

[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 3, 2020

To Our Shareholders:

### **NOTICE OF CONVOCATION OF THE 124TH ORDINARY GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholders:

This Notice of Convocation is to inform you that the 124<sup>th</sup> Ordinary General Meeting of Shareholders of GUNZE LIMITED will be held as described below, but with the following special considerations. Due to the current situation caused by the coronavirus (COVID-19) pandemic, and to avoid the risk of infection, we ask you to consider, as much as possible, refraining from attending the meeting in person. Instead, we suggest that you exercise your voting rights via the Internet (<https://evote.tr.mufig.jp/>) or in writing using the enclosed Voting Rights Exercise Form. Whichever way you choose, the forms must be received no later than 5:00 P.M. on Wednesday, June 24, 2020.

Yours very truly,

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

By: Atsushi Hirochi  
Representative Director and President

## **PARTICULARS**

- 1. Date and Time of the Meeting:** 1:00 P.M., Thursday, June 25, 2020  
[Registration starts at 12:20]
- 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 124<sup>th</sup> Business Term (from April 1, 2019 to March 31, 2020).
2. Report on the Results of Audits for the Consolidated Accounting Documents by Accounting Auditors and the Board of Corporate Auditors for the 124<sup>th</sup> Business Term (from April 1, 2019 to March 31, 2020).

### **Matters for Resolution:**

- |                            |  |
|----------------------------|--|
| <b>First Proposition:</b>  | <b>Proposed Disposal of Surplus</b>    |
| <b>Second Proposition:</b> | <b>Election of Eight (8) Directors</b> |

**<Measures taken by the company to prevent the spread of novel coronavirus (COVID-19)>**

- On the day of the meeting, non-contact body temperature measurement will be taken at the entrance to the venue. We may refuse admittance to any shareholder with a body temperature above 37.5°C or who appears to be in ill health.
- To avoid any risk of infection, we will not distribute commemorative gifts at this year's General Meeting of Shareholders.
- Staff involved in the operation of the General Meeting of Shareholders may wear surgical masks depending on the situation on the day of the meeting.
- Alcohol-based disinfectant dispensers will be available at the reception desk and other places in the venue.
- We will strive to ensure that the meeting will proceed as smoothly as possible, to make the meeting time shorter than usual.
- To avoid crowding, we are considering the arrangement of seats with more empty space between them. We may set up a separate venue for some shareholders, so please follow the guidance of our staff when taking a seat.
- To avoid a confined environment, the meeting venue will be ventilated in a timely manner.
- Registration will start at 12:20.
- The Company's facilities in proximity to the meeting venue, such as the GUNZE Museum, are currently closed, and will be closed on the day of the meeting as well.

**<Request to shareholders>**

- **We ask all shareholders to carefully consider the current situation, and exercise their voting rights prior to the meeting, as much as possible (no later than 5:00 p.m. on Wednesday, June 24, 2020), through regular mail or Internet. (Voting from a smartphone<sup>1</sup> is also possible.)**
- We ask those at higher risk of infection, including the elderly, those with underlying health issues, and those who are pregnant, in particular, to take extra care in making decisions on whether to attend this year's General Meeting of Shareholders.
- We ask all shareholders attending the General Meeting of Shareholders to check the situation of the COVID-19 spread and their own health status on the day of the meeting, and to take full preventive measures such as wearing a surgical mask,<sup>2</sup> etc. We also ask those who are planning to ask a question at the meeting<sup>3</sup> to inform our staff when making a reservation.

<sup>1</sup> For procedures for voting via smartphone, please refer to this Notice of Convocation and the Voting Rights Exercise Form.

<sup>2</sup> Due to the shortage of surgical masks, we will not distribute masks on the day of the meeting.

<sup>3</sup> Those who are planning to ask a question at the meeting will have priority in being guided to the main venue.

We are aware that the General Meeting of Shareholders is a good opportunity to communicate and strengthen relationships with our valued shareholders. However, the health of our shareholders is our highest priority. As such, we will thoroughly implement all possible measures to prevent infection at the meeting venue. **Even so, in light of the current situation with respect to COVID-19, we ask again that each shareholder consider refraining from attending this year's General Meeting of Shareholders. We appreciate your kind understanding and cooperation.**

Please note that due to the influence of COVID-19, the Auditorium of the GUNZE Head Office, which is the venue for the General Meeting of Shareholders, may become unusable. Other major changes may also be made with respect to the operation of the General Meeting of Shareholders. If any such changes occur, we will post the information on our corporate website (<https://www.gunze.co.jp>) as soon as a decision is made. To avoid any inconvenience, we ask each shareholder to check our corporate website for the latest information before attending the General Meeting of Shareholders.

[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 Wednesday, June 24, 2020

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 Wednesday, June 24, 2020. 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.

## 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 124<sup>th</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:  
¥115 per share of common stock of the Company  
Total amount: ¥2,042,504,305
- (3) Effective date for distribution of surplus:  
June 26, 2020

## Second Proposition: Election of Eight (8) Directors

The terms of office of all ten (10) Directors will expire at the close of this General Meeting of Shareholders. It is therefore proposed that eight (8) 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: <https://www.gunze.co.jp/ir/policy/governance/>.) All candidates for Directors in this Proposition are selected in accordance with the said policy. For more information, please note the Reference on page 12-13.

The candidates are as follows:

Candidate No.		Name	Current Posts and Responsibilities	Percentage of Attendance in BOD Meetings	Number of Years in Office
1	Reelection Male	Atsushi Hirochi	President, Representative Director, President Corporate Officer and Nomination/Remuneration Committee Member	100% (13/13)	8 years
2	Reelection Male	Toshiyasu Saguchi	Representative Director, Managing Corporate Officer, General Manager of Management & Strategy Department and Nomination/Remuneration Committee Member	100% (13/13)	6 years
3	Reelection Outside Independent Female	Hiroe Nakai	Director and Nomination/Remuneration Committee Member (Chair)	100% (13/13)	2 years
4	Reelection Outside Independent Male	Osamu Kujiraoka	Director and Nomination/Remuneration Committee Member	100% (9/9)	1 year
5	New Outside Independent Female	Rie Kida	—	—	—
6	Reelection Male	Yasuhiro Akase	Director, Corporate Officer and Representative Director and President, Gunze Development Co., Ltd.	100% (13/13)	7 years
7	Reelection Male	Katsuhiko Oikawa	Director, Corporate Officer and General Manager of Research & Development Department	100% (13/13)	4 years
8	Reelection Male	Makoto Kumada	Director, Corporate Officer and General Manager of Finance & Accounting Department	100% (13/13)	3 years

Note 1: As for Mr. Osamu Kujiraoka, his status after he was appointed Director on June 25, 2019 is shown above.

Note 2: The term of office of Directors will expire at the close of the Ordinary General Meeting of Shareholders.

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)  <div>Reelection</div> <div>Male</div>	Mar. 1983	Joined “GUNZE”	8,321
		Jun. 2012	Director, Corporate Officer, General Manager of Leg Wear Divisions Group, Apparel Company and CCO, GUNZE	
		Jan. 2013	Director, Corporate Officer, General Manager of Innerwear Divisions Group, Apparel Company and CCO, GUNZE	
		Apr. 2014	Director, Corporate Officer, Company President of Apparel Company, General Manager of Innerwear Divisions Group and CCO, GUNZE	
		Jun. 2014	Managing Director, Managing Corporate Officer, Company President of Apparel Company, General Manager of Innerwear Divisions Group, Apparel Company, CMO and CLO, GUNZE	
		Apr. 2016	Managing Director, Managing Corporate Officer, General Manager of Management & Strategy Department, CHO, CCSRO and CMO, GUNZE	
		Jun. 2016	Senior Managing Director, Representative Director, Senior Managing Officer, General Manager of Management & Strategy Department, CHO, CCSRO and CMO, GUNZE	
		Apr. 2017	President, Representative Director and President Corporate Officer, GUNZE (to present)	
		Feb. 2019	Member, Nomination/Remuneration Committee, GUNZE (to present)	
		<b>Reasons for supporting the candidate for Director</b> The Company would like Mr. Atsushi Hirochi to continue serving 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. 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)  <div>Reelection</div> <div>Male</div>	Mar. 1984	Joined “GUNZE”	2,540
		Jun. 2014	Director, Corporate Officer and Company President of Plastic Film Company, GUNZE	
		Apr. 2017	Managing Director, Managing Corporate Officer and General Manager of Management & Strategy Department, GUNZE	
		Jun. 2018	Representative Director, Managing Corporate Officer and General Manager of Management & Strategy Department, GUNZE (to present)	
		Feb. 2019	Member, Nomination/Remuneration Committee, GUNZE (to present)	
		<b>Reasons for supporting the candidate for Director</b> The Company would like Mr. Toshiyasu Saguchi to continue serving the Company as a Director, given his ample experience and broad knowledge, mainly in the field of plastic film. Since he was appointed General Manager of the Management & Strategy Department, Mr. Saguchi has proactively promoted the formulation of company-wide strategies, M&A, etc. In 2018, he also took on the position of Representative Director. In expectation that he will continue to appropriately perform his duties as a Director, the Company proposes that he be elected as a Director.		

No.	Name (Date of Birth)	Brief Personal Record, Current Posts, Responsibilities and Additional Important Posts		Number of Shares of the Company Owned
3	Hiroe Nakai (May 20, 1961)  <b>Reelection</b> <b>Outside</b> <b>Independent</b> <b>Female</b>	Apr. 1988 Apr. 1995 Sep. 2011 Jun. 2013 Aug. 2016 Jun. 2018 Feb. 2019	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. Director, GUNZE (to present) Member (Chair), Nomination/Remuneration Committee, GUNZE (to present)	400  Number of years in office: 2 (at the close of the Meeting)
<b>Reasons for supporting the candidate for outside Director</b> The Company would like Ms. Hiroe Nakai to continue serving the Company, given her approximately two years of experience as an outside Director of the Company, as well as her ample experience as an attorney and knowledge in the field of corporate legal and civil affairs. During her time of service, she provided 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.				
4	Osamu Kujiraoka (Sept. 25, 1955)  <b>Reelection</b> <b>Outside</b> <b>Independent</b> <b>Male</b>	Mar. 1978 Mar. 1988  Mar. 2003 Jan. 2006  Mar. 2009  Feb. 2015 Jun. 2019  Oct. 2019	Joined Nikkei Inc. Seconded to Nikkei McGraw-Hill, Inc. (presently, Nikkei Business Publications, Inc.) Executive Officer and Chief of Operations, Nikkei Inc. Executive Officer and Chief of Medical Affairs, Nikkei Inc. and President and CEO, Nikkei Medical Publishing Inc. Executive Officer, Nikkei Inc., President and CEO, Nikkei Business Publications America, Inc. and Nikkei Business Publications Europe, Ltd. President and CEO, Nikkei Medical Publishing Inc. Director, Member, Nomination/Remuneration Committee, GUNZE (to present) President, Dakuon Co., Ltd. (to present)	100  Number of years in office: 1 (at the close of the Meeting)
<b>Reasons for supporting the candidate for outside Director</b> The Company would like Mr. Osamu Kujiraoka to continue serving the Company, given his approximately one year of experience as an outside Director of the Company, as well as his career as an executive officer of a publishing company. During his term of service, he provided appropriate guidance and advice regarding decisions made by the Company's Board of Directors, based on his broad knowledge especially in the medical field, one of the Company's high-growth businesses. For these reasons, the Company proposes that he be elected as an outside Director.				
5	Rie Kida (May 27, 1969)  <b>New</b> <b>Outside</b> <b>Independent</b> <b>Female</b>	Apr. 1989 Apr. 1991 Oct. 2000 Apr. 2003 Apr. 2005 Nov. 2009 Aug. 2010  Apr. 2013	Joined Luis Jitan Company Joined RESCO FORMATION Inc. Joined IDEI CREATIVE AGENCY Joined HERSTORY CO., LTD. Chief Producer, Herstory Co., Ltd. Managing Director, RESCO FORMATION Inc. Organized Woman's Feelings Marketing Laboratory within RESCO FORMATION Inc. and appointed Chief Established Woman's Feelings Marketing Laboratory Inc. Representative Director, Woman's Feelings Marketing Laboratory Inc. (to present)	—  Number of years in office: —

No.	Name (Date of Birth)	Brief Personal Record, Current Posts, Responsibilities and Additional Important Posts		Number of Shares of the Company Owned
		<b>Reasons for supporting the candidate for outside Director</b> The Company would like Ms. Rie Kida to serve the Company as an outside Director, given her experience in researching women's values, lifestyle and purchase behaviors, and having assumed responsible positions over many years. She has also provided many clients with marketing support from her own perspective. As such, the Company would like her to provide appropriate guidance and advice regarding decisions by the Company's Board of Directors, based on her ample experience and knowledge in the field of B to C transactions and women's empowerment. For these reasons, the Company proposes that she be elected as an outside Director.		
6	Yasuhiro Akase (Jul. 6, 1958)  <div style="border: 1px solid black; padding: 2px; display: inline-block;"><b>Reelection</b></div> <div style="border: 1px solid black; padding: 2px; display: inline-block;"><b>Male</b></div>	Apr. 1982 Apr. 2010  Jun. 2013 Jun. 2014 Apr. 2017 Apr. 2019	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 Director and Corporate Officer, GUNZE and Representative Director and President, Gunze Development Co., Ltd. (to present)	3,271
		<b>Reasons for supporting the candidate for Director</b> The Company would like Mr. Yasuhiro Akase to continue serving the Company as a Director, given his ample experience and broad knowledge, mainly in the field of apparel as well as personnel and general affairs. Moreover, he has been striving to make effective use of the GUNZE Group's real estate assets as the Representative Director and President of Gunze Development Co., Ltd. In expectation that he will continue to appropriately perform his duties as a Director, the Company proposes that he be elected as a Director.		
7	Katsuhiko Oikawa (Apr. 12, 1963)  <div style="border: 1px solid black; padding: 2px; display: inline-block;"><b>Reelection</b></div> <div style="border: 1px solid black; padding: 2px; display: inline-block;"><b>Male</b></div>	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)	1,667
		<b>Reasons for supporting the candidate for Director</b> The Company would like Mr. Katsuhiko Oikawa to continue serving the Company as a Director, given his ample experience and broad knowledge, mainly in the field of production and research & development. As the General Manager of the Research & Development Department, he has been working on 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.		

No.	Name (Date of Birth)	Brief Personal Record, Current Posts, Responsibilities and Additional Important Posts		Number of Shares of the Company Owned
8	Makoto Kumada (Jul. 24, 1961)  <b>Reelection</b> <b>Male</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)	1,698
		<b>Reasons for supporting the candidate for Director</b> The Company would like Mr. Makoto Kumada to continue serving the Company as a Director, given his ample experience and broad knowledge, mainly in the field of accounting and administration. As the General Manager of the Finance & Accounting Department, he has been adequately performing his duties. In expectation that he will continue to appropriately perform his duties as a Director, the Company proposes that he be elected as a Director.		

- Note 1: There is no special interest between the Company and each of the candidates for Director. No advisor contract has ever been concluded between the Company and any of the firms in which candidates for outside Directors concurrently assume an important post, now or in the past, and the amount of the transaction the Company conducts with these firms is less than 1% of the Company’s consolidated net sales.
- 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. Hiroe Nakai, Mr. Osamu Kujiraoka and Ms. Rie Kida 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. Hiroe Nakai and Mr. Osamu Kujiraoka, 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. Once Ms. Rie Kida is elected, as proposed, as with Ms. Hiroe Nakai and Mr. Osamu Kujiraoka, the Company will also enter into the same agreement with Ms. Rie Kida to limit liability.
  - (2) Nomination/Remuneration Committee  
At GUNZE, all outside Directors carry out their duties as members of the Nomination/Remuneration Committee. As such, once each outside Director is elected, as proposed, he or she will also become a member of the Nomination/Remuneration Committee.
  - (3) 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  
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.

**Reference: An Excerpt from GUNZE Corporate Governance Guidelines**

**1. Qualifications for Directors and Nomination Procedures**

- (1) The Company's Directors must have an excellent personality, good insight, high skill, abundant experience, as well as a strong sense of ethics.
- (2) Upon selecting candidates for Directors, the Company's basic policy is to create a well-balanced Board that is constituted in a manner to achieve diversity in order to ensure swift and proper decision-making and effective oversight of the Group's business activities. To do so, while taking into account diversity including gender and internationality, the Company selects Directors with knowledge, experience, and skill regarding various business fields, human resources management, finance and accounting, as well as R&D of technologies from the Company's human resources. The Company also selects a number of outside Directors who are capable of actively providing advice and suggestions from a fair and objective standpoint based on their expert knowledge and experience.
- (3) All Directors of the Company shall be elected subject to approval at the General Meeting of Shareholders of each year.
- (4) Candidates for new Directors (including substitute Directors) shall be determined at a meeting of the Board of Directors based on the provision of this Article. This will be done after having undergone deliberations by the Nomination/Remuneration Committee regarding the balance of the Board composition in terms of knowledge, experience, and skills, as well as diversity and scale. The Nomination/Remuneration Committee is an advisory body composed of Representative Directors and outside Directors, and is chaired by an outside Director.

**2. Qualifications for Audit & Supervisory Board Members and Nomination Procedures**

- (1) The Audit & Supervisory Board members of the Company must have excellent personality, good insight, high skill, abundant experience, as well as a strong sense of ethics. At least one (1) member of the Audit & Supervisory Board must have sufficient knowledge and expertise on finance and accounting.
- (2) Candidates for new Audit & Supervisory Board members (including substitute members) shall be determined at a meeting of the Board of Directors based on the provision of this Article, after having undergone deliberations by the Nomination/Remuneration Committee, and after having received the consent of the Audit & Supervisory Board.

**3. Term of Office of Outside Directors and Outside Audit & Supervisory Board Members, and Limitations to Concurrent Posts**

- (1) The Board of Directors stipulates in its independence criteria that outside Directors and outside Audit & Supervisory Board members, who have held their office for a term exceeding eight (8) years since they first assumed their office, do not satisfy eligibility criteria for outside Directors and outside Audit & Supervisory Board members, respectively. However, the outside Audit & Supervisory Board members in mid-term may continue to hold their office until the end of their respective terms.

[Translation]

(2) The outside Directors and outside Audit & Supervisory Board members of the Company must not concurrently assume posts of Director or Audit & Supervisory Board member at more than three (3) listed companies besides GUNZE LIMITED.

## **Results of Operations (April 1, 2019 to March 31, 2020)**

### **Items Related to the Current Status of the GUNZE Group**

#### **1. Business Progress and Results**

In the fiscal year that ended March 31, 2020, Japan faced a major turning point in its history, with the change from the “Heisei” era to the “Reiwa” era. In the midst of this major transition, the Japanese economy showed signs of mild recovery during the first half, with improvements in corporate performance and the employment environment. However, the GUNZE Group’s management environment underwent radical changes caused by such negative factors as the consumption tax hike that took place in October and the prolonged US-China trade war. Other negative factors included large-scale natural disasters including the No. 19 typhoon that hit Eastern Japan in 2019 and an unusually warm winter, along with the adverse effects of the novel coronavirus (COVID-19) outbreak, which began early in the start of the new year.

Faced with this situation, the GUNZE Group’s medium-term management plan, called “CAN 20,” has entered the third 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 was adversely affected by the slowdown in the semiconductor market. However, sales grew, partly due to the positive contribution of M&A. The apparel business was negatively impacted by a downturn in consumer confidence after the consumption tax hike, natural disasters including large typhoons, a particularly warm winter, and the spread of COVID-19. Even so, efforts geared toward improving its business structure allowed this segment to post an increase in operating income.

Consequently, the GUNZE Group’s consolidated net sales for the fiscal year under review amounted to ¥140,311 million (a year-over-year decrease of 0.3%). Consolidated operating income amounted to ¥6,746 million (a year-over-year increase of 0.8%). Consolidated ordinary income was ¥6,868 million (a year-over-year decrease of 4.0%). Consolidated net income attributable to owners of the parent amounted to ¥4,387 million (a year-over-year increase of 7.3%).

## Results by Business Segment

### [Functional Solutions]

In plastic film, nylon film sales remained firm, but sales of OPP films and multilayer films were adversely impacted by the market downturn. In engineering plastics, although sales were sluggish for semiconductor and industrial equipment applications, products for office equipment continued to perform stably. In electronic components, sales in China remained steady, but film sales decreased. In medical materials, GUNZE turned Medical U&A, Inc. into its subsidiary, which helped boost the segment's sales revenue. However, medical materials business was adversely affected by the decline in sales of bioabsorbable reinforcement felt in the U.S. market and the increase in clinical trial costs.

Consequently, the functional solutions business posted net sales of ¥56,361 million (a year-over-year increase of 5.9%), while operating income was ¥6,120 million (a year-over-year decrease of 0.6%).

### [Apparel]

The overall apparel business was sluggish due to a decline in consumer sentiment after the consumption tax hike, natural disasters such as large typhoons, and an unusually warm winter, as well as the spread of COVID-19. Innerwear continued to perform well, mainly for *BODYWILD AIRZ* and *YG CUTOFF* (men's innerwear) and *KIREILABO* (women's innerwear). The reinforcement of product development capabilities, including legwear, helped enhance profitability.

Consequently, the apparel business posted net sales of ¥69,491 million (a year-over-year decrease of 4.3%), while operating income was ¥2,743 million (a year-over-year increase of 9.4%).

### [Lifestyle Creations]

In the real estate category, the shopping center business suffered a negative impact from the consumption tax hike and the COVID-19 pandemic. However, its promotion of local community-based operations and revenues from new properties in the rental property business contributed positively to the performance of the real estate category. The sports club business was heavily impacted by the spread of COVID-19, although the decrease in membership has finally come to an end.

Consequently, the lifestyle creation business recorded net sales of ¥14,945 million (a year-over-year decrease of 2.2%) and operating income of ¥1,187 million (a year-over-year decrease of 4.4%).

[Translation]

## **Net Sales and Operating Income by Segment**

(Millions of yen)

	123 <sup>rd</sup> (FY2018)		124 <sup>th</sup> (FY2019)	
	Net sales	Operating income	Net sales	Operating income
Functional solutions	53,234	6,160	56,361	6,120
Apparel	72,609	2,507	69,491	2,743
Lifestyle creations	15,285	1,241	14,945	1,187
Total	141,129	9,908	140,798	10,052
Elimination/Corporate	(423)	(3,218)	(487)	(3,306)
Consolidated	140,706	6,690	140,311	6,746

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

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

### **<Basic Management Policy>**

Since its founding, the GUNZE Group has consistently lived up to the founding philosophy of “Striving for a harmonious coexistence with all stakeholders through a people-oriented approach and a commitment to quality.” This philosophy serves as the “warp” threads of our corporate management that must remain unchanged. Our business operations represent “weft” threads, which serve to meet the expectations of our society sincerely and flexibly. The combination of these “warp” and “weft” threads is how we strive to solve social issues of the times through the supply of various products and services. We do this by seeking to establish a “one-of-a-kind” position in the industry for each business segment.

### **<Medium-term Management Strategy>**

In June of 2014, the GUNZE Group announced its medium-term management plan, “CAN 20,” which targets the years leading up to March 31, 2021. However, because of the heavy impact of the novel coronavirus (COVID-19) pandemic on the GUNZE

Group's business, we have decided to place top priority on measures to minimize the impact of COVID-19 in fiscal 2020. As such, we are extending the period of "CAN 20" up to the fiscal year ending March 31, 2022.

With "CAN 20," the period from fiscal 2014 through fiscal 2016 is designated the first phase, and the period from fiscal 2017 through fiscal 2021 is designated the second phase. By strongly promoting the plan's three pivotal strategies: (1) implementation of segment-specific business strategies; (2) creation of new businesses; and (3) reinforcement of management foundation, we are working to fulfill the GUNZE Group's management vision of "contributing to society as a global company that provides customers with a special type of 'comfort,' which only GUNZE can offer." As for segment-specific business strategies, we will clarify our key business areas by classifying our current business segments into SBUs (Strategic Business Units) and evaluating them based on our key concept of "Focus and Concentration." By allocating resources in a prioritized manner, we seek to revive growth in our existing business. For the creation of new businesses, we will implement a cross-divisional CFA (Cross Functional Approach) project. This is designed to combine the GUNZE Group's management resources to efficiently create and cultivate new businesses. As part of this effort, the GUNZE Group has been working to expand business in the health and medical care field, which helps improve quality of life (QOL) for people. As a measure for reinforcing the management foundation, the GUNZE Group has been supporting our growth strategies by enhancing our core technological strengths and global responsiveness, while strengthening intangible assets, including corporate brand value.

#### **<"CAN 20" Pivotal Strategies for the Second Phase>**

- ① Segment-specific business strategies
  - Revive growth in the Functional Solutions Business
    - Seek continuous growth of Medical Materials
    - Tackle new fields through close linkage within the segment  
(Restructure film business and create new business by promoting collaboration inside and outside of the company)
  - Accelerate growth in the Apparel Business
    - Strategies to expand new sales channels and sales areas  
(Rebuild the domestic EC business system, etc.)
    - Accelerate growth by creating more powerful differentiated technologies and products, strengthening brands, and reinforcing sales floor planning capabilities  
(Actively expand women's innerwear/outerwear/legwear)
  - Steady expansion of the Lifestyle Creation Business
    - Strengthen the current business base and achieve steady business expansion

(Strengthen shopping center business)

② Creation of new businesses

- Promote commercialization of first-phase projects

- Expand health and medical business

(Expand “Medicare” medical apparel and promote commercialization of high-performance wires for medical use)

- Create new business

(Promote new business creation strategy in two business frameworks: highly functional textiles and sheet materials)

- Expand business areas through M&A
- M&A projects focused on synergy with current business (expansion of the apparel retail business and medical-related business)
- Construct a mechanism to create new business projects
  - Strengthen efforts to create new businesses based on the review of the first phase (Promote each division’s business challenge by implementing “Stretch Plan”\*)

\* Stretch Plan is a new initiative to promote new business creation in each business segment

③ Reinforcement of management foundation

- Improve competitiveness by strengthening manufacturing base
  - Build a production system by enhancing on-site strengths(Strengthen capabilities to respond to anticipated changes in product portfolio and pursue production efficiency not affected by the complexity of product specifications)

- Reinforcement of management foundation

- To become a company that can continuously contribute to society
  - To become a company that can continuously respond to new lifestyles

CSR Committee: Implement strategic CSR to solve social issues through business activities

Work Style Reform Committee:

- Improve value-added productivity through business reformation and establish strict work time management
- Implement work style reform to establish a flexible and creative work style to support diversity, such as empowerment of women, and to meet workers’ needs

**<Target Management Indicators>**

The GUNZE Group’s management goals set for fiscal 2021, which is the final year of the second phase of “CAN 20,” are: 150 billion yen in net sales, 8 billion yen in operating income, 5.6 billion yen in net income attributable to owners of the parent, and an ROE of 5% or higher, all on a consolidated basis.

In particular, we have specified ROE (Return on Equity) as the GUNZE Group’s key performance indicator and are working toward its improvement. Since fiscal 2019,

[Translation]

the GUNZE Group has been implementing capital cost-based management, by adding such metrics as (1) invested capital, (2) return on invested capital (ROIC), and weighted average cost of capital (WACC) for overseeing business management. As for the evaluation of business performance as well, there have been efforts to change the mindset across the Group by adopting the GVA (GUNZE Value Added) metric, which is an indicator for EVA (Economic Value Added) for evaluation, which takes into consideration capital cost relative to invested capital.

Going forward, we will implement necessary measures to respond to rapidly changing situations. By so doing, we will enhance the binding force that unites all members, as we endeavor to meet our goals.

#### **<Challenges the GUNZE Group should address>**

(Capital cost-based management)

The GUNZE Group has been implementing initiatives that emphasize improvement of ROE as part of our capital cost-based management. Although the GUNZE Group's ROE shows an upward trend, it still remains at a low level. To deal with this situation, we are implementing various measures. These include the review and revision of the business portfolio, allocation of management resources, dealing with cross-shareholdings, and clarification of investment decision criteria depending on each business segment's characteristics based on division-specific WACC. Through these measures, we will continue to work toward positive GVA values for all business segments, and achieving an ROE in excess of the cost of shareholder's equity. These are goals we aim to achieve with the next medium-term management plan.

(Segment-specific strategic challenges)

As for the functional solutions business, in plastic films the GUNZE Group will aim to develop and introduce environmentally responsible products that can help alleviate pollution from marine plastic and food loss. We will also strive for a vertical start-up for the new factory in Vietnam, which started operations in the fiscal year under review, in order to make a swift contribution to the GUNZE Group's management. In Japan, we will launch a project aimed at realizing a Circular Factory (resource-circulating factory) in Moriyama. In engineering plastics, in addition to mainstay products for the office equipment market, we will aim for sales expansion of products for industrial equipment applications. In medical materials, we will further promote synergy with Medical U&A, Inc., which became a GUNZE subsidiary in the previous fiscal year. Moreover, we will seek to expand sales in China and other overseas

markets, while striving to acquire approval for large-scale next-generation products.

While the apparel business has concerns about the slump of in-store sales due to the spread of COVID-19, the GUNZE Group aims to further promote the appeal of our products on the EC channel. In innerwear, the GUNZE Group will release new materials and new products that meet consumer needs, which are returning to natural materials and casual-oriented trends, under *YG* and *BODYWILD* brands. In legwear, the GUNZE Group will strive to enhance market responsiveness to accommodate changes in consumer needs. By so doing, the GUNZE Group will proactively launch new *SABRINA* products targeting the younger generation, and fully update the *Tuché* lineup to conform to the casual-oriented trend.

In the lifestyle creation business, the GUNZE Group will work to boost the profitability of its commercial facilities and promote property-specific management that emphasizes investment efficiency. As for the sport club field, a prolonged negative impact from COVID-19 is expected. Even so, we will continue to put the health and safety of club members and staff above all else.

#### (Material CSR challenges)

With the aim of enhancing our corporate value by promoting sustainable growth, the GUNZE Group will work to address the following challenges through management based on SDGs (Sustainable Development Goals) and CSV (Creating Shared Value).

- ① QOL improvement (Contribution to health and wellness)
- ② Creation of an environment with abundant greenery, with ongoing response to environmental issues
- ③ Improvement of workplace environment and workstyle reform
- ④ Creation of a better regional community and society
- ⑤ Promotion of the plastic resource circulation strategy

As for “⑤ Promotion of the plastic resource circulation strategy,” in particular, concerns about plastic marine litter have been growing worldwide. This has led to a growing call for stricter regulations for single-use and disposable plastics. To respond to this, the GUNZE Group established the Basic Policy for Plastic Resource Circulation\* to clearly determine our policies for meeting the demand of society with respect to this matter.

The GUNZE Group manufactures and markets plastic film packaging materials, while also using plastic materials for apparel products. As such, the GUNZE Group will promote the “3Rs + Renewable” initiative for plastics through our business, in order to fulfill our social responsibility by conducting CSV-based management.

**\* Basic Policy for Plastic Resource Circulation**

GUNZE proactively implements the “3Rs + Renewable\*” initiative for plastics, to reduce the amount of plastic waste and help build a society that promotes plastic resource circulation.

- (1) Reduce the volume of plastics and promote the reuse and recycling of plastic items.
- (2) Help implement effective and efficient plastic resource circulation through easy-to-classify and easy-to-recycle product design and by aggressively using renewable raw materials.
- (3) Help reduce the use of petrochemical raw materials by developing products using bio-based materials.
- (4) Conduct appropriate management of waste, and ensure that production activities have smaller impact on the environment, so as to fulfill our responsibility as a manufacturer.

\* 3Rs + Renewable:

3Rs stands for Reduce (using fewer resources for production and reducing waste), Reuse (using products and parts repeatedly), and Recycle (effectively using waste as raw materials or energy sources). “3Rs + Renewable” means adding the use of renewable resources to the 3Rs initiative.

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)

	121 <sup>st</sup> term (FY2016)	122 <sup>nd</sup> term (FY2017)	123 <sup>rd</sup> term (FY2018)	124 <sup>th</sup> term (FY2019)
Net sales	136,579	140,521	140,706	140,311
Operating income	4,206	6,239	6,690	6,746
Ordinary income	4,671	6,446	7,152	6,868
Net income attributable to owners of the parent	3,102	3,486	4,087	4,387
Net income per share (¥)	165.95	189.30	225.60	245.00
Total assets	169,460	171,273	169,632	166,633
Net assets	108,353	112,129	111,068	109,139

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, shown above, was calculated assuming that the said share consolidation was carried out at the beginning of the 121<sup>st</sup> term.

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), the 123<sup>rd</sup> term (fiscal 2018), and the 124<sup>th</sup> term (fiscal 2019) excludes the number of GUNZE shares held by the GUNZE Group Employee Shareholding Association Trust.

## **4. Main Offices and Factories**

### **Headquarters:**

Registered Head Office (Ayabe, Kyoto), Osaka Head Office (Osaka), Tokyo Office (Tokyo), Research & Development Department (Moriyama, Shiga, etc.)

### **Production Bases in Japan:**

Miyazu Factory (Miyazu, Kyoto), Ayabe Factory (Ayabe, Kyoto), Yanase Factory (Asago, Hyogo), Kuse Factory (Maniwa, Okayama), Moriyama Factory (Moriyama, Shiga), Konan Factory (Konan, Aichi), Kameoka Factory (Kameoka, Kyoto), Tohoku Gunze Co., Ltd. (Sagae, Yamagata), Kyushu Gunze Co., Ltd. (Kobayashi, Miyazaki), Fukushima Plastics Co., Ltd. (Motomiya, Fukushima), Gunze Packaging Systems Co., Ltd. (Moriyama, Shiga), Gunze Kobunshi Corp. (Isehara, Kanagawa)

### **Sales Bases in Japan:**

Sales Departments of Companies/Business Divisions (Tokyo, Osaka, etc.)

### **Overseas Production Bases:**

Gunze Plastics & Engineering Corporation of America (U.S.A.), Shanghai Gunze New Plastics Film Co., Ltd. (China), Dongguan Guan Zhi Electronics Ltd. (China), Shangdong Gunze Apparel Ltd. (China), Gunze (Vietnam) Co., Ltd. (Vietnam), THAI GUNZE CO., LTD. (Thailand), Shanghai Gunze Fiber Co., Ltd. (China), PT. Gunze Indonesia (Indonesia)

### **Others:**

Gunze Development Co., Ltd. (Amagasaki, Hyogo), Tsukashin Town Create Co., Ltd. (Amagasaki, Hyogo), Gunze Sports Co., Ltd. (Amagasaki, Hyogo), Gunze Green Co., Ltd. (Amagasaki, Hyogo)

## **5. 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, the 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 Rules concerning Management of Trade Secrets, 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.
- 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 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 CSR Committee, a Risk Management 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 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 liaison 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.

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

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

The Company distributes a pamphlet entitled “Gunze-no-Ze” (Policy of GUNZE) to all Directors and employees of the GUNZE Group. This pamphlet comprehensively covers the Company’s philosophical framework for practicing its Founding Philosophy, as well as guidelines for behavior that serve as the basis of daily activities. 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. The Company aims to create a sustainable society and enhance its corporate value by addressing social issues that it should solve through the Company’s business activities. To this end, the CSR Committee conducted a seminar with the theme of “How to implement CSV-based management with SDGs in Mind” along with group discussions targeting CSR Committee members, divisional general managers and CSR promotion leaders. Moreover, social contribution activities were conducted under the leadership of CSR promotion leaders in 45 business units, and unity among employees was cultivated.

Moreover, the Company has the Advice and Report Hotline for Employees in place for compliance-related advice and reporting. In fiscal 2019, there were 14 hotline contacts, seeking advice or reporting issues. 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 to share information.

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

As it did in fiscal 2018, the Company in fiscal 2019 strengthened its efforts on the specified key risk management areas— workstyle reform, governance in overseas subsidiaries, protection of personal information, and compliance in the Medical Division. In addition to these areas, issues that have materialized, even minor issues, are shared with the Risk Management Committee, which then provides the related divisions with a thorough follow-up or offers training, in order to prevent the recurrence of the same risk events.

In response to the 2019 revision to the Act on Comprehensive Promotion of Labor Policies, the Company provided Directors, divisional general managers and other managerial-class employees with training on communication with their staff members that could be a basis for preventing harassment. Moreover, the Company worked to establish a third-party whistleblower contact point in addition to the existing internal hotline, and selected an expert attorney to fulfill

this task. The third-party whistleblower contact provided by the attorney was put into operation on April 1, 2020.

**(3) Information retention system**

The documents, records and information materials pertaining to the execution of duties by 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 14 Corporate Officers, eight (8) 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, 2020) 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 was held 24 times in the fiscal year ended March 31, 2020. Six (6) 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, seven (7) 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 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.

## **(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 2019, Corporate Auditors attended 22 audit sessions for GUNZE Group sites in 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 liaison meeting was held twice, receiving reports from Corporate Auditors of the Company's subsidiaries regarding audit plans, status of audits, etc.

## **7. 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 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" for the period covering the 119<sup>th</sup> business term to the 126<sup>th</sup> business term). With this plan, the GUNZE Group is striving to enhance its corporate value by implementing three pivotal strategies. These are: segment-specific business strategies, creation of new businesses, and reinforcement of the management foundation.

In particular, the GUNZE Group specified ROE (Return on Equity) as its key performance indicator and is working toward its improvement. Since fiscal 2018, the GUNZE Group has been implementing capital cost-based management, by adding such metrics as (1) invested capital, (2) return on invested capital (ROIC), and weighted average cost of capital (WACC) for overseeing business management. As for the evaluation of business performance as well, there have been efforts to change the mindset across the Group by adopting the GVA (GUNZE Value Added) metric, which is an indicator for EVA (Economic Value Added) for evaluation, which takes into consideration capital cost relative to invested capital.

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. For nomination of candidates for Directors, starting in the 124<sup>th</sup> term (fiscal year ended March 31, 2020) candidates are decided by the Board of Directors after deliberations at the Nomination/Remuneration Committee, in order to enhance corporate governance. The Nomination/Remuneration Committee is composed of the Representative Directors and outside Directors, and chaired by an outside Director, and serves as an advisory body to the Board of Directors.

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 Group's corporate governance. They were revised in March 2019. The Guidelines are posted on the Gunze corporate website (<https://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

## (1) Consolidated Balance Sheets

(Millions of yen)

	End of FY2018 (Mar. 31, 2019)	End of FY2019 (Mar. 31, 2020)
<b>Assets</b>		
Current assets		
Cash and cash equivalents	8,102	9,267
Notes & accounts receivable, trade	30,376	28,099
Finished products and goods	20,082	21,857
Work in process	6,413	6,672
Raw materials and supplies	4,635	4,487
Short-term loans	672	604
Other current assets	2,753	3,393
Allowance for doubtful accounts	(8)	(5)
Total current assets	73,030	74,377
Fixed assets		
Property, plants and equipment		
Buildings and structures	118,649	119,227
Accumulated depreciation	(77,536)	(79,527)
Buildings and structures (Net)	41,113	39,699
Machinery, equipment and vehicles	94,905	93,576
Accumulated depreciation	(85,008)	(84,121)
Machinery, equipment and vehicles (Net)	9,897	9,455
Tools, furniture and fixtures	7,681	7,694
Accumulated depreciation	(6,167)	(6,224)
Tools, furniture and fixtures (Net)	1,514	1,470
Land	13,005	12,287
Leasehold assets	1,178	1,189
Accumulated depreciation	(588)	(898)
Leasehold assets (Net)	589	291
Construction in progress	362	4,717
Total property, plants and equipment	66,483	67,921
Intangible fixed assets		
Software	1,086	861
Other intangible fixed assets	1,056	913
Total intangible fixed assets	2,143	1,774
Investments and other assets		
Investments in securities	19,170	15,591
Long-term loans	14	7
Deferred income taxes	3,191	3,452
Other assets	5,853	3,577
Allowance for doubtful accounts	(254)	(69)
Total investments and other assets	27,975	22,560
Total fixed assets	96,602	92,256
Total assets	169,632	166,633

(Millions of yen)

	End of FY2018 (Mar. 31, 2019)	End of FY2019 (Mar. 31, 2020)
<b>Liabilities</b>		
Current liabilities		
Notes & accounts payable, trade	9,910	10,271
Short-term debt	6,416	5,513
Commercial paper	6,200	6,600
Current portion of long-term debt	2,101	560
Accrued income taxes	1,376	635
Allowance for employees' bonuses	1,314	1,437
Notes payable on acquisition of property, plants and equipment	908	548
Other current liabilities	8,442	8,701
Total current liabilities	36,669	34,267
Long-term liabilities		
Long-term debt	10,972	11,973
Allowance for loss on guarantees	102	148
Liabilities related to retirement benefits	5,534	5,446
Long-term deposits & guarantee deposits	4,500	4,965
Other long-term liabilities	784	692
Total long-term liabilities	21,894	23,227
Total liabilities	58,563	57,494
<b>Net assets</b>		
Shareholders' equity		
Common stock	26,071	26,071
Capital surplus	6,754	6,701
Retained earnings	82,050	84,351
Treasury stock	(5,293)	(6,727)
Total shareholders' equity	109,583	110,397
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	224	(2,617)
Deferred gain on hedge	19	57
Revaluation differences on land	(54)	(45)
Foreign currency translation adjustments	745	507
Accumulated adjustments related to retirement benefits	(1,011)	(731)
Total accumulated other comprehensive income	(76)	(2,830)
Stock acquisition rights	260	187
Non-controlling interests	1,301	1,385
Total net assets	111,068	109,139
Total liabilities and net assets	169,632	166,633

## (2) Consolidated Statements of Income

(Millions of yen)

	<b>FY2018</b> (Apr. 1, 2018 to Mar. 31, 2019)	<b>FY2019</b> (Apr. 1, 2019 to Mar. 31, 2020)
Net sales	140,706	140,311
Cost of sales	99,812	97,528
Gross profit	40,893	42,782
Selling, general & administrative expenses	34,203	36,036
Operating income	6,690	6,746
Non-operating income		
Interest income	58	43
Dividend income	459	529
Rental income	319	328
Exchange gain	183	-
Other	222	232
Total non-operating income	1,242	1,135
Non-operating expenses		
Interest expenses	229	220
Rental expenses	308	306
Exchange loss	-	32
Operation preparation expenses	-	144
Other	242	307
Total non-operating expenses	780	1,012
Ordinary income	7,152	6,868
Extraordinary income		
Gain on sale of fixed assets	690	1,058
Gain on sale of investment securities	182	256
Other	3	149
Total extraordinary income	877	1,464
Extraordinary loss		
Loss on sale or disposal of fixed assets	801	583
Loss on sale of investment securities	-	218
Loss on sale of shares of affiliated companies	450	-
Loss on valuation of shares of affiliated companies	277	110
Impairment loss	-	867
Factory relocation expenses	-	390
Other	205	263
Total extraordinary loss	1,733	2,433
Income before income and other taxes	6,295	5,899
Income, residential and enterprise taxes	1,730	1,418
Adjustment for income and other taxes	323	(18)
Total income and other taxes	2,053	1,399
Net income	4,242	4,500
Net income attributable to non-controlling interests	154	112
Net income attributable to owners of the parent	4,087	4,387

### (3) Consolidated Statements of Comprehensive Income

(Millions of yen)

	<b>FY2018</b> (Apr. 1, 2018 to Mar. 31, 2019)	<b>FY2019</b> (Apr. 1, 2019 to Mar. 31, 2020)
Net income	4,242	4,500
Other comprehensive income		
Unrealized gain (loss) on available-for-sale securities	(2,487)	(2,842)
Deferred gain on hedge	101	37
Foreign currency translation adjustments	(539)	(233)
Adjustments related to retirement benefits	250	279
Total other comprehensive income	(2,675)	(2,758)
Comprehensive income	1,566	1,741
<Breakdown>		
Comprehensive income attributable to owners of the parent	1,439	1,622
Comprehensive income attributable to non-controlling interests	126	118

### (4) Consolidated Statements of Cash Flows

(Millions of yen)

	<b>FY2018</b> (Apr. 1, 2018 to Mar. 31, 2019)	<b>FY2019</b> (Apr. 1, 2019 to Mar. 31, 2020)
Cash flows from operating activities	11,491	13,688
Cash flows from investing activities	(7,373)	(8,262)
Cash flows from financing activities	(5,483)	(4,886)
Effect of exchange rate changes on cash & cash equivalents	(581)	(119)
Increase (decrease) in cash and cash equivalents	(1,946)	420
Cash and cash equivalents at the beginning of the period	9,477	8,102
Increase (decrease) in cash and cash equivalents due to change in scope of consolidation	571	744
Cash and cash equivalents at the end of the period	8,102	9,267