

Main Points Asked and Answered at the Results Briefing for the Six Months Ended
September 30, 2018

- ✓ Date and time: Friday, November 9, 2018, from 5:00 p.m. to 6:00 p.m.
- ✓ Attendees from Citizen Watch Co., Ltd.: President and CEO Toshio Tokura
- ✓ Managing Director Norio Takeuchi
- ✓ Director Toshiyuki Furukawa

[Overall]

Q) Factors for increased inventories

A) Factors are mainly found in the watch business and the machine tools business. Particularly in the watch business, the inventory of movements is increasing, and in the first half we reduced production but sales did not achieve the target. In the second half, we will also make an adjustment by cutting production. The increased inventory in the machine tools business was due to the increase in orders received, and it is healthy.

[Watch business]

Q) Factors for the significant decrease in the sales and operating profit of the watch business

A) It was largely due to the decreased sales of movements. Analog quartz movements struggled, in particular, because demand did not increase during the shopping season. As for finished products, sales of mid-range products were strong, but those of low-range ones were weak. Meanwhile, in the domestic market, we had 100th anniversary events for which we invested in more advertisements. This cost increase impacted revenue, because sales had limited growth. In addition, Frederique Constant is sorting out distribution channels in North America, which increased the burdens for product returns and old stock returns.

Q) In the wristwatch market, demand was expected to spread from high-end to mid-range products, but what is the situation at the moment?

A) We feel that the watch market is being delayed, but we obtained market data on North America that shows the recovery of mid-range products. The reason for taking time may be partly because consumers are more interested in things other than watches. This fiscal year we opened pop-up stores commemorating our 100th anniversary in order to increase opportunities for customers to wear watches. More people visited the

stores than expected, and we feel that we need to take an approach that allows visitors to have firsthand experience, in addition to our conventional method of marketing and advertising. Moreover, the flagship store in GINZA SIX, where visitors can wear watches, is also experiencing strong sales. We would therefore like to promote the appeal of watches further.

Q) Regarding the business tie-up with Fossil, around when can we expect it to contribute to business results?

A) Fossil has applications that connect smartphones and has invested actively in research and development. On the other hand, Citizen excels in manufacturing techniques for high-function movements such as thinness and power saving and has developed smart watches in its own way. By combining the strengths of both companies, we will specialize in hybrid smart watches and make more attractive finished products and movements of smart watches. If external sales of movements get into full swing, we can expect that it will contribute to our results. Efforts for mounting in Citizen-brand products and OEM have already started. We are aiming to make a contribution by the end of fiscal 2019.

[Machine tools business]

Q) How do you see the prospects for the second half and beyond?

A) As for the procurement of components, it is difficult because component manufacturers are raising their production capacities, but it is improving. In the first half, we succeeded in expanding sales of Miyano devices in North America, and sales of high-function models grew mainly in the U.S. and Europe, and the product mix contributed to profits. In the second half, there will be growing concern about the capacity for custom designs and shipment and installation, rather than the risk of procuring components. However, we are receiving enough orders.

Q) Is the product mix expected to keep improving as the ratio of advanced countries increases?

A) In the second half and beyond, we are also expected to maintain the number of orders received in advanced countries. In the first half, sales were particularly strong in North America. So we are a little cautious in the second half, and the profit margin is expected to fall slightly from the first half.

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