

Main Points Asked and Answered at the Results Briefing for three months ended June 30, 2018

- ✓ Date and time: Thursday, August 9, 2018, from 5 : 30 p.m. to 6 : 30 p.m.
- ✓ Attendees from Citizen Watch Co., Ltd.: Managing Director Norio Takeuchi
- ✓ Director Toshiyuki Furukawa

[Overall]

Q) Is there any risk arising from the U.S. – China trade friction?

A) We are not seeing any direct impact at the present time. With respect to watches, it appears that smart watches are subject to sanctions, while ordinary watches are not affected. We are not expecting any impacts on the machine tools business, because products manufactured in China are mainly shipped to China. Some products for the United States will be subject to import duties in the device business, but they account for a small percentage of total sales. Whether or not there are any indirect impacts is unclear. We will keep an eye on future developments.

Q) What are the factors that led to an increase in corporate expenses from the previous year?

A) The increase was mainly attributable to sponsorship expenses for official Disney watches and an increase in other expenses.

Q) Factors for increased inventories

A) In the watch business, the inventories of finished products and movements are increasing. We don't anticipate any problems with finished products, but the production of movements will be adjusted.

[Watches segment]

Q) What is the recovery status of the finished mid-range watch market?

A) Moderate recoveries have been continuing. Both sales and profits increased in terms of finished products alone. Sales of mid-range products are also improving, but the situation varies from one market to another.

Sales through retail channels are stabilizing and expanding in North America. BULOVA is strong in the United States, indicating that the multi-brand strategy is working effectively. In addition, the segmentation strategy is a factor contributing to increased sales. In China, sales increased significantly on a local currency basis. Sales throughout Asia also rose. The domestic market fell short of expectations, and recoveries have been rather slow.

Q) Actual advertising expenses and outlook

A) We conducted a 100th anniversary campaign in the first quarter. Looking ahead, we will step up our efforts with an eye on the Christmas shopping season in particular. We will continue to highlight the 100th anniversary globally while making investments flexibly according to market conditions.

Q) What is the background of the unit prices that appear to be rising?

A) We had been expanding online sales until last year by offering mid-range models for young customers as mainstay products. In addition, we launched high-end products such as radio-controlled watches this year, and succeeded in expanding sales more significantly than the market in general.

[Machine tools segment]

Q) In terms of orders in the machine tools business and the future outlook, is there any risk of orders decreasing going forward? Are there any regions in which you can see any signs of abnormalities locally?

A) The business was strong in all areas and exceeded our expectations. We are not seeing any signs of downward pressure for the time being, although we cannot rule out such a possibility in the future. We have established a fluctuation-resistant business structure through geographical dispersion and use diversification. Basically, therefore, we aren't seeing any signs of abnormality occurring in any particular areas locally. We are operating at our full capacity, but how successful the financial results will be in this fiscal year depends on the extent to which we can improve production performance. We are therefore focused on raising manufacturing output through effective arrangements in the procurement of parts.

Q) What were the factors that contributed to the increased operating profit of machine tools in the first quarter?

A) Sales to Europe and the Americas expanded more significantly than usual, which led to an increase in operating profit.