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Press Release

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Notice Regarding Introduction of Performance-Linked Stock Compensation System for Officers

Citizen Watch Co., Ltd. (the “Company”) hereby announces that it reviewed the officer compensation system at the meeting of the Board of Directors held on May 24, 2018, and decided to introduce a new stock compensation scheme (hereinafter called “the Scheme”) for directors of the Company (excluding outside directors and residents outside Japan. Hereinafter called “directors”).

The Company will propose an agenda item regarding the introduction of the Scheme at the 133rd Ordinary General Meeting of Shareholders to be held on June 27, 2018.

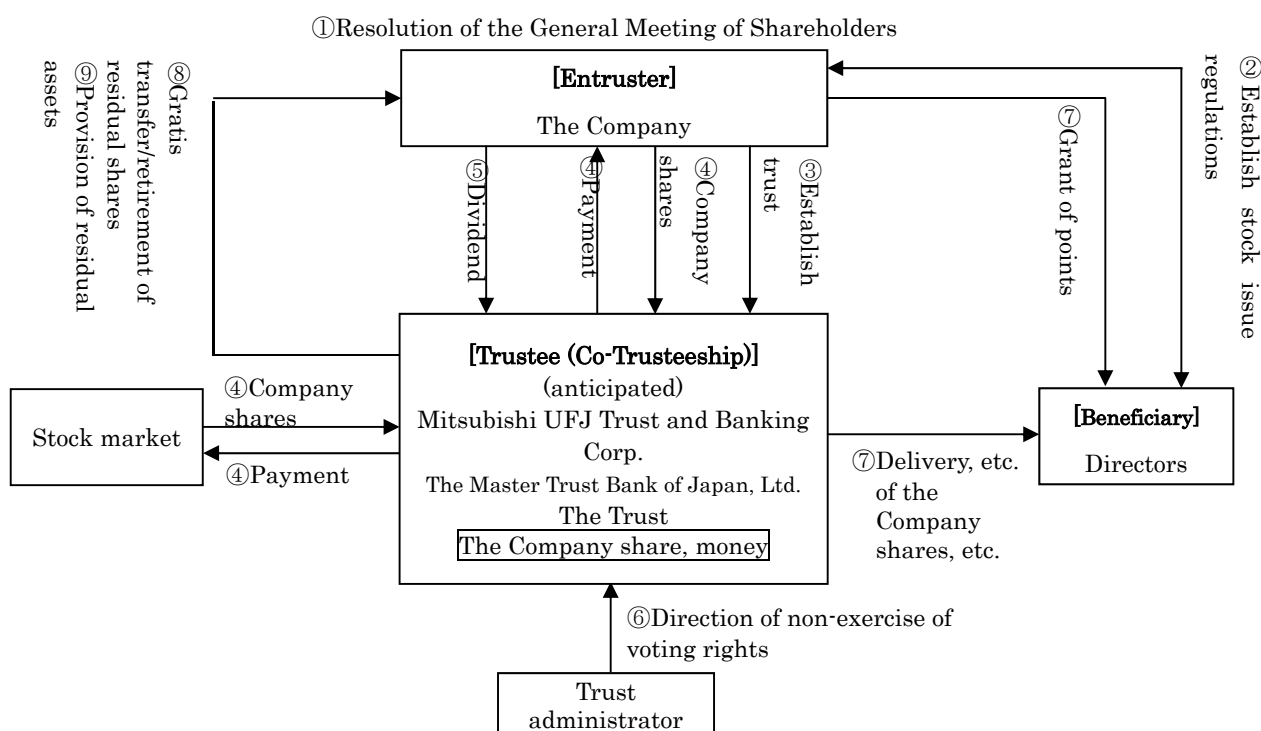
1. Introduction of the Scheme

- (1) The Company will introduce the Scheme for directors. The purpose is to clarify the link between director compensation and stock value and raise awareness of making a contribution to enhancing the medium- to long-term results and increasing corporate value.^(*1)
- (2) The introduction of the Scheme is subject to approval relating to the resolution of officer compensation at this Ordinary General Meeting of Shareholders.
- (3) A mechanism called the officer compensation Board Incentive Plan (BIP) trust (hereinafter called the “BIP trust”) will operate the Scheme. The BIP trust will deliver and provide (hereinafter referred to as “provide”) to directors the Company’s shares and money equivalent to the converted cash of the Company shares (hereinafter called the “Company shares”) in accordance with their title and level of achievement, like a performance-linked stock compensation (Performance Share) plan and a transfer restricted stock compensation (Restricted Stock) plan in the U.S.
- (4) When the trust period of the BIP trust (hereinafter called “the Trust”) established to execute the Scheme expires, the Company will continue to execute the Scheme by newly establishing the Trust or by changing and adding more to the existing Trust.

*1 Through the introduction of the Scheme, compensation for directors of the Company will consist of “base compensation,” “bonus,” and “stock compensation.”

*2 The introduction of the Scheme is based on the advice of a compensation committee, in which the chairperson and a majority of the members are outside directors.

2. Overview of the Scheme



- ① The General Meeting of Shareholders of the Company may approve and resolve regarding the introduction of the Scheme.
- ② The Company shall establish stock issue regulations related to the details of the Scheme at meetings of the Board of Directors.
- ③ The Company shall entrust funds for directors' compensation to the trustees within the limit approved by the General Meeting of Shareholders in ① and establish the Trust, the beneficiary of which is the directors who fulfill the requirements for beneficiaries.
- ④ The Trust shall acquire the Company shares from the Company (disposal of treasury stock) or the stock market using the money contributed in ③ in accordance with the directions of the trust administrator. The number of shares acquired by the Trust shall be within the limit approved by the resolution of the General Meeting of Shareholders in ①.
- ⑤ Dividends shall also be paid to the Company shares in the Trust, like other shares of the Company.
- ⑥ The voting rights of the Company shares in the Trust shall not be exercised throughout the trust period.
- ⑦ During the trust period, certain points specified for each title are given each year. After the end of the applicable period, the total points are adjusted according to the level of achievement based on performance indicators such as those set out in the Medium-Term Management Plan. After the directors' retirement from their position, they receive the Company shares according to the points they have accumulated when they meet certain beneficiary requirements.
- ⑧ When an excess of residual shares occurs upon the termination of the trust period due to factors such as a failure to meet the Company's performance indicator targets, the Company shall continue to use the Trust as the Scheme or as a new stock compensation system similar to this by changing the trust agreement and adding more to the Trust, or the residual shares shall be transferred gratis to the Company from the Trust and shall be retired by resolution of the Board of Directors.

- ⑨ At the time of the termination of the Trust, the residual assets after the distribution to beneficiaries shall belong to the Company within the limit of the reserve for trust expenses excluding the stock acquisition funds from the trust money. Moreover, a portion exceeding the reserve for trust expenses shall be contributed to an organization that has no conflicts of interest with the Company and the directors.

(Note) If there are no Company shares remaining in the Trust due to the issuance of the Company shares to directors who fulfill the requirements of beneficiaries or other reasons, the Trust shall be terminated before the expiration of the trust period. The Company shall hold more money in the Trust as funds to acquire the Company shares for issuance to directors within the limit approved by the resolution of the General Meeting of Shareholders, and may additionally acquire the Company shares through the Trust.

(1) Overview of the Scheme

The Scheme provides the Company's directors with the Company's shares as executive compensation according to their titles and levels of achievement in light of the Company's performance indicator targets (consolidated operating profit, ROA, etc.) during the three business years corresponding to the period of the Company's Medium-Term Management Plan (the period to which the Scheme applies is hereinafter called the "applicable period"). However, the Company is currently in the latter three business years from the year ended March 31, 2017, to the year ending March 31, 2019, in its Medium-Term Management Plan effective for six business years from the year ended March 31, 2014, to the year ending March 31, 2019. Therefore, if the Company sets the remaining period, which is the one business year ending March 31, 2019, as the initial year in the applicable period and continues the Trust according to the paragraph (4) ② below in order to match the Scheme established in 2018 to the period of this Medium-Term Management Plan, the subsequent three business years will be the applicable period.

The timing with which the directors of the Company are provided with the Company shares is after retiring from the office of director, in principle (including retirement due to death; hereinafter the same.)

(2) Resolution of the General Meeting of Shareholders related to the introduction of the Scheme

The upper limit of the amount of the contribution to the Trust and the total number of points granted to directors (specified in (5) below) and other necessary items shall be resolved at the General Meeting of Shareholders.

When the Trust continues by way of (4) ② below, changing the trust agreement and adding more in trust upon the expiration of the trust period shall be determined by resolution of the Board of Directors within the limit of approval by the General Meeting of Shareholders.

(3) Subject persons of the Scheme (requirements for beneficiaries)

The Trust shall provide the directors with Company shares equivalent to the accumulated points at retirement (specified in (5) below, hereinafter the same) subject to fulfilling the requirements for beneficiaries mentioned below through the established procedures after retirement, in principle.

The requirements for beneficiaries are as follows:

- ① Should be a director of the Company during the applicable period after the commencement date of this scheme (including a person who was newly appointed as a director after the commencement date of this Scheme)

- ② Should be a resident in Japan^(*1)
- ③ Should have retired from the office of a director of the Company^{(*2)(*3)}
- ④ The accumulated points specified in (5) below should have been determined
- ⑤ Regarding the duties of the directors, should not be a person who has carried out a serious violation of a contract agreement between the Company and the directors or should not be a person who has retired for their own reasons contrary to the intentions of the Company
- ⑥ Other requirements that are acknowledged to be necessary for achieving the aim of the stock compensation system

*1 If a director becomes a resident outside Japan during the trust period, all of the Company shares in accordance with the accumulated points at that time shall be converted into cash, and the director concerned shall receive the money equivalent to the cash.

*2 If the trust period in (4) ③ below is extended and the subject persons in the Scheme are in office as directors, even upon the expiration of the extended period, the Trust shall terminate at that point in time, and the subject persons concerned shall be provided with the Company shares during the term of office.

*3 If a director passes away during the trust period, all of the Company shares in accordance with the accumulated points at that time shall be converted into cash, and the heir of the director concerned shall receive the money equivalent to the cash.

(4) Trust period

① Initial trust period

It shall be for some one year from September 3, 2018 (anticipated) through August 31, 2019 (anticipated).

② Continuation of the Trust

The Company may continue the Trust by changing the trust agreement and adding more in trust upon the expiration of the trust period. In that case, the trust period of the Trust shall be extended for another three years, and the Company shall make an additional contribution during every extended period and continue to grant points to the directors (specified in (5) below) during the extended trust period. In the case of such an additional contribution, when Company shares (excluding the Company shares equivalent to the points granted to directors whose issuance is incomplete) and money (hereinafter called “remaining shares, etc.”) still remain in the entrusted assets on the last day of the trust period before the extension, the total of the amount of the remaining shares, etc. and trust money contributed additionally shall be within the upper limit of the trust money resolved and approved at the General Meeting of Shareholders. The extension of the trust period may not be limited to once only, but the Trust may be similarly continued again subsequently.

③ Handling of the termination of the Trust (extension of the trust period without additional contribution)

If the Company does not change the trust agreement and does not add more in trust upon the expiration of the trust period, a decision on the points granted to directors is not made after that. However, if a director who may fulfill the requirements for beneficiaries at the point of time concerned is in office, the trust period of the Trust may be extended up to a maximum of 10 years until the director concerned retires and the issuance of the Company shares is complete.

(5) Number of Company shares issued to directors

During the trust period, certain points set for each title are given during a specified period each year. After

the end of the applicable period, the total points given during the applicable period are adjusted according to the level of achievement based on performance indicators such as those set in the Medium-Term Management Plan. After a director's retirement from the position, he/she receives the Company shares according to the total points given to him/her (hereinafter called "accumulated points").

One (1) point shall be one (1) share of the Company stock, and when the Company shares in the Trust increase or decrease due to a stock split, gratis allotment of shares, reverse stock split, etc., the Company shall adjust the number of the Company shares in accordance with the ratio of the increase or decrease. The Company shall adjust the number of the Company shares for which issuance is made per one (1) point.

(6) Upper limit of trust money contributed by the Company to the Trust and upper limit of the total number of points granted to directors

The upper limit of the trust money contributed by the Company to the Trust and the upper limit of the total number of points granted to directors shall be as stated below during the applicable period subject to the approval of a resolution of the General Meeting of Shareholders.

Total upper limit of trust money contributed by the Company to the Trust

100 million yen^{(*1)(*2)}

- *1 Considering the compensation level of the present directors, the upper limit of the trust money is calculated by adding the trust fee and the trust expenses to the stock acquisition funds.
- *2 If the Trust is continued based on the above paragraph (4) ②, the three business years will be the applicable period and the maximum amount contributed to the Trust will be 300 million yen^(*1).

Upper limit of total number of points granted to directors per fiscal year: 150,000 points^{(*3)(*4)(*5)}

- *3 The upper limit of the total number of points granted to directors per fiscal year is set in reference to past stock prices considering the abovementioned upper limit of trust money.
- *4 The maximum amount assumes the maximum addition made after the end of the applicable period based on the level of achievement in light of the Company's performance indicators, etc. set in the Medium-term Management Plan.
- *5 The maximum number of shares acquired by the Trust during the applicable period (hereinafter called "the number of shares acquired") is the number of shares (150,000) equivalent to the maximum total points given to a director per business year. If the Trust is continued according to the above paragraph (4) ②, the maximum number of shares acquired during the applicable period will be the number of shares equivalent to the result of multiplying the maximum number of total points given to a director per business year by 3, the number of years in the trust period (450,000 shares).

(7) How to acquire the Company shares by way of the Trust

The initial acquisition of the Company shares by the Trust is to be made by the Company (disposal of treasury stock) or through the stock market. Details of how to acquire the shares shall be determined by resolution of the Board of Directors after a resolution of the General Meeting of Shareholders and disclosed.

(8) How to issue the Company shares, etc. to directors

A director who meets the beneficiary requirements will receive the Company shares equivalent to 50% of his/her accumulated points (odd-lot shares are rounded down) from the Trust. The number of shares

equivalent to the remaining accumulated points will be converted into cash in the Trust, and the director will receive the amount of money equivalent to the cash after the conversion from the Trust.

If a director dies during the trust period, all of the Company shares equivalent to his/her accumulated points at that time will be converted into cash in the Trust, and the heir of the director will receive the amount of money equivalent to the cash after the conversion from the Trust. If a director becomes a resident outside Japan during the trust period, all of the Company shares equivalent to his/her accumulated points at that time will be converted into cash in the Trust, and the director will receive the amount of money equivalent to the cash after the conversion from the Trust.

(9) Exercise of voting rights of the Company shares within the Trust

The voting rights of the Company shares within the Trust shall not be exercised during the trust period to ensure the neutrality of the management.

(10) Handling of dividends relating to the Company shares within the Trust

The Trust shall receive dividends related to the Company shares within the Trust, and the dividends provided shall be used for the trust fee and the trust expenses of the Trust.

(11) Handling upon the termination of the Trust

If there are any residual shares upon the termination of the Trust (including the termination of the extended trust period if the trust period is extended according to the above paragraph (4) ③; hereinafter the same) due to the failure to achieve the performance indicators of the Company, etc., the residual shares shall be transferred gratis to the Company by the Trust as a shareholders' return policy. The Company is to retire the residual shares by resolution of the Board of Directors.

Of the remainder of dividends related to the Company shares in the Trust generated upon the termination of the Trust, the portion in excess of the reserve for trust expenses will be contributed to an organization that has no conflicts of interest with the Company and the directors.

(Reference) Details of the trust agreement

①Type of trust

Money held in trust outside the money trust of specific single investment (third-party benefit trust)

②Purpose of trust

To provide incentives to directors

③Entruster

The Company

④Trustee

Mitsubishi UFJ Trust and Banking Corporation (anticipated)

(Co-trusteeship The Master Trust Bank of Japan, Ltd. (anticipated))

⑤Beneficiary

Directors who meet the beneficiary requirements

⑦ Trust administrator

Those who are professional practitioners and third parties who have no conflicts of interest with the Company

⑦Date of trust agreement September 3, 2018 (anticipated)

⑧Trust period September 3, 2018 (anticipated) – August 31, 2019 (anticipated)

⑨Commencement date of the Scheme September 3, 2018 (anticipated)

⑩Exercise of voting rights The voting rights shall not be exercised.

⑪Type of acquired shares Common stock of the Company

⑫Upper limit of trust money One hundred (100) million yen (anticipated) (including the trust fee and trust expenses)

⑬How to acquire shares Acquisition through the stock market or the disposal of treasury stock by the Company

⑭Attributable right holders The Company

⑮Residual assets Residual assets that the Company, an attributable rights holder can receive are within the range of the reserve for trust expenses excluding stock acquisition funds from the trust money

[Details of trust/stock-related administrative work]

①Trust-related administrative work

Mitsubishi UFJ Trust and Banking Corporation and the Master Trust Bank of Japan, Ltd. are to be the trustees of the Trust and engage in the trust-related administrative work.

②Stock-related administrative work

Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. is to undertake administrative work to deliver the Company shares to the beneficiaries based on the administrative service agreement.