as are permitted by the Financial Instruments and Exchange Act, the Companies Act, and other related laws and regulations. These include requesting the party intending to make the large-scale acquisition of the Company's shares to submit to the Company necessary and sufficient information, and to secure a sufficient amount of time for its shareholders to make appropriate judgments on the said proposal of acquisition.

**(4) Judgment of the Board of Directors of the Company regarding the above efforts and rationale thereof**

The Company's Board of Directors concludes that these efforts conform to the Company's Basic Policy for Corporate Control and are not detrimental to its corporate value and the common interests of its shareholders, nor are they intended to protect the position of any of the Directors in the Company.



# Consolidated Financial Statements

## Consolidated Balance Sheets

(Millions of yen)

	End of FY2016 (Mar. 31, 2017)	End of FY2017 (Mar. 31, 2018)
<b>Assets</b>		
Current assets		
Cash and cash equivalents	9,670	9,477
Notes & accounts receivable, trade	27,805	30,277
Finished products and goods	19,974	19,468
Work in process	5,751	5,906
Raw materials and supplies	4,546	4,387
Short-term loans	589	874
Deferred income taxes	1,198	1,095
Other current assets	2,054	2,386
Allowance for doubtful accounts	(8)	(9)
<b>Total current assets</b>	<b>71,582</b>	<b>73,865</b>
Fixed assets		
Property, plants and equipment		
Buildings and structures	114,474	114,993
Accumulated depreciation	(74,399)	(75,887)
Buildings and structures (Net)	40,075	39,106
Machinery, equipment and vehicles	100,346	95,255
Accumulated depreciation	(88,843)	(84,819)
Machinery, equipment and vehicles (Net)	11,503	10,436
Tools, furniture and fixtures	7,482	7,614
Accumulated depreciation	(5,910)	(6,014)
Tools, furniture and fixtures (Net)	1,571	1,599
Land	12,935	12,516
Leasehold assets	725	1,001
Accumulated depreciation	(250)	(410)
Leasehold assets (Net)	474	590
Construction in progress	712	604
<b>Total property, plants and equipment</b>	<b>67,272</b>	<b>64,853</b>
Intangible fixed assets		
Software	940	1,031
Other intangible fixed assets	975	786
<b>Total intangible fixed assets</b>	<b>1,916</b>	<b>1,817</b>
Investments and other assets		
Investments in securities	20,376	23,775
Allowance for investment loss	(299)	-
Long-term loans	592	581
Deferred income taxes	3,430	1,506
Other assets	4,738	4,958
Allowance for doubtful accounts	(150)	(84)
<b>Total investments and other assets</b>	<b>28,688</b>	<b>30,737</b>
<b>Total fixed assets</b>	<b>97,877</b>	<b>97,408</b>
<b>Total assets</b>	<b>169,460</b>	<b>171,273</b>

	End of FY2016 (Mar. 31, 2017)	End of FY2017 (Mar. 31, 2018)
Liabilities		
Current liabilities		
Notes & accounts payable, trade	9,594	9,640
Short-term debt	8,204	6,501
Commercial paper	4,000	6,000
Current portion of long-term debt	6,945	5,077
Accrued income taxes	1,311	337
Allowance for employees' bonuses	1,166	1,229
Notes payable on acquisition of property, plants and equipment	721	612
Other current liabilities	10,379	9,360
Total current liabilities	42,323	38,760
Long-term liabilities		
Long-term debt	8,562	9,912
Liabilities related to retirement benefits	4,818	5,263
Long-term deposits & guarantee deposits	4,371	4,293
Other long-term liabilities	1,031	913
Total long-term liabilities	18,783	20,383
Total liabilities	61,106	59,143
Net assets		
Shareholders' equity		
Common stock	26,071	26,071
Capital surplus	13,998	13,942
Retained earnings	77,504	79,718
Treasury stock	(9,111)	(11,152)
Total shareholders' equity	108,462	108,579
Accumulated other comprehensive income		
Unrealized gains (losses) on available-for- sale securities	(62)	2,711
Deferred gains (loss) on hedge	-	(81)
Revaluation differences on land	(67)	(54)
Foreign currency translation adjustments	1,154	1,248
Accumulated adjustments related to retirement benefits	(1,333)	(1,261)
Total accumulated other comprehensive income	(309)	2,561
Stock acquisition rights	287	281
Non-controlling interests	(88)	706
Total net assets	108,353	112,129
Total liabilities and net assets	169,460	171,273

## Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

### Consolidated Statements of Income

(Millions of yen)

	<b>FY2016</b>	<b>FY2017</b>
	(Apr. 1, 2016 to Mar. 31, 2017)	(Apr. 1, 2017 to Mar. 31, 2018)
Net sales	136,579	140,521
Cost of sales	99,077	100,548
Gross profit	37,502	39,972
Selling, general & administrative expenses	33,295	33,733
Operating income	4,206	6,239
Non-operating income		
Interest income	62	70
Dividend income	424	404
Rental income	261	265
Gain on valuation of derivatives	517	37
Other	182	418
Total non-operating income	1,447	1,196
Non-operating expenses		
Interest expenses	192	203
Rental expenses	230	234
Exchange loss	286	296
Other	274	253
Total non-operating expenses	982	988
Ordinary income	4,671	6,446
Extraordinary income		
Gain on sale of fixed assets	2,274	396
Gain on sale of investment securities	314	14
Gain on sale of shares of affiliated companies	-	214
Gain on transfer of business	233	-
Other	8	-
Total extraordinary income	2,830	625
Extraordinary loss		
Loss on sale or disposal of fixed assets	833	670
Loss on valuation of investments in and loans to affiliated companies	588	-
Impairment loss	2,303	597
Business structure improvement expenses	446	281
Other	13	247
Total extraordinary loss	4,186	1,797
Income before income and other taxes	3,315	5,275
Income, residential and enterprise taxes	1,660	821
Adjustment for income and other taxes	91	853
Total income and other taxes	1,752	1,674
Net income	1,563	3,600
Net income (loss) attributable to non-controlling interests	(1,539)	113
Net income attributable to owners of the parent	3,102	3,486

## Consolidated Statements of Comprehensive Income

(Millions of yen)

	<b>FY2016</b>	<b>FY2017</b>
	(Apr. 1, 2016 to Mar. 31, 2017)	(Apr. 1, 2017 to Mar. 31, 2018)
Net income	1,563	3,600
Other comprehensive income (loss)		
Unrealized gains on available-for-sale securities	1,661	2,774
Deferred gains (losses) on hedge	-	(81)
Foreign currency translation adjustments	(819)	260
Adjustments related to retirement benefits	783	72
Total other comprehensive income	1,626	3,025
Comprehensive income	3,189	6,625
<Breakdown>		
Comprehensive income attributable to owners of the parent	4,783	6,487
Comprehensive income (loss) attributable to non-controlling interests	(1,593)	137

## Consolidated Statements of Cash Flows

(Millions of yen)

	<b>FY2016</b>	<b>FY2017</b>
	(Apr. 1, 2016 to Mar. 31, 2017)	(Apr. 1, 2017 to Mar. 31, 2018)
Cash flows from operating activities	13,832	9,007
Cash flows from investing activities	(7,834)	(5,954)
Cash flows from financing activities	(4,116)	(1,783)
Effect of exchange rate changes on cash & cash equivalents	227	(1,364)
Increase (decrease) in cash and cash equivalents	2,109	(94)
Cash and cash equivalents at the beginning of the period	7,471	9,670
Increase (decrease) in cash and cash equivalents due to change in scope of consolidation	88	(98)
Cash and cash equivalents at the end of the period	9,670	9,477