

Main Points Asked and Answered at the Results Briefing for the Fiscal Year Ended March 31, 2018 (FY2017)

- ✓ Date and time: Friday, May 11, 2018, from 5 p.m. to 6 p.m.
- ✓ Attendees from Citizen Watch Co., Ltd.: President & CEO Toshio Tokura, Managing Director Norio Takeuchi, Director Toshiyuki Furukawa and Director Keiichi Nakajima

[Overall results]

Q: You said you would go on the offensive ahead of the next medium-term management plan. What will be the areas of focus regarding this offensive?

A: This will be explained in the next medium-term management plan. We are in the stage of developing the plan at the moment.

[Watches segment]

Q: Which was the factor that had a greater impact on the divergence of your results from the medium-term management plan, finished goods or movements?

A: We have not come up with clear data regarding that point. But we think both factors affected our performance.

Q: You said a downturn in fashion brands negatively affected your movements sales in the second half of the period under your medium-term management plan. How will you position the movement business from now on?

A: The movement business is our core operation. That will not change. The movement business has been recovering slowly since March. We'd like to develop the ability to propose movements that appeal to customers with attractive watchmaking.

Q: How do you view trends for smart watches?

A: Smart watches are expanding in volume terms. There are price ranges where they compete with our watches. We cannot say they do not have an impact on our results. But they are not causing our sales to decline directly. We have released connected watches under our Citizen and Frederique Constant brands, too. We have the capacity to cope with smart watches.

Q: What were the factors behind the net sales decrease the Watches segment posted in the fourth quarter?

A: Markets slowed more than we had anticipated, albeit with regional differences. Our sales lacked strength in the medium price range.

Q: What were the factors behind the profit declines the Watches segment posted in the fourth quarter?

A: Compared with the previous fiscal year, exchange rates shifted in favor of the yen. Their shift resulted in adverse

effects amounting to about 200 million yen. The weak sales of Citizen brand watches in the Japanese market and movements were the biggest factor in the profit falls. Frederique Constant also made a switch from sales by agents to direct sales. Unrealized gains posted in connection with the business flow change were another factor behind the profit declines.

Q: Do you think the North American market will continue to recover?

A: The North American market is recovering, but we cannot say that the market for watches has started to recover in earnest given factors such as the adverse effects store closedowns have produced. But our market shares and net sales are increasing in North America thanks to synergies generated by Citizen and BULOVA brands.

Q: Do you have ways to increase earnings, such as the equipment of Frederique Constant watches with Prothor movements?

A: We acquired Prothor to obtain its mechanical movement technologies. Results for Prothor have remained low, reflecting a downturn in Swiss brand watches. But Prothor remains one of our important manufacturing bases. We are thinking about equipping Citizen and Frederique Constant brand watches with movements manufactured by Prothor.

Q: Which do you think will contribute to the growth of watch markets forecast for the next fiscal year, volumes or unit prices?

A: We think a rise in unit prices will make a significant contribution. The increase in the ratio of products in the high price range whose unit prices are high will also contribute to profits.

Q: Do you expect advertising expenses to stay at a high level in in the period from FY2018?

A: We plan to boost advertising expenses 3 billion yen year on year in FY2018 for initiatives that include aggressive investments in Disney-related projects in the North American market. We will adjust our advertising expenses according to market conditions in the period from FY2019.

Q: What are your thoughts about the effectiveness of advertising expenses? Are you thinking about changing the way you spend your money on advertising?

A: Digitization is in progress at the moment. Internet sales are increasing as a share of our net sales, too. We must spend our money aggressively on advertising in step with changes in consumers and media.

Q: You said strong results in the high price range has not reached the medium price range in your watch markets. How do you predict a course for recovery?

A: Sell-throughs did not increase in the medium price range due to factors such as weak sales in the Christmas selling season and sluggish gift demand. We are aiming to stimulate the markets for watches by launching aggressive campaigns in the lead up to our centenary on May 28.

[Machine tools segment]

Q) Tell us about order trends in the Machine tools segment. Tell us about the state of component procurement.

A: Orders in the segment have remained at a high level after reaching a peak in the fall of 2017. However, we don't think they will turn upward. For component procurement, the delivery of items such as ball screws has been delayed since the beginning of 2018.

Q: Isn't your FY2018 operating income forecast for the Machine tools segment conservative?

A: We will increase capital investment. We will complete plants and start operating them in Thailand and Vietnam. We have begun building a plant in the Philippines, too. Depreciation and amortization will grow as a result. We will also make outlays for international exhibitions in Tokyo and North America. We made modest profit forecasts for those reasons.